

GMS Flash Alert

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People's Republic of China – Child-Care IIT Deduction Introduced

In March, the State Council for the People's Republic of China ("PRC") issued a notice introducing a new itemised deduction for child-care costs for very young children.¹ Also in March, the State Taxation Administration (STA) issued an announcement clarifying the implementation details regarding the additional itemised deductions effective retroactively from 1 January 2022.²

WHY THIS MATTERS

As with the other six itemised deductions, employees, including foreign nationals, can claim the new additional deduction through their employers or on their own annual IIT returns if certain conditions are met. Employers and individuals may want to consider the new deduction in their tax planning and need to be aware of the reporting requirements.

Overview

The State Council and the STA recently issued the notice and announcement to provide additional tax relief to taxpayers to care for infants and with the aim of boosting birth rates:

- On 19 March 2022, the State Council issued the *Notice of the State Council on Introduction of Additional Individual Income Tax (IIT) Itemised Deduction of Care for Infants Under the Age of 3* - Guo Fa [2022] No. 8 (the "Notice"), which brings the number of the additional itemised deductions to a total of seven types.
- On 25 March 2022, the STA issued the *Announcement of the STA to Revise and Promulgate the Administrative Measures for IIT Additional Itemised Deductions (Trial Implementation)* - STA Announcement [2022] No. 7 ("Announcement No. 7"), to clarify the relevant implementation details, and the rules were effective retroactively from 1 January 2022.

- Announcement No. 7 also provided that *Announcement of the STA on Administrative Measures for IIT Additional Itemised Deductions (Trial Implementation)* - STA Announcement [2018] No. 60 ("Announcement 60") will cease to be in force as of the same date.

Reporting Requirements

The relevant reporting requirements for the additional deduction of care for infants under the age of 3 are as follows:

Eligible Taxpayer	Guardians of infants under the age of 3 (including biological parents, step-parents, adopted parents, and others who act as guardians)
Eligible period for claiming the deduction	From the month the infant is born until the month before the infant reaches the age of 3
Deduction standard	<p>RMB 1,000 per infant per month</p> <ul style="list-style-type: none"> 100% to be claimed by either parent; or 50% to be claimed by each parent <p>The deduction ratio shall remain unchanged within a tax year</p>
Information necessary for required reporting	<ul style="list-style-type: none"> Name of spouse and infant(s) Infant's identification document type and ID number (e.g., PRC ID card, birth certificate) Deduction ratio to be claimed by each of the parents
Methods of claim	<p>The deduction may be claimed via:</p> <ul style="list-style-type: none"> tax withholding filing conducted by the withholding agent: the individual taxpayer can provide the required claim information via the personal tax mobile application or by submitting the information on paper or electronic forms to the withholding agent, for the withholding agent to further apply the deduction through withholding tax return filings; or annual reconciliation filing: the individual taxpayer can claim the deduction via his personal tax mobile application or by submitting the information on paper or in electronic form to the in-charge tax authority when lodging his annual tax reconciliation return between 1 March and 30 June of the following year.
Supporting documents retention requirements	<ul style="list-style-type: none"> Taxpayer: infant's birth certificate and informational form for the deduction claim shall be retained for five years after completing the annual tax reconciliation filing Withholding agent: the informational form for the deduction claim submitted by taxpayer shall be retained for five years following the year of withholding filings
Effective date	1 January 2022 (note: the newly introduced deduction type cannot be claimed on the 2021 annual reconciliation filing)

Source: KPMG in the People's Republic of China

KPMG NOTE

The new deduction introduced in Announcement No. 7 is in addition to the existing six additional itemised deductions (covering children's education, further education, serious illness medical fees, mortgage interest or housing rental, and supporting the elderly), which were discussed in [GMS Flash Alert 2019-010](#) (23 January 2019). The updated deduction policy considers individual taxpayers' cost of living throughout different stages of one's life, and is aimed at relieving the overall tax burden of taxpayers. The reporting requirements for the new deduction take the policy transition into consideration and stay consistent with those for the six other deductions, to provide implementation convenience to taxpayers and withholding agents.

Considerations

Announcement No. 7 updated the filing system of the additional itemised deductions as of 28 March 2022. Taxpayers and employers should consider the following practical suggestions:

Taxpayer	<ul style="list-style-type: none">▪ As of 29 March 2022, individual taxpayers can claim the new deduction via their mobile APP, and submit to the employer for pre-tax deduction and withholding filings; or▪ Claim the deduction through annual reconciliation tax return filing during March to June following year end.
Employer	<ul style="list-style-type: none">▪ Before 30 April: Employers are recommended to communicate with the relevant Chinese and foreign employees, and remind them to upgrade their mobile APP and submit the new deduction information within April 2022 for them to enjoy the tax benefit.

Source: KPMG in the People's Republic of China

Announcement No. 7 requires taxpayers to be responsible for the authenticity, accuracy and completeness of the information provided for the claim of additional itemised deductions. If false/erroneous claims are discovered in the administration process, withholding agents should remind their employees to correct the claims and notify the tax authority if the individual concerned refuses to make the corrections. Companies should 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 internal administration efficiency.

Additional Itemised Deductions Appendix Updated

Announcement No. 7 also updated the IIT additional itemised deductions appendix to add the new deduction.

Item	Key qualifying conditions		Standard fixed amount for deduction (RMB)	Who can claim	When to claim
Children's education	Pre-school	3 years onwards	1,000 per child per month	50% for each parent / 100% for either parent	From the month the child turns 3 years old until the end of full-time education (for children receiving education outside the PRC, 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 PRC	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 that 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 taxpayer or his/her spouse. The medical fee for minor children can be deducted by either parent.	The year that actual medical expense is incurred.
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 the 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	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	mortgage interest deduction at the same time.	
		Smaller (population) < 1m	800 per month		
Supporting elderly	60 years or older parents or other obligations by law	Single child	2,000 per month	Individual taxpayers	From the month that the person turns 60 years old to the end of year of which the supporting obligation is terminated.
		Not single child	2,000 per month; Split between siblings: maximum claim is 1,000 per month for any person.		
Care for infants under the age of 3	Infants under the age of 3		1,000 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.

Source: KPMG in the People's Republic of China

KPMG NOTE

KPMG in the People's Republic of China will continue to closely follow developments concerning relevant policies and practices relating to IIT itemised deductions, and share our insights with readers of *GMS Flash Alert*.

RMB 1 = USD 0.1525

RMB 1 = EUR 0.143

RMB 1 = GBP 0.121

RMB 1 = JPY 19.44

RMB 1 = AUD 0.213

(Source: www.xe.com)

FOOTNOTES:

1 *Notice of the State Council on Introduction of Additional Individual Income Tax (IIT) Itemised Deduction of Care for Infants Under the Age of 3* - Guo Fa [2022] No. 8.

2 *Announcement of the STA to Revise and Promulgate the Administrative Measures for IIT Additional Itemised Deductions (Trial Implementation)* - STA Announcement [2022] No. 7.

RELATED ARTICLE

This article is excerpted, with permission, from “New Individual Income Tax Law - Implementation Rules and supplementary guidance notes promulgated” in *China Tax Alert* (Issue 7, April 2022), a publication of the KPMG International member firm in the People’s Republic of China.

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