



# China Tax Alert

Issue 18, August 2018

## The Amendments to the PRC IIT Law Were Passed

### Regulations discussed in this issue:

Amendments to the PRC Individual Income Tax ("IIT") Law (hereafter referred to as "the Amendments")

On 31 August 2018, the Standing Committee of the National People's Congress passed the amendment to reform PRC IIT Law ("the Amendment"). The Amendment was promulgated through the Presidential Decree No. 9, and will take full effect from 1 January 2019. The revised standard personal deduction and tax rates table will apply from 1 October 2018.

### Key amendments

In addition to the key amendments which were discussed in Issues 14 and 16 of KPMG's China Tax Alerts issued in June and July 2018 respectively, the following are notable changes which were raised in the second review of the Draft and passed under the new law:

- Expenditures on supporting the elderly allowable for personal tax deduction: Considering the aging population and financial burden of supporting the elderly, the amendment allows expenditures on supporting the elderly to be tax deductible.
- Deemed expense deduction allowable for income from provision of independent personal services, author's remuneration and royalties at 20% of gross income: Deemed expense at the rate of 20% of gross income will be allowed for income from provision of independent personal services, income from author's remuneration and income from royalties. Income tax on author's remuneration will be assessed on 70% of the net income after deducting the 20% deemed expenses.
- Charitable donations allowable for tax deductions: Charitable donations not exceeding 30% of one's gross taxable income are allowable for tax deduction. Donations made to certain charities may not be subject to the 30% deductibility cap if approved by the State Council.

- Withholding agents shall furnish tax withholding statement to individual taxpayers: In order for individual taxpayers to lodge accurate annual tax reconciliation return, withholding agents shall furnish details of the amount of tax withheld, and other relevant information to individual taxpayers.

### **KPMG Observations**

The passing of the Amendment is a significant milestone in the evolution of China's tax system. Further regulations and guidelines are expected from the State Council in due course.

The following key interest of the practical considerations associated with the new IIT Law are expected to be further addressed in the implementation rules and guidelines:

- Whether an exemption on foreign sourced income will still be available to non-domiciled individual (including residents of Hong Kong, Macao and Taiwan) residing in China for not more than five full consecutive years?
- How the new tax laws will interact with the preferential treatment applied to annual bonuses?
- The quantum of allowable itemised deduction through the application of caps.
- Whether foreign employees' tax exempt benefits will still be applicable?

Individual taxpayers and organisations are recommended to review the implications of the Amendment on their personal tax affairs and company policies concerning employees, focusing on the following areas:

- Corporate HR Policy updates
- Implementation of updated HR policy
- Financial impact forecasting and budgeting
- Employee communication
- Individual tax risk assessment

If you have any questions on the above, KPMG will be pleased to assist and provide relevant guidance and assist accordingly.

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