KPMG

GMS Flash Alert

2022-210 | November 23, 2022

People's Republic of China – Private Pensions Implementation and Tax Deferral Measures

Rules and guidance have recently been issued regarding the implementation of the People's Republic of China's ("China" or "PRC") private pension scheme and preferential tax-deferral policies related thereto.

The PRC Ministry of Human Resources and Social Security recently joined forces with the Ministry of Finance, the State Taxation Administration, the China Banking and Insurance Regulatory Commission, and the China Securities Regulatory Commission, to promulgate the *Measures for the Implementation of Private Pensions* ("The Implementation Measures") in order to substantively drive the implementation of the country's private pension scheme. Following that, the Ministry of Finance and the State Taxation Administration issued the *Announcement on Individual Income Tax Policies Relating to Private Pensions* ("Announcement No. 34") to introduce the preferential tax-deferral policies concerning private pensions.

WHY THIS MATTERS

The private pension scheme will give PRC citizens an additional way to save for their retirement that is flexible and convenient. And it offers more significant tax preferences compared with the pension insurance program that launched in 2018.

Global-mobility managers with PRC citizens on assignment who choose to participate may wish to consider revising compensation policies to make provision for such participation and discuss with such assignees what steps may need to be taken to undertake participation.

Background

On 28 October 2022, the above-mentioned five authorities rolled out the Implementation Measures, which laid down the foundation on the following aspects concerning Private Pension schemes in the PRC.'

Participation and Contributions

- Eligible participants include PRC citizens covered by basic pension insurance for the urban working group or basic pension insurance for urban and rural residents;
- Participation is voluntary, and participants' contributions are credited to their personal accounts; and
- The annual contribution shall not exceed RMB12,000 per person, and contributions can be paid monthly, by instalments, or annually.

Investment Options

- Participants can decide on how their contributions may be invested, which could be term-deposits; wealth management products; commercial pension insurance policies; mutual funds; and others.

Withdrawals

- When the conditions[1] are met, participants can withdraw from their private pension accounts on a monthly basis; or by instalments; or in one lump sum.

Tax Deferral

In addition, Announcement No. 34 released on 3 November 2022 stipulates that ***tax-deferral policies*** concerning private pensions will take effect retroactively from 1 January 2022.

Key Highlights of Announcement 34

The policies are summarised as follows:

	Preferential tax treatment	**Timing**
Contribution	▪ Deductible against comprehensive income or business operation income before taxation ▪ Deduction limit: RMB 12,000 / year	▪ Method: Tax deduction can be claimed on one's monthly individual income tax withholding return[2] ***or*** via annual self-declaration tax return for individual who receives employment income ▪ Supporting for tax deduction claim: certificate issued by the private pension information administration platform
Investment (for returns accrued)	▪ Tax-exempt	N/A
Distribution	▪ Not aggregated with one's comprehensive income. ▪ Tax rate: 3%	▪ Tax withholding agent: Financial institutions with which the private pension account is established

Since 2018, Shanghai, Fujian province (including Xiamen), and Suzhou Industrial Park were selected to pilot the tax-deferred individual commercial pension insurance plans, and corresponding tax preferential treatments differ from the tax policies prescribed for the private pension schemes.[3]

According to Announcement No. 34, regions which have piloted tax-deferred individual commercial pension insurance should align the tax treatment with the new rules stipulated for private pension schemes from 1 January 2022.

KPMG NOTE

The private pension scheme forms a crucial part of China's multi-pillar pension system.

- Participants in the scheme should have a private pension account and a private pension capital account. The private pension account should be opened with the online private pension platform through online national service portals, such as the national online platform for social insurance, or through commercial banks. The private pension capital account should be set up or designated with a qualified commercial bank. The account can be used to invest in different private pension products for returns, a highlighted feature to encourage participation.

- To help ensure the stability of the private pension scheme, the funds in the private pension account can be withdrawn only after specific conditions are met. The Implementation Measures also specify the pension claiming procedure. For example, a person reaching the claiming age for basic pensions can make a claim with the related commercial bank; and the bank should verify the claimant on the designated information platform, identify his/her social insurance bank account, perform the tax withholding in line with the claiming option chosen, and credit the balance to the account.

- The tax preferential treatment is retroactively effective from 1 January 2022, for regions which have been selected to implement the pilot private pension schemes. Regions such as Shanghai, Fujian province, and Suzhou Industrial Park areas where tax-deferred individual commercial pension insurance has already been implemented are likely to make it to the list for piloting the private pension schemes. The list of regions which will implement the private pension scheme will be released soon.

- Compared with the pension insurance program that launched in 2018, the private pension scheme offers more significant tax preferences. Specifically, it reduces the tax burden on pension distribution from 7.5% to 3%. Given that the aforesaid pilot regions have been able to enjoy tax preferential treatment of the private pension scheme since 1 January 2022, enterprises should clarify with their tax authorities on how to transition to the new tax preference scheme (for example, how to calculate and file individual income tax for the remaining months in 2022 for the previous insurance, and how to conduct tax adjustment through annual self-declaration tax return for 2022).

- Other issues concerning the implementation of the new scheme (such as which commercial banks will provide private pension services and what private pension products will be available) will be confirmed and addressed in the future.

FOOTNOTES:

1 Pensions can be withdrew if the beneficiary has reached the claiming age, entirely lost their ability to work, or emigrated, or meets other requirements specified by the government.

2 Taxpayers who choose to deduct the contribution in their monthly withholding tax return shall provide related supporting documents in a timely manner to the tax withholding agent.

3 The tax preferences for individual tax-deferred commercial pension insurance mainly stipulate that:

- Upon payment of contributions: The deduction shall amount to 6% of the monthly salary or labor service income or RMB 1,000, whichever is lower.
- Upon investment of contributions: Individual income tax is not collected.
- Upon pension distribution: 25% of the pension payment is exempted from individual income tax, while the remaining 75% shall be taxed at a rate of 10%.

* * *

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in the People's Republic of China.

Michelle Zhou
Tax Partner
Tel. + 86 021 2212 3458
michelle.b.zhou@kpmg.com

Joyce Wang
Tax Partner
Tel. + 86 021 2212 3387
Joyce.Wang@kpmg.com

Charlotte Luo
Senior Tax Manager
Tel. +86 (21) 2212 3840
Charlotte.Luo@kpmg.com

The information contained in this newsletter was submitted by the KPMG International member firm in the People's Republic of China.

www.kpmg.com

kpmg.com/socialmedia