

China Tax Alert

Issue 16, July 2018

China seeks Public Consultation on Draft Amendments to the PRC IIT Law

Regulations discussed in this issue:

- Draft amendments to the PRC Individual Income Tax ("IIT") Law (hereafter referred to as "the Draft").

On 29 June 2018, the National People's Congress released the full text of the draft amendments to the PRC individual income tax law on its official website seeking consultation from the public. The public consultation program closes on 28 July 2018.

The revised PRC IIT law will take effect 1 January 2019. Prior to implementation, the updated monthly personal deduction of RMB5,000 and adjusted income tax rate bands which have been proposed for the category of Comprehensive Income will be applied to salary and wages earned from 1 October 2018, along with the application of the adjusted tax rate bands for Income from production or business operation conducted by self-employed and income from contractual or leasing operations to enterprises and institutions (see Appendix for the proposed tax rate tables).

The Draft reaffirmed the requirement on monthly provisional filings and annual reconciliation filing, and the corresponding timeframe. It also led to questions being raised by the public on whether certain preferential tax treatments under the existing regulations will remain effective after 1 January 2019.

Implementation of the amended PRC IIT Law and roll out of the accompanying implementation rules will likely to impact on the effectiveness of the reform and impact on:

- The extent of reduction in tax burden for the **working class**;
- Expansion of the taxation scope of **foreign individuals** in China, and the associated costs to **their onshore and offshore employers**;
- **High Net Worth Individuals'** global investment strategy and the relevant tax compliance costs

KPMG will continue to share our observations on the IIT reform and the associated impact on taxpayers via alerts and workshops. Please refer to KPMG's website for details.

Appendix

Individual income tax rates – Comprehensive income

Grade	Taxable Income (Annual)	Marginal rate	Quick Deduction
1	not in excess of RMB36,000	3%	0
2	RMB36,000 to RMB144,000	10%	2,520
3	RMB144,000 to RMB300,000	20%	16,920
4	RMB300,000 to RMB420,000	25%	31,920
5	RMB420,000 to RMB660,000	30%	52,920
6	RMB660,000 to RMB960,000	35%	85,920
7	in excess of RMB960,000	45%	181,920

Note: Taxable Income mentioned in this table refers to the amount of Comprehensive Income derived by the tax resident in a tax year, after deduction of the personal deduction of RMB60,000, specific deductions, itemized deductions for specific expenditures, and other deductible items determined by law.

Grade	Taxable Income (Monthly)	Marginal rate	Quick Deduction
1	not in excess of RMB3,000	3%	0
2	RMB3,000 to RMB12,000	10%	210
3	RMB12,000 to RMB25,000	20%	1,410
4	RMB25,000 to RMB35,000	25%	2,660
5	RMB35,000 to RMB55,000	30%	4,410
6	RMB55,000 to RMB80,000	35%	7,160
7	in excess of RMB80,000	45%	15,160

Note: Monthly Taxable Income mentioned in this table refers to the amount of Comprehensive Income derived by a non-resident in a month, after deduction of the personal deduction of RMB5,000, specific deductions, itemized deductions for specific expenditures, and other deductible items determined by law.

Individual income tax rates – Income from operations

Grade	Taxable Income (Annual)	Marginal rate	Quick Deduction
1	not in excess of RMB30,000	5%	0
2	RMB30,000 to RMB90,000	10%	1,500
3	RMB90,000 to RMB300,000	20%	10,500
4	RMB300,000 to RMB500,000	30%	40,500
5	in excess of RMB500,000	35%	65,500

Note: Taxable Income mentioned in this table refers to the amount of income after deduction of costs, expenses and losses in a tax year.

Grade	Taxable Income (Monthly)	Marginal rate	Quick Deduction
1	not in excess of RMB2,500	5%	0
2	RMB2,500 to RMB7,500	10%	125
3	RMB7,500 to RMB25,000	20%	875
4	RMB25,000 to RMB41,666.67	30%	3,375
5	in excess of RMB41,666.67	35%	5,458

Note: Taxable Income mentioned in this table refers to the amount of income after deduction of costs, expenses and losses in a month.

The Release on the proposed amendments to PRC IIT Law marks an important step forward on the IIT reform. The imminent reform coupled with the strengthened tax collection and administration system in China, will undoubtedly elevate the importance of individual income tax compliance. With that in mind, enterprises and individual taxpayers should pay close attention to the IIT reform in order to review own circumstances and seek professional advice to avoid unnecessary cost from non-compliance.

If any of the issues could impact you, please contact us.



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