

# Human resource & Tax alert

## The State Council published the Interim Measures of Specific Additional Tax Deductions

### Executive summary

The State Council published the Interim Measures of Specific Additional Tax Deductions (hereinafter referred to as “the Measures”) on 22 December 2018. It provides the deduction rules and administrative measures regarding specific additional tax deductions of individual income tax, which will take effect from 1 January 2019.

The Measures amended some of the provisions in the Draft Rules of Specific Additional Tax Deductions of individual income tax (hereinafter referred to as “the Draft Rules”). This alert aims to elaborate on the detailed contents and implications brought about by the Measures.

### Key Content

1. The Measures stipulate the standards and detailed rules of specific additional tax deductions, which are summarized below:

Deduction-s	Standard amount	Scope of application		Objection of deductions	Timing of deductions	Documents retained by taxpayers
Children Education	RMB1,000 per month	Pre-school education	Aged 3 to primary school before entering	100% by father or mother or 50% per parent	Per year or per month	Admission offer, overseas student visa for child(ren) studying abroad, etc.
		Academic education	Compulsory education (primary and secondary education) High school education (Ordinary high school, secondary vocational education and technical education) Higher education (Colleague, university, postgraduate, doctoral education)			
Continued education	RMB400 per month	Academic education	Only applicable to continued academic education in China	For undergraduate and below continued education, deducted by either parent(s) or taxpayer; for undergraduate above continued education, by taxpayer	Per year or per month (The deduction period for the same academic qualification cannot exceed 48 months)	



Deductions	Standard amount	Scope of application		Objection of deductions	Timing of deductions	Documents retained by taxpayers
Continued education	RMB3,600 per year	Continued education	Continued education for skilled personnel/professional and technical personnel	Taxpayer	Per year (in the year the certificate is obtained)	Relevant certificate, etc.
Medical expenses for serious illness	Personal expense above RMB 15,000, Deduction capped at RMB 80,000 (a limit based on actual)	Medical expenses related to social medical insurance, expenses borne by taxpayers after medical insurance reimbursement (inside medical insurance catalogue actually paid by taxpayer)		Either taxpayer or spouse; Medical expenses incurred by minor children can be deducted by either of the parents; Deduction amount can be cumulatively calculated for the medical expenses incurred by different individuals.	Per year (in annual reconciliation filing)	Relevant receipts for medical service charges and medical insurance reimbursement, etc.
Housing loan interest	RMB1,000 per month	The first commercial housing loan interest or provident fund loan interest of taxpayer or spouse (the first housing loan refers to a housing loan with the interest rate of the first housing loan when purchasing a house)		Either husband or wife (for the first residential property purchased before marriage); choose either of the following deduction rules after marriage: <ul style="list-style-type: none"> <li>Choose either of the house and deduct 100% by the purchaser;</li> <li>Or</li> <li>Deduct 50% by each for each house)</li> </ul>	Per year or per month (The deduction period cannot exceed 240 months)	Housing loan contract and housing loan payment vouchers
Housing rent (working in a city without an owned house)	RMB1,500 per month	Major cities	Municipalities, provincial capitals, planning unit cities, and other cities designated by the State Council	Either husband or wife within the same city (only applicable to the lessee who signed the lease contract)	Per year or per month	Lease contract, lease agreement, etc.
	RMB1,100 per month	Medium cities	Over 1 million of the registered population in the municipal area			
	RMB800 per month	Small cities	No more than 1 million of the registered population in the municipal area			
Caring for elderly	RMB2,000 per month	Singlet-on	60 years old or above parents and grandparents whose child(ren) have all passed away	Taxpayer	Per year or per month	
	Not exceeding RMB1,000 per month	Non-singleton	60 years old or above parents and grandparents whose child(ren) have all passed away	Averaged, Designated or Agreed (Designated over agreed)		

2. Taxpayers and their spouses are not allowed to enjoy the specific additional tax deductions on housing mortgage interest and housing rent at the same time.
3. Where a taxpayer enjoys the specific additional tax deductions for the first time, he or she shall submit relevant information to the withholding agent or in-charge tax authority. The withholding agent shall submit relevant information to the tax authority in due course. The taxpayer shall be responsible for the authenticity, accuracy and integrity of the submitted information. In case of a change in the information related to the specific additional tax deductions, taxpayers shall provide the relevant information to the withholding agent or tax authority in a timely manner.
4. Taxpayers shall retain relevant supporting documents for five years.
5. The Measures specify the responsibility and obligation of related government departments and authorities to provide or assist with verifying relevant information.
6. The Measures also deem that the balance of unused deductions in the current tax year shall not be carried forward to subsequent years.

## Our observation

Compared with the Draft Rules, the Measures increase the deduction cap for medical expenses for serious illness, raise the standard deduction amount for housing rent in major cities and medium cities, and enlarge the objection of deduction on medical expenses for serious illness, which is good news for taxpayers.

## Next Steps

The Measures will be officially implemented from 1 January 2019. Companies and individuals need to be familiar with the specific rules of specific additional tax deductions as soon as possible and design relevant internal policies in order to regulate the procedures for the claim of specific additional tax deductions and to elaborate the roles and responsibilities of the company and employees. For the initial information collection to claim specific additional tax deductions in 2019, companies should ensure proper communication with employees and carry out the collections as soon as possible. If in doubt, please consult the in-charge tax authorities or seek advice from professionals.

For further information, please contact Ernst & Young's People Advisory Services practice in Greater China:

**Hong Kong**  
Paul Wen  
+852 2629 3876  
paul.wen@hk.ey.com

Ami KM Cheung  
+852 2629 3286  
ami-km.cheung@hk.ey.com

Robin Choi  
+852 2629 3813  
robin.choi@hk.ey.com

**Beijing**  
Jason Mi  
+86 10 5815 3990  
jason.mi@cn.ey.com

William Cheung  
+86 10 5815 3301  
william.cheung@cn.ey.com

Caroline Lu  
+86 10 5815 3856  
Caroline.Lu@cn.ey.com

**Shanghai**  
Norman Yu  
+86 21 2228 2287  
norman.yu@cn.ey.com

Freeman Bu  
+86 21 2228 3880  
freeman.bu@cn.ey.com

Shelley Tang  
+86 21 2228 2658  
+86 512 6763 3286  
+86 25 5768 8630  
shelley.tang@cn.ey.com

Ben Fan  
+86 21 2228 2257  
ben.fan@cn.ey.com

**Hangzhou**  
Amy Wang  
+86 571 8736 5000  
amy.wang@cn.ey.com

**Tianjin**  
April Liao  
+86 22 5819 4700  
april.liao@cn.ey.com

**Shenzhen**  
Sam Pang  
+86 755 2502 8160  
sam.pang@cn.ey.com

**Guangzhou**  
Shirley J Liu  
+86 20 2881 2778  
Shirley-J.Liu@cn.ey.com

**Macau**  
Colla Chow  
+853 8506 1826  
colla.chow@hk.ey.com

**Taipei**  
Heidi Liu  
+886 2 2720 4000  
heidi.liu@tw.ey.com

EY

Assurance | Tax | Transactions | Advisory

### About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization and may refer to one or more of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [www.ey.com](http://www.ey.com)

© 2018 Ernst & Young (China) Advisory Limited. All Rights Reserved.

APAC no. 03007723

ED None

This material has been prepared for general information purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

[www.ey.com/china](http://www.ey.com/china)