



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

Changes to Tax-Exempt Benefits for Expatriates in China: How to Prepare for the Transition?

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Section 1

Current Tax-free fringe benefits for expats



1. Definition of Tax Residency



Concept of “domicile”

An individual is regarded as being domiciled in China if he/ she habitually resides in China due to household registration, family, and/ or economic interests.



China Tax Resident

- ✓ China-domiciled individuals
- ✓ Non-China-domiciled individuals who stay in China for 183 days or more in a tax year



Non - China Tax resident

- ✓ Non-China-domiciled individuals who stay in China for less than 183 in a tax year

2. IIT calculation and filing requirements

	Tax Resident	Non-Tax Resident
IIT calculation methods	Annual cumulative withholding method	Per month/ time
Deductions	<ul style="list-style-type: none"> • Special deductions • Itemized deductions • Standard deduction (i.e., RMB60,000/ year) • Other deductions, if any 	<ul style="list-style-type: none"> • Standard deduction (i.e., RMB5,000/ month)
IIT filing methods	<ul style="list-style-type: none"> • Advanced cumulative withholding method • ATR filing, if necessary 	<ul style="list-style-type: none"> • Employer withholding method • Self-reporting method

- Announcement No. 19 [2020] published by the State Taxation Administration of the People's Republic of China on December 4, 2020 (effective from January 1, 2021)

*If a tax resident's monthly salary IIT was withheld by a same entity **and** his/ her salary for the previous tax year is no more than RMB60,000, he/ she could enjoy yearly standard deduction in the amount of RMB60,000 for the monthly IIT calculation from January of this year.*

4. Tax Liability on Annual Bonus



IIT on annual bonus:
(taxable income from bonus * applicable tax rate) - quick deduction.



China Tax Resident

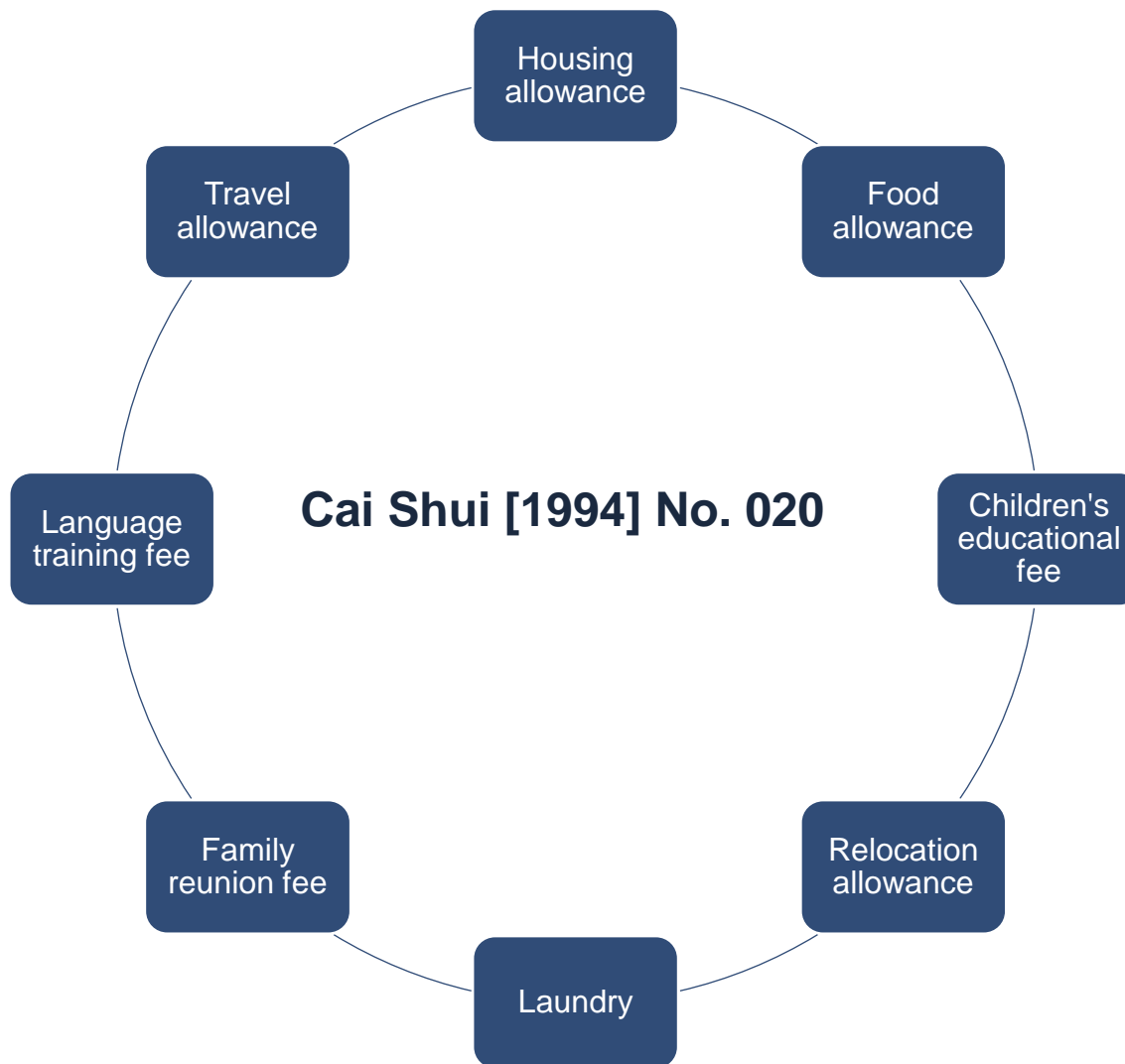
- ✓ Taxable income from bonus:
annual bonus / 12



Non - China Tax resident

- ✓ China-sourced bonus income:
annual bonus * (workdays spent in China in sourcing period / total days in sourcing period).
- ✓ Taxable income from bonus:
China-sourced bonus / 6.

5. Tax-Exempt Fringe Benefits for Expats effective from 1994

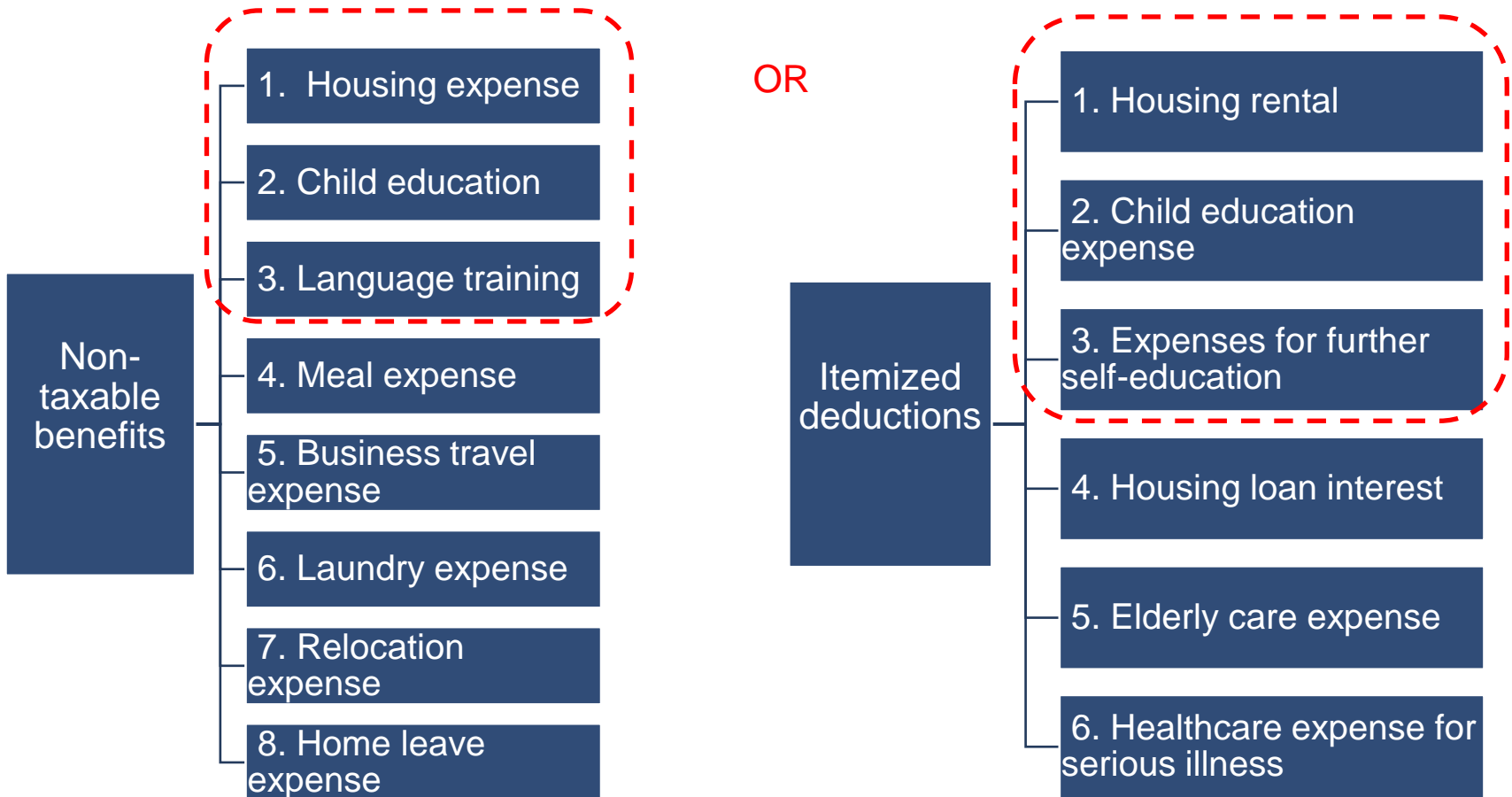


Section 2

Changes on IIT Preferential Tax Treatment: End of Expatriate Allowances



1. Non-taxable Benefits vs Itemized Deductions for Non-China domiciled tax residents



2. Transitional policy

2019.01.01 - 2021.12.31

Non-China domiciled tax residents (who do not have a domicile in China and live for 183 days or more in China in a given tax year) can choose to enjoy:

The tax-exempt benefits-in-kind; or
The six additional itemized deductions.

The two policies cannot be simultaneously enjoyed by non-China domiciled tax residents during the transition period. And once decided, non-China domiciled tax residents cannot change their preference within a given tax year

Starting from 2022.01.01

Non-China domiciled tax residents will no longer enjoy preferential tax-exemption policies on benefits-in-kind, including housing, language training, and children's education.

Instead, the three categories of benefits-in-kind will be replaced by the corresponding additional itemized deductions (that is, housing rent, continuing education expenses, and children's education expenses).

3. Preferential treatment – Bonus



China Tax Resident

2019.01.01 - 2021.12.31

From 2022.01.01

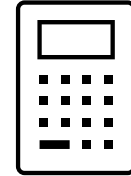
Annual bonus:

- Taxpayer could choose to include annual bonus as comprehensive income;
- Divide the annual bonus by 12 and apply monthly tax rate and quick deduction to assess separately

Include as comprehensive income

Case study I:

Transitional Policy of Tax-free fringe benefits for expats



Mr. A's annual income are RMB1,000,000, of which the income

30% is reimbursed and paid according to the company's non-cash tax-free benefit policy.

According to Mr. A's actual situation, 30% of his income is used for housing allowance and tuition fees in China.

Tax estimation:

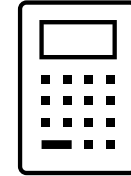
- Scenario I (2021 and before): apply non-cash tax-free benefits policy;
- Scenario II (2022 and beyond): Non-cash tax-free benefits policy no longer applies.

After calculation, the tax difference under the two plans is RMB104,000/year

	Scenario I	Scenario II
Annual Income before tax	1,000,000	1,000,000
Annual Non-cash benefits(30% of Annual Income)	300,000	0
Standard Deduction	60,000	60,000
Taxable Income	640,000	940,000
Tax Rate	30%	35%
Quick deduction	52,920	85,920
Tax amounts	139,080	243,080
Balance of tax	104,000	

Case study II:

Transitional Policy of Annual Bonus



Ms. Jessie, a sales manager of a Chinese company, has been earning her remuneration mostly in the form of an annual performance bonus.

Tax estimation:

- Scenario I (2021 and before): apply annual bonus special tax rate;
- Scenario II (2022 and beyond): special tax rate of annual bonus no longer applies.

After calculation, Ms. Jessie's take-home pay will be cut by 2% when the current tax benefit for her bonus is removed due to the new IIT policy

	Scenario I	Scenario II
Annual Income before tax	500,000	500,000
Annual Bonus	500,000	500,000
IIT cost	224,670	241,080
Net salary (after tax)	775,330	758,920
Take home pay cut	16,410(2% cut)	

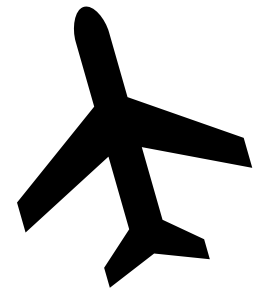
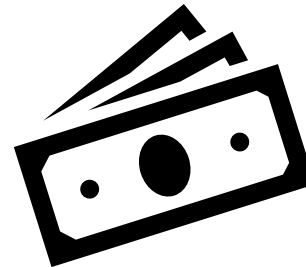
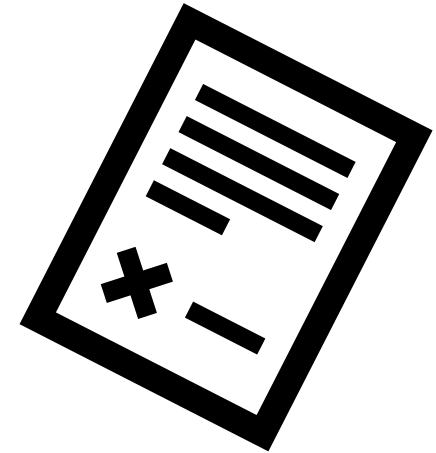
Section 3

**Impact and changes brought
by the amendment of IIT law**

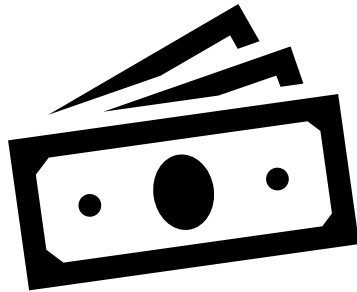
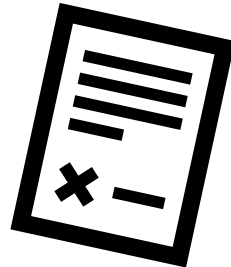


1. Impacts for Employees

- Employees who entitled the Tax-Exempt Fringe Benefits need to review their labor contracts
- Employees' IIT will be increased
- Expatriate employees might need to reconsider their expatriate plans in the future



2. Impacts for Employer

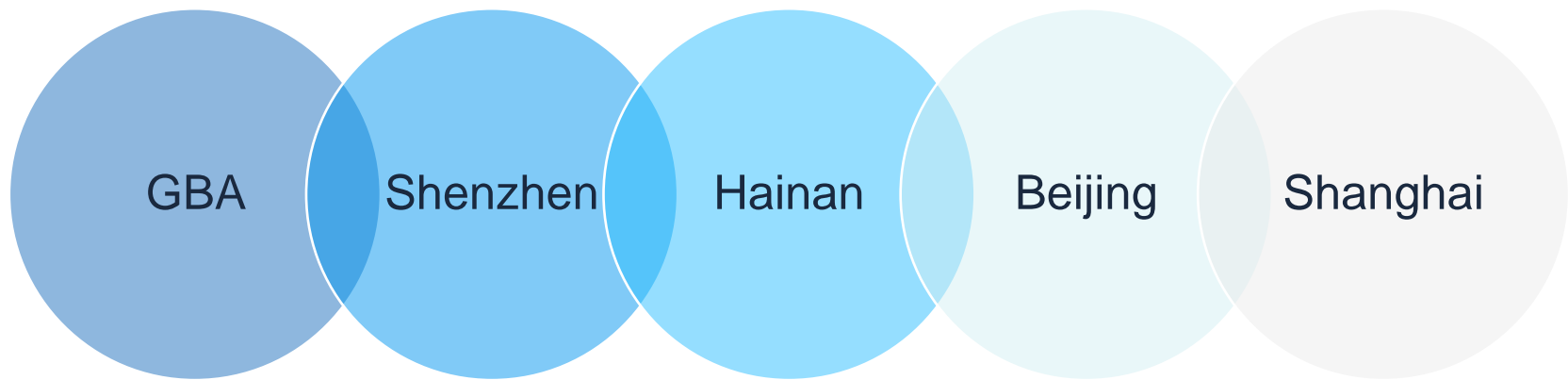


- Potential legal impacts if there are labor disputes due to the policy changes;
- Staff stability;
- Affect the company total cost, especially for global expatriates. The budget cost of dispatched personnel will increase.

Section 4
Measures to prepare for
possible transition in the
future



1. Major cities announced China's referential IIT policies for high-end and urgently needed talents



More cities might be coming soon

2. Individual Income Tax Policies for Guangdong-Hong Kong-Macau Greater Bay Area(GBA)

Cai Shui [2019] No. 31

- effective since 1st January 2019.
- Individual Income Tax Policies for Guangdong- Hong Kong-Macau Greater Bay Area

Yue Cai Shui [2019] No. 2

- effective since 27th March 2020.
- Notice on the Implementation of Preferential Individual Income Tax Policies for the Guangdong-Hong Kong-Macau Greater Bay Area,

Tax no. unconfirmed

- effective since 10 July 2020.
- Notice on Promulgation of the Guidelines for the Application for Individual Income Tax Subsidies for Overseas High-end Talent and Talent in Short Supply in Shenzhen for Tax Year 2019

Qiong Fu [2020] No.41

- effective since 10 July 2020.
- Notice of Hainan Provincial People's Government on Promulgation of the Provisional Measures of Hainan Free Trade Port for the List-based Administration of High-end Talent and Talent in Short Supply Who Are Entitled to Preferential Individual Income Tax Policies

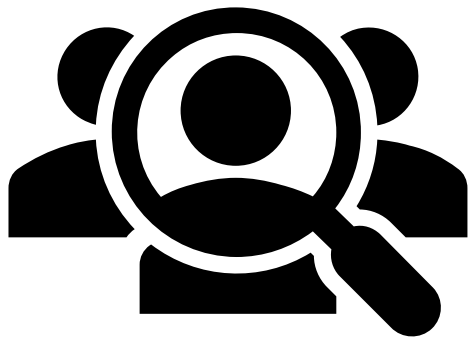
Applicability

- Circular 31 applies to foreign high-end talent and urgently-needed talent (including persons from Hong Kong SAR, Macau SAR and Taiwan regions) who are working in the following nine cities in the GBA's Pearl River Delta: Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing.

Preferential policies

- The Guangdong province and the city of Shenzhen will provide subsidies to qualified overseas high-end talent and urgently needed talent based on the difference in individual income tax ("IIT") between mainland China and Hong Kong SAR. The subsidy is exempt from PRC IIT.

3. Who are eligible?



Overseas talents working in the above-mentioned nine cities and paying taxes as required by law in the local city are eligible for the subsidy. They may be:

- Permanent residents of Hong Kong or Macau;
- Hong Kong residents who came to Hong Kong through the Hong Kong entry scheme for talents, professionals, and entrepreneurs;
- Residents of Taiwan;
- Foreign nationalities; or
- Overseas students and overseas Chinese who have obtained the right of long-term residence abroad.

4. What is considered taxable income under the IIT policy and how to calculate?

Pursuant to the “GD Notice 2”, the IIT paid in the nine cities cover:

- Salaries and wages;
- Income from provision of independent person services;
- Income from author’s remuneration;
- Income from royalties;
- Income from operations; and
- Subsidized income from selected talent projects or talent programs.

Therefore, to calculate the IIT difference or the amount of subsidy, the formula is:

$$\frac{\text{The subsidy amount} = \text{the amount of IIT paid in those nine cities} - \text{taxable income} \times 15\%}{15\%}$$

5. Shenzhen IIT incentives for highly skilled foreign individuals

Qualifying talents recognition criteria:

- Chinese citizens who have studied abroad, or worked/studied abroad under employment, not regarded as overseas Chinese
- Qualified overseas students exclude: (i) students who studied language overseas; (ii) family members who visit overseas students; and (iii) individuals who interned or worked in foreign companies abroad
- Foreign nationals' annual taxable income \geq RMB500K

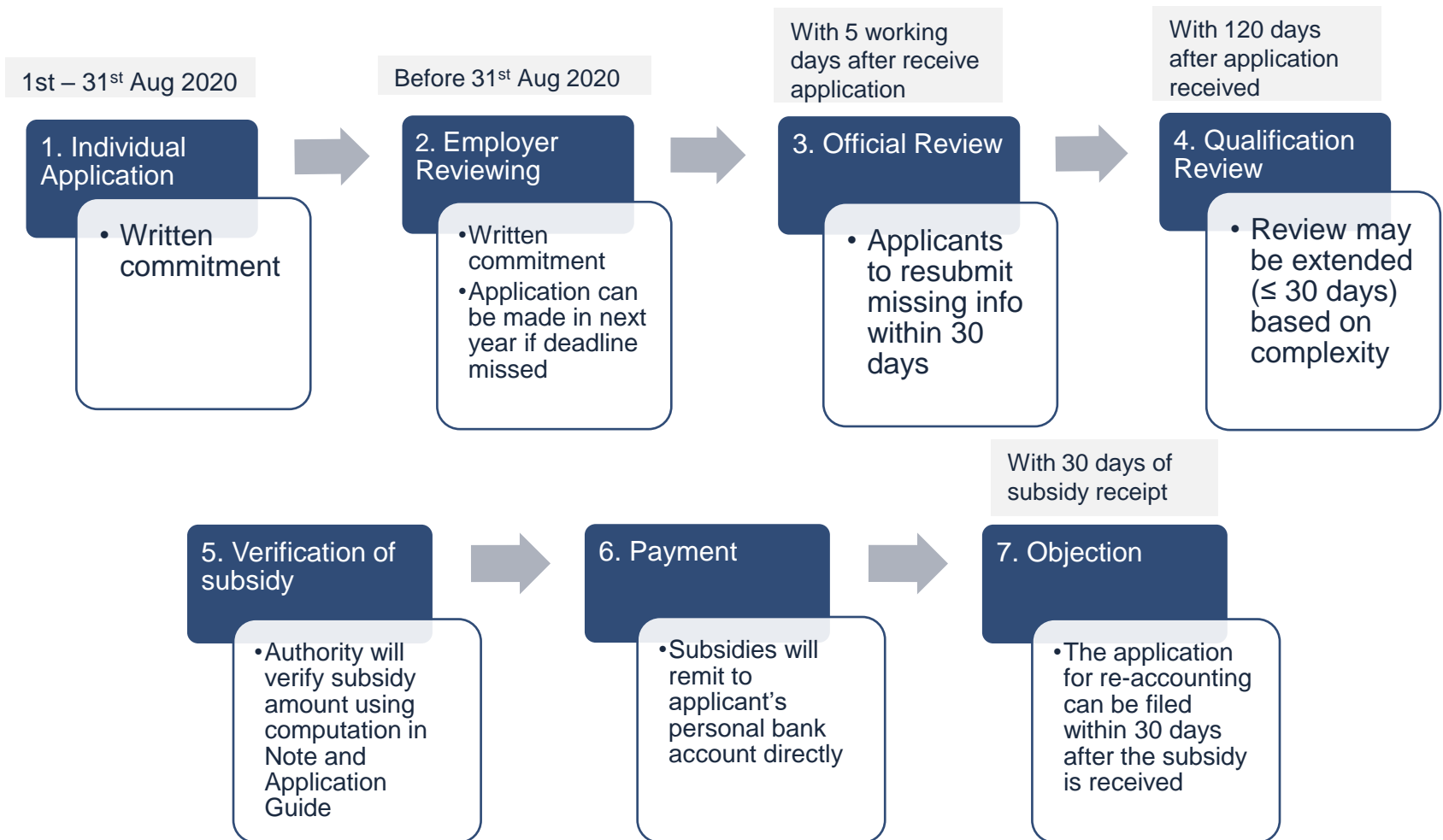
Commitment to meet tax compliance requirement:

- Both applicant and employer are required to make a written commitment to meet tax compliance requirements
- Both applicant and employer are accountable for authenticity of supporting documentation submitted
- Administrative and financial penalties for false applications can (i) disqualify the application; (ii) require return of the IIT subsidy with interest, (iii) be passed to judicial authorities where crime is suspected

6. Calculation of Subsidies

- Within the tax year 2019, the tax amount paid by a taxpayer in Shenzhen less the estimated tax amount shall be the amount of IIT subsidies that the taxpayer may apply for.
- Estimated tax amount shall mean the tax amount payable for the taxpayer's individual income derived in Shenzhen within the tax year 2019 computed pursuant to the tax laws of Hong Kong. It shall be calculated according to the standard tax rate method, that is,
Estimated tax amount = taxable income of the taxpayer in Shenzhen * 15%.
- The fiscal subsidies shall be calculated on an item-by-item basis (comprehensive income shall be calculated on a consolidated basis) and granted in the form of combination.
- If the estimated tax amount exceeds the tax amount already paid, no subsidy is allowed, and no application is required to be submitted to the application system.

7. Subsidies Application Procedures



8. Hainan Free Trade Port's New Preferential Tax Policies

Who are eligible:

Domestic Talents	Domestic Talents	High-end Talents	Talents in short supply
<ul style="list-style-type: none">• 6 months Social insurance• Contracts more than 1 year	<ul style="list-style-type: none">• Contracts more than 1 year	<ul style="list-style-type: none">• Recognized by talent management departments• ≥RMB300K in single tax year	<ul style="list-style-type: none">• The Catalogue of Talent in Short Supply of Industries

Taxpayers included in the lists are entitled to 15% IIT rate upon annual IIT reconciliation filing in Hainan. The preferential IIT policy is effective from 1 January 2020 to 31 December 2024.

9. [Revoked] Beijing Plans to Grant Individual Income Tax Subsidies to Overseas High-End Talents

According to the Measures, Beijing has decided to grant individual income tax (IIT) subsidies to eligible overseas high-end talents who work in the following areas of the city:

- “Core area of the capital”, namely Dongcheng District and Xicheng District;
- “Subcenter of the capital”;
- China (Beijing) Free Trade Zone;
- Zhongguancun Science Park;
- Huairou Science City;
- Future Science City;
- Beijing Innovation Industry Cluster Demonstration Zone; and
- High-Quality Manufacturing Development and Innovation Leading Demonstration Zone.

Qualified talents are eligible for a subsidy equivalent to the portion of the IIT paid in the previous year that exceeds 15 percent of their taxable income – similar to the preferential IIT policies implemented in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and Hainan Free Trade Port (FTP).

Beijing’s IIT subsidy policy takes effect retroactively from January 1, 2021. No expiry date was specified in the Interim Measures.

10. Who are eligible for Beijing's IIT subsidies?

Beijing's IIT subsidies will be available for overseas talents (including talents from Hong Kong, Macao, and Taiwan).

First, they shall be:

- Foreigners (of foreign nationalities);
- Permanent residents of Hong Kong or Macau;
- Hong Kong residents who came to Hong Kong through the Hong Kong entry scheme for talents, professionals, and entrepreneurs;
- Residents of Taiwan;
- Overseas students and overseas Chinese who have obtained the right of long-term residence abroad; or
- Members of the National and Beijing Overseas Talent Program.

Second, they need to be employed by an enterprise or organization registered in the above-mentioned areas or provide independent personal services within the said areas for a total of not less than 90 days within a tax year.

11. What is considered taxable income and how to calculate?

Generally, to calculate the amount of subsidy, the formula is:

The subsidy amount = the amount of IIT paid in Beijing – taxable income × 15%

Specifically, under the IIT subsidy policy, the talent's taxable income includes the following sub-items:

- **Comprehensive income:**
 - – Income from wages and salaries;
 - – Income from labor compensation;
 - – Remuneration income;
 - – Income from royalties; and
- **Operating income.**

Starfish Service



Talent project declaration



Stay-ups run fee-funded declaration



Foreign laborers to testify for Guidance



Foreign laborers



BOTC

2021全球青年创新云对话 Global Youth Talent Talk

中德青年创新
Chinese & German Youth Innovation

指导单位：北京市人才工作局
Advisor: Beijing Talent Work Bureau
主办单位：北京海外学人中心
Organized by Beijing Overseas Talent Center

2021年5月 | May 2021

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How to apply?

- Beijing Overseas Talents Center:
- Application time: previous year in July and August of the current year(once a year).

Section 5
What Dezan Shira can
do to help?



About Dezan Shira Associates

- Dezan Shira & Associates is a pan-Asia, multi-disciplinary professional services firm, providing market entry, legal, accounting, tax, HR, technology and operational advisory to international investors. Operational throughout China, ASEAN and India, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining, and growing their business operations in the region.
- Originally incorporated in Hong Kong in 1992, Dezan Shira & Associates is now in its third decade of operations. With three decades of on-the-ground experience and a large team of lawyers, tax experts and auditors, in addition to researchers and business analysts - we are your partner for growth in Asia.
- We support our clients from our 28 offices throughout China, Hong Kong, India, Russia, Singapore and Vietnam, as well as from our 8 'Asian Alliance' partner offices in Bangladesh, Indonesia, Malaysia, the Philippines, and Thailand. Together, we makeup one of the largest integrated providers of corporate services in the region, with more than 35 offices and 500 professionals in Asia.
- We also serve our corporate clients and partners beyond Asia. Our firm maintains liaison offices in the United States, Europe, and Russia, and advises throughout China's Belt & Road Initiative regions. As members of accounting, tax, and legal professional alliances, we support our multi-jurisdictional clients with one-stop-shop access to services in more than 155 countries globally.

HR & Payroll Service Overview

With almost three decades of experience across Asia, Dezan Shira & Associates' simple and easy payroll solutions make use of technology and system infrastructure that exceed industry standards. We understand the need to have regional oversight with local expertise. Our on-the-ground experts with knowledge of local statutory regulations enable you to focus on running your company as efficiently as possible.

Dezan Shira & Associates provide an integrated payroll service. Our cloud-based HR & Payroll portal will provide an efficient, always-on service to the clients across Asian countries. Using the HR & Payroll portal gives your company access to a state-of-the-art HR and payroll system without having to invest in physical infrastructure – allowing your workforce to focus on core business.

- Payroll Administration
- Individual Income Tax Advisory
- Salary Benchmark Study
- HR Service
- Employment Background Check
- Expatriate Management
- Global Mobility & Global Staffing Solution
- HR and Payroll Audit
- Cross-border HR & Payroll**
- Recruitment Service

DSA's Cross-border HR & Payroll Service and Portal

On-the-ground HR & Payroll experts with knowledge of local statutory regulations

- DSA International Payroll Team (iPAY)
- On-the-ground professionals in Asian countries

Single HR & Payroll Portal with cross-country salary calculation and multi-language

- Single sign-on
- Web Browser & Mobile App
- Language: Simplify Chinese, Traditional Chinese, English
- One Source Code Solutions (as of 2021): China, Hong Kong, Singapore, Vietnam

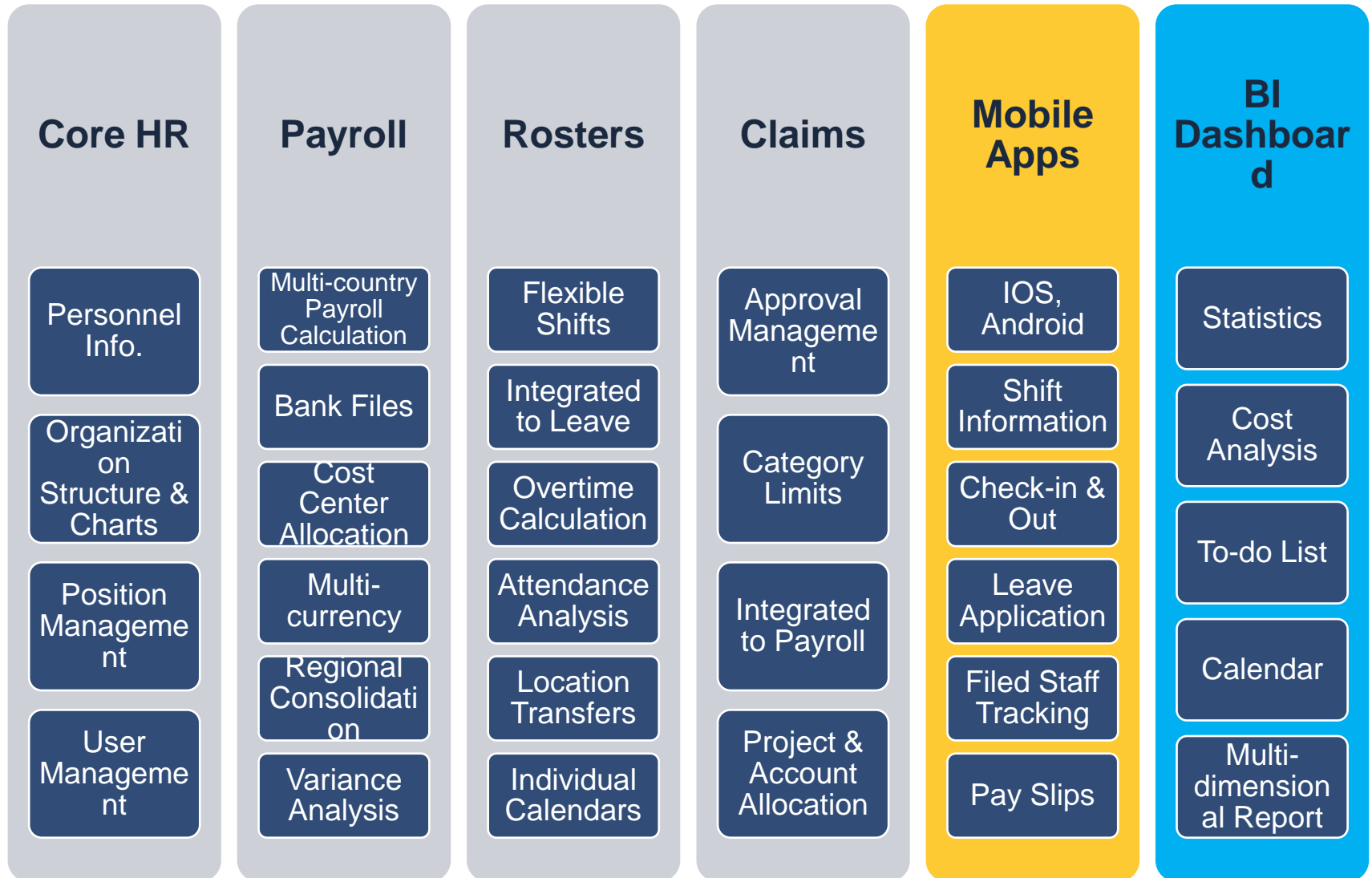
Advanced technology & security measures

- Cloud-based software
- Highly configurable features to accompany employee's lifecycle in the organization
- Integration with HCM system, e.g, Workday, SAP and Time & Attendance system
- ISO 27001, Penetration Testing, Disaster Recovery Action Plan, etc.
- Ali Cloud Server in Hong Kong

Cross-border HR & Payroll Portal

The image displays the AdminAsia HR & Payroll Portal across multiple devices. On the left, a group of business professionals is shown in a meeting. In the center, a login screen for AdminAsia is visible, featuring a search bar for 'AdminAsia', a '用户编码' (User Code) field, a password field with a visibility toggle, a '登录' (Login) button, and a '忘记密码' (Forgot Password) link. To the right, a smartphone displays the mobile app interface for '888-7 JIJI ESS PLAZA SM', showing store details like 'Store Name', 'Store Code', and 'User Code', along with navigation options for 'Recruitment' and 'Edit Employee Info'. On the far right, a laptop displays a dashboard with a 'Payment Condition' table and a 'Payment Condition by Year' line chart. The main dashboard view shows a navigation menu on the left with categories like HR, Payroll, Rosters, Leave, Statutory Reports, Employee Engagement, and Overtime. The main content area is divided into sections: 'My Team (34 Total, 7 Direct)' with icons for Subordinates, Reports, Calendar, Incumbent Chart, and On Leave; 'My Info' with icons for Personal, Documents, Payslips, and Calendar; and 'Applications' with a 'New' button.

Modules of the Portal



Section 5

Any Questions?





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