

# China Tax Alert

Issue 15, September 2023



## Four-year extension of preferential individual income tax policies and increased tax deductions for family and elder care

### Summary :

- In late August 2023, the Ministry of Finance (MOF) and State Taxation Administration (STA) jointly released *Announcement on Extending Individual Income Tax Policies on Equity Incentives of Listed Companies (Announcement No. 25 of 2023)*, *Announcement on Extending Individual Income Tax Policies on Allowances for Foreign Nationals (Announcement No. 29 of 2023)*, and *Announcement on Extending Individual Income Tax Policies for Annual Bonuses (Announcement No. 30 of 2023)*, and the MOF, STA, and China Securities Regulatory Commission jointly issued *Announcement on Extending Individual Income Tax Policies Relating to Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Mutual Recognition of Funds between Mainland China and Hong Kong (Announcement No. 23 of 2023)* which extend the preferential individual income tax policies for equity incentives, tax-exempt benefits-in-kind for foreign nationals, annual bonuses, and gains from qualified investments in Hong Kong **until December 31st, 2027**. The State Council subsequently released *Notice on Raising the Additional Itemised Deductions for Individual Income Tax (Guo Fa No. 13 of 2023)*, which further reduce income tax burden for individuals who have children to raise or elderly people to support.
- The aforesaid tax policies take into full consideration the structure of taxpayers' remuneration and benefits as well as their actual cost of living at different stages and will reduce the overall tax cost of the working class in a targeted manner, reflecting state's resolution to ease individual and family financial burdens, promote economic development and improve livelihoods.

### Key points

#### ➤ Extension of four preferential individual income tax policies

The extended preferential individual income tax ("IIT") policies are summarised as follows.

Type of Income	Tax Treatment	Valid Until
<b>1. Equity incentives of listed companies</b>	<ul style="list-style-type: none"> <li>• Eligible equity income received by resident individuals is taxed as a separate source of income from the employee's comprehensive income and annual comprehensive income tax rate is applied.</li> <li>• Multiple equity income received during a year is combined and taxed together.</li> </ul>	<b>December 31<sup>st</sup>, 2027</b> (original expiration date: December 31 <sup>st</sup> , 2023)

Type of Income	Tax Treatment	Valid Until
<b>2. Benefits-in-kind (“BIK”) for foreign national employees</b>	<ul style="list-style-type: none"> <li>Provision of certain types of BIK (housing, language training, and children’s tuition) to employees of foreign nationality can be treated as tax-exempt benefits if certain conditions are satisfied.</li> <li>Resident individuals of foreign nationality can either opt for additional itemised deductions or adhere to the tax-exempt BIK policy, and the option shall remain unchanged during a year.</li> </ul>	<b>December 31<sup>st</sup>, 2027</b> (original expiration date: December 31 <sup>st</sup> , 2023)
<b>3. Annual bonus</b>	<ul style="list-style-type: none"> <li>Annual bonus of resident individual is eligible to be assessed on a separate basis on which the tax payable is calculated at the applicable monthly tax rate for comprehensive income on the bonus amount divided by 12 over a period of 12 months.</li> <li>Resident individuals can also elect to aggregate the annual bonus to comprehensive income and tax them together.</li> </ul>	
<b>4. Gains from qualified investments in Hong Kong</b>	<ul style="list-style-type: none"> <li>Gains from investments by mainland individual investors through the Shanghai-Hong Kong Stock Connect, the Shenzhen-Hong Kong Stock Connect, and from the trading of Hong Kong fund units under the mutual recognition of funds are temporarily exempted from IIT.</li> </ul>	

### ➤ Increased deductions for three additional itemised deductions

The increased deductions for additional itemised deductions are summarised as follows.

Deductions		Previous Standards (RMB)	Updated Standards (RMB)
<b>1. Children's education</b>		1,000 per child per month	<b>2,000</b> per child per month
<b>2. Care for infants under the age of 3</b>		1,000 per infant per month	<b>2,000</b> per infant per month
<b>3. Support elderly</b>	Single child	2,000 per month	<b>3,000</b> per month
	Not single child	2,000 per month; Split between siblings: maximum claim is 1,000 per month for any person	<b>3,000</b> per month; Split between siblings: maximum claim is <b>1,500</b> per month for any person

The above updated deduction standards shall come into effect retroactively **from 1 January 2023**.

With respect to taxpayers who had already claimed the deductions for 2023 before the tax notice was released, starting from September 2023, the tax filing system will calculate the tax payable in accordance with the updated deduction standards, and the overpaid tax for previous months can automatically offset the tax payable for subsequent months of the year. Those who still have overpaid tax for the year can enjoy the full deductions via the 2023 annual tax reconciliation.

(Note: Other administrative affairs relating to the additional itemised deductions remain unchanged. Details were discussed in [Issue 29](#) and [Issue 7](#) of KPMG’s China Tax Alerts issued in December 2018 and April 2022 respectively).

## KPMG observations

The aforesaid policies will undoubtedly benefit companies and employees while it is envisaged tax compliance administration from tax bureau would be strengthened in the future. In our view, tax authorities would be aimed to:

- Enforced collection of IIT due from equity incentive and annual bonus
- Strengthen administration of equity plan tax registration
- Strengthen administration of appropriate use of preferential tax treatment on BIK of foreign national employees
- Strengthen administration of relevant additional itemised deductions

While enjoying the extended preferential tax policies, companies are recommended to take the following actions to manage the potential tax risks:

➤ Companies with equity incentive plan

- Establish equity tax registration compliance calendar and corresponding standard operation procedure (SOP) in order to meet China compliance requirements
- Complete equity plan tax registration timely upon new grant/vest/exercise
- Conduct tax compliance health check on equity incentives, and identify gaps for tax remediation, if required

➤ Companies with foreign national employees

- Establish a tax efficiency program on BIK for foreign employees if not enjoying the tax-free benefits previously
- Conduct a self-review of previous expat BIK claims and identify deficiencies in the existing BIK program
- Update BIK tax efficiency policies if necessary for enhancement

➤ Notes for claiming additional itemised deductions

<b>Taxpayer</b>	<ul style="list-style-type: none"><li>• <b>For those who have yet to claim</b> the deductions for 2023: they can claim the deductions via mobile APP or by submitting the information collection forms via their withholding agent;</li><li>• <b>For those who had claimed</b> the deductions for 2023 before the updated deduction standards were released: the tax filing system will automatically calculate the tax payable in accordance with the updated deduction standards and offset the overpaid tax of previous months against the tax payable for subsequent months of the year. Any remaining overpaid tax for the year can be offset against the annual tax liability via the 2023 annual tax reconciliation;</li><li>• For <b>non-single children</b> who enjoy the deduction for <b>supporting elderly</b>: if an adjustment needs to be made for the split deduction amount between siblings, the updated split amount shall be submitted in time via the mobile APP or by submitting the information collection forms via their withholding agent.</li></ul>
<b>Employer</b>	<p>Employers are recommended to communicate with the relevant Chinese and foreign employees, and especially remind the following employees to submit their deduction information via mobile APP as early as possible for them to enjoy the tax benefit in due course:</p> <ul style="list-style-type: none"><li>• Employees who have yet to claim the relevant additional itemised deductions;</li><li>• Employees who need to update the split deduction amount for supporting elderly between siblings.</li></ul>

Taxpayers shall be responsible for the authenticity, accuracy and completeness of the information provided for the claim of additional itemised deductions. If false/error claims are discovered in the administration process, withholding agents shall remind their employees to correct the claims and notify the tax authority if the individual concerned refuses to make the corrections. Companies are recommended to review their information collection and administration procedures for employees' additional itemised deductions claims, and make necessary adjustments to their existing tax and HR policies and administration procedures, so as to be compliant with the relevant tax reporting requirements and enhance the internal administration efficiency.

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

**Appendix: Additional itemised deductions (increased deductions for "supporting elderly", "children's education" and "care for infants under the age of 3" take effect from 1 January 2023)**

Item	Key qualifying conditions		Standard fixed amount for deduction (RMB)	Who can claim?	When can claim?
Children's education	Pre-school	3 years onwards	2,000 per child per month	50% for each parent / 100% for either parent	From the month when the child is over 3 years old until the end of full-time education (for children receiving education outside China, relevant supporting documents are required)
	Compulsory education	Primary & middle school			
	Intermediate education	High school, Vocational school			
	Higher education	Degree, Masters, Doctorate			
Further education	Formal education	Educated in China	400 per month	Individual taxpayers	From the month of enrollment to the end of continuing education, a maximum deduction period of 48 months for the same degree
	Professional education	Technical / professional certificates	3,600		The year which the certificate is obtained
Serious illness medical fees	Medical expenses (self-paying portion of the medical insurance) > RMB 15,000		Actual expense not exceeding 80,000	Individual taxpayers or his/her spouse. The medical fee for minor children can be deducted by either parent.	The year that actual medical expense happens
Mortgage interest	Limited to the first property only		1,000 per month	If jointly owned, either husband or wife to claim; cannot enjoy housing rental deduction at the same time; 50% for each of the couple or 100% for either if each take out a first mortgage before marriage.	From the beginning month to the ending month of loan contract or to the termination month of repayment, a maximum deduction period of 240 months
Housing rental	Not owning property in place of work	Big cities	1,500 per month	If joint rental, either husband or wife to claim; cannot enjoy mortgage interest deduction at the same time.	From the beginning month to the ending month of the lease term, subject to the actual lease term
		Mid-size (population) > 1m	1,100 per month		
		Smaller (population) < 1m	800 per month		
Supporting elderly	60 years or older parents or other obligations by law	Single child	3,000 per month	Individual taxpayers	From the month that the elderly is 60 years old to the end of year of which the supporting obligation is terminated
		Not single child	3,000 per month; Split between siblings: maximum claim is 1,500 per month for any person		
Care for infants under the age of 3	Infants under the age of 3		2,000 per infant per month	50% for each parent / 100% for either parent	From the month the infant is born until the month before the infant reaches the age of 3

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