



China's Individual Income Tax: Recent updates for foreigners

—
September 2024



Today's topics



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Snapshot of China's individual income tax

02

Tax residency & its impact on tax filing

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Tax concessions & preferential policies for foreign talents

04

Recent updates on individual income tax regulations in China

A background image showing several hands of different skin tones stacked in a circle on a white surface, symbolizing teamwork or unity. The hands are wearing light blue and light purple long-sleeved shirts.

01

Snapshot of China's individual income tax

Primary determinants of a foreign individual's tax base in China

What are the primary determinants of a foreign individual's tax base in China?



Length of residence in China



Whether the 6-year concession rule is applicable

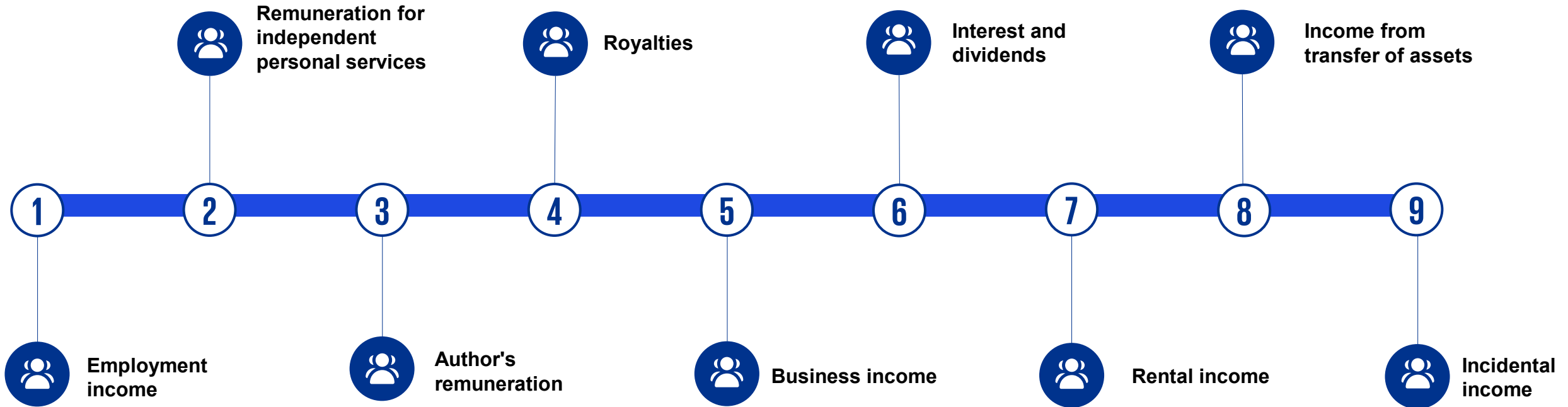


Employment arrangement



Where compensation is paid and borne

Categories of income subject to individual income tax in China



Applicable tax rates for each category of income

Category of income	Applicable tax rate
Employment income Remuneration for independent personal services Author's remuneration Royalties	3% to 45% progressive tax rate
Business income	5% to 35% progressive tax rate
Interest and dividends Rental income Income from transfer of assets Incidental income	20% flat rate

Key tax withholding and reporting obligations for employers



Employer's monthly individual income tax withholding and filing requirement

Employer's monthly individual income tax withholding returns are required to be filed on a monthly basis and the **tax payments** settled **by the 15th day** of the month following the date of receipt of income.





02

Tax residency & its impact on tax filing

How is an individual defined as a tax resident of China

For the purposes of taxation, how is an individual defined as a resident of China?



Either a **China-domiciled individual**, or

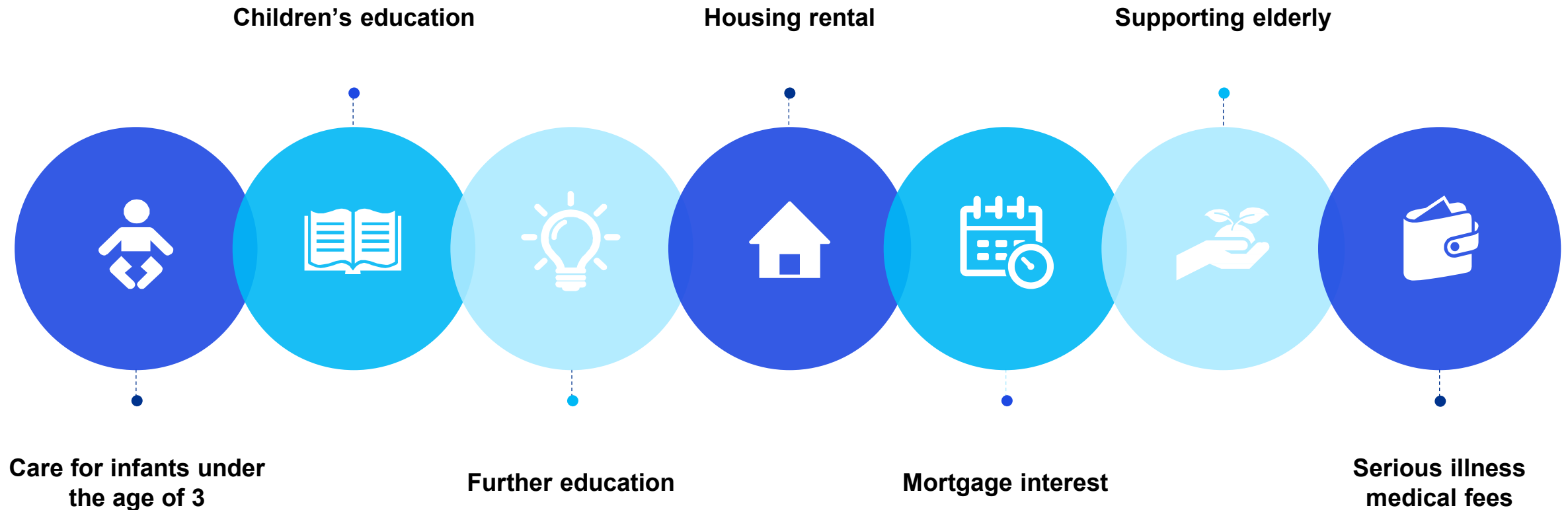


A **non-China-domiciled individual** who resides in China for **183 days or more** during a tax year (1 January to 31 December)

Individual income tax filing for wages and salaries

Considerations			Resident Foreign National Individual	Non-resident Foreign National Individual
Monthly individual income tax withholding method		Cumulative individual income tax calculation method, annual tax rate table applicable	√	Individual income tax is not calculated cumulatively, monthly tax rate table applicable
Annual individual income tax return		File annual individual income tax returns (if required)	√	×
Deductions	Basic deduction	CNY 60,000/year	√	CNY 5,000/month
	Itemized deduction - (A)	See next slide	√	×
	Tax concessions for foreign national employees - (B)	Provision of certain types of benefits-in-kind (such as rental of accommodation, language training, and children's education expenses in China) to employees of foreign nationality can be treated as tax-exempt benefits if certain conditions are satisfied	√ Resident individuals of foreign nationality can either opt for A or B, and the option shall remain unchanged during a year	√
	Qualified annuity, health and pension insurances		×	×

Itemized deduction for resident individuals



A foreign national employee's residency status changes during a year

Scenario 1

The foreign national employee expected to spend ***less than 183 days*** in China at the beginning of the year. His monthly individual income tax has been declared as a non-resident individual. However, the employee stays in China for ***at least 183 days*** during that year and becomes a resident individual.

Expected to spend **less than 183 days** in China

His employer declared his monthly individual income tax as a **non-resident individual**



David

What should his employer and David do?



Actual presence in China has **exceeded 183 days**

January 2024

August 2024

A foreign national employee's residency status changes during a year

Scenario 2

The foreign national employee expected to spend **at least 183 days** in China at the beginning of the year. His monthly individual income tax has been declared as a resident individual. However, the employee stays in China for **less than 183 days** during that year and is actually a non-resident individual.

Expected to spend **at least 183 days** in China

His employer declared his monthly individual income tax as a **resident individual**



Alex

What should Alex do?



Actual presence in China is **less than 183 days**

Alex completed his assignment and left China in May 2024

A background image showing several hands of different skin tones stacked in a circle on a white surface, symbolizing teamwork and unity. The hands are wearing light blue and light purple long-sleeved shirts.

03

Tax concessions & preferential policies for foreign talents

Tax concessions & preferential policies for foreign talents (examples)

Certain benefits-in-kind (“BIK”) provided to foreign national employees are exempt from tax provided that the amounts are reasonable and substantiated by official invoices / receipts and other supporting documentation, and conditions are met.

01

Rental of accommodation

02

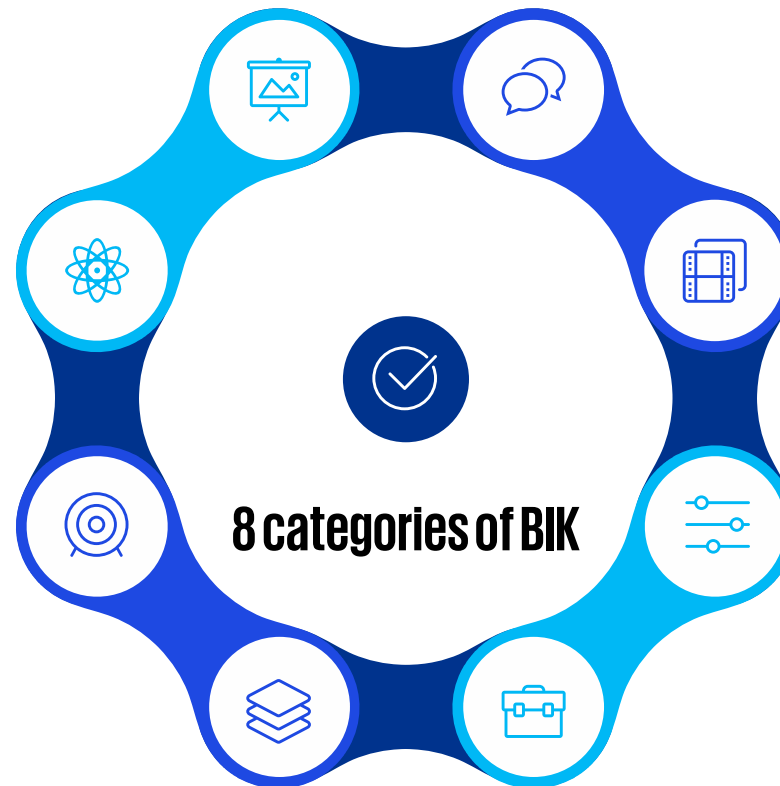
Meals

03

Laundry

04

Relocation



05

Language training

06

Children's education expenses in China

07

Home leave travel

08

Per diem

Tax concessions & preferential policies for foreign talents (examples)

Guangdong-Hong Kong-Macau Greater Bay Area (“GBA”) preferential individual income tax incentives



Tax incentives

- Some regions have policies aiming to attract foreign **high-end and urgently-needed talents** (for example, the Greater Bay Area in Guangdong province).
- Subsidies would be provided to the qualified individual based on the tax paid on the difference in individual income tax between mainland China and Hong Kong SAR on certain categories of income.



Non-tax related financial assistance

- There is also other non-tax related financial assistance for qualified talents.

A background image showing several hands of different skin tones stacked in a circle on a white surface. The hands are wearing light blue and light purple long-sleeved shirts. The image is partially obscured by a dark blue rectangular overlay on the left side.

04

Recent updates on individual
income tax regulations in China

Extension of four preferential individual income tax policies

Type of Income	Equity incentives of listed companies	Benefits-in-kind (“BIK”) for foreign national employees	Annual bonus	Gains from qualified investments in Hong Kong
Tax Treatment	<ul style="list-style-type: none"> 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. Multiple equity income received during a year is combined and taxed together. 	<ul style="list-style-type: none"> Provision of certain types of BIK to employees of foreign nationality can be treated as tax-exempt benefits if certain conditions are satisfied. Resident individuals of foreign nationality can either opt for itemized deductions or adhere to the tax-exempt BIK policy, and the option shall remain unchanged during a year. 	<ul style="list-style-type: none"> 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. Resident individuals can also elect to aggregate the annual bonus to comprehensive income and tax them together. 	<ul style="list-style-type: none"> 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 individual income tax.
Valid Until	31 December 2027 (Original expiration date: 31 December 2023)			

China strengthens tax management for equity incentives

In recent years, local tax authorities have been increasingly enforcing the administration and collection of individual income tax (“IIT”)



- On 17 April 2024, the State Taxation Administration (“STA”) and the Ministry of Finance (“MOF”) issued Announcement 1 to **allow the deferral of IIT payment on eligible equity incentives of domestic listed companies to 36 months** following the taxable event.

- It also emphasizes that one of the qualifying conditions for the application of tax deferral treatment of equity incentives is **full compliance on plan registration with the competent tax authority**.



- Announcement 2 which was issued by the STA on 31 January 2024 highlighted the tax reporting and registration requirements of employer equity incentive plans, and emphasized that **taxpayers who receive multiple equity incentives** from one or more employer(s) in the same tax year should **consolidate all instalments for tax computation and remittance purposes**.

Increased deductions for three itemized deductions

The increased deductions for itemized deductions are summarised as follows:

The below updated deduction standards came into effect from 1 January 2023.

01

Care for infants under the age of 3

Updated deduction standard:

CNY 2,000 per infant per month

02

Children's education

Updated deduction standard:

CNY 2,000 per child per month

03

Support elderly

Updated deduction standard:

- Single child: **CNY 3,000** per month
- Not single child: **CNY 3,000** per month; Split between siblings, maximum claim is **CNY 1,500** per month for any person

Q&A session





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