

# Human Resource & Tax alert

## Good news on Individual Income Tax (IIT)! Extension of preferential IIT policies to 2027

### Overview

According to the announcements issued by the Ministry of Finance (MOF) and the State Taxation Administration (STA) at the end of 2021, the preferential policies for one-off annual bonus and foreign individual subsidies and allowances shall be extended to 31 December 2023.

On 18 August 2023, the two departments issued further announcements about these topics, including Announcement on Continued Implementation of Individual Income Tax Policies for Subsidies and Allowances for Foreign Individual (Announcement [2023] No. 29 of MOF and STA) (hereinafter referred to as "Announcement No. 29"), Announcement on Continued Implementation of Individual Income Tax Policies for One-off Annual Bonus (Announcement [2023] No. 30 of MOF and STA) (hereinafter referred to as "Announcement No. 30"), and Announcement on Continued Implementation of Policies Relating to Annual Individual Income Tax Reconciliation on Consolidated Income (Announcement [2023] No. 32 of MOF and STA). The key provisions of the above announcements are as follows.

### Key provisions

Announcements	Valid period	Key provisions on IIT policies
Announcement [2023] No. 29 of MOF and STA	Effective until 31 December 2027	Foreign individuals who qualify as resident individuals may opt to claim specific additional tax deductions for individual income tax, or opt to enjoy tax exemption policies for subsidies and allowances such as housing allowances, language class fees and children education fees stipulated in the Notices of MOF and STA, but they cannot enjoy both at the same time. Once selected, they cannot change it within a tax year.
Announcement [2023] No. 30 of MOF and STA	Effective until 31 December 2027	1. One-off annual bonus obtained by a resident individual who complies with the provisions of the Notice of STA on Issues Relating to Adjustment of Methods for Computation and Levying of IIT on One-off Annual Bonus Obtained by Individuals (Guo Shui Fa [2005] No. 9) will not be combined with his/her consolidated income for that year; annual bonus will be divided by 12 to determine the applicable monthly tax rate and quick reckoning deduction. The formula is as below: Tax payable = one-off annual bonus income × applicable tax rate – quick reckoning deduction 2. A resident individual who obtains one-off annual bonus may also opt to combine such bonus with his/her consolidated income for that year for tax computation.
Announcement [2023] No. 32 of MOF and STA	Effective from 1 January 2024 to 31 December 2027	For consolidated income derived by a resident individual during the period from 1 January 2024 to 31 December 2027, the resident individual may be exempted from completing the formalities for annual individual income tax reconciliation on consolidated income, where a taxpayer has underpaid tax liability but his annual consolidated income is no more than RMB120,000, or where the underpaid tax liability does not exceed RMB400. This does not apply to the situation where the withholding agent fails to fulfill the withholding obligations for consolidated income.



## Our observations

Regarding the above announcements on IIT policies, this Alert aims to summarize the tax preferential treatments for one-off annual bonus and foreign individuals' subsidies and allowances, and share our observations and suggestions. We will share other topics in the subsequent Alerts.

### 1. One-off annual bonus

The highly concerned tax preferential treatment for one-off annual bonus is widely applied. Announcement No. 30 extends the preferential tax computation method for one-off annual bonus obtained by a resident individual, reiterating that annual bonus will be divided by 12 to determine the applicable monthly tax rate and quick reckoning deduction. Alternatively, a resident individual who obtains one-off annual bonus may also opt to include such bonus into his/her consolidated income for that year for tax computation.

The extension of separate tax computation method for one-off annual bonus may effectively reduce the tax burden for most individuals. Enterprises and individuals should determine such bonus based on the salary structure, distinguish resident and non-resident individuals, recognize and apply the tax computation methods by either separate computation or inclusion into the consolidated income of that year. Enterprises shall make reasonable and compliant arrangements based on full understanding of the extended IIT policy for one-off annual bonus, so as to effectively inspire the employees by enabling them to enjoy tax benefits brought by the extended policy.

### 2. Foreign individuals' subsidies and allowances

Compared with specific additional deduction, many enterprises grant housing allowances, language class fees, children education fees, etc. for most foreign individuals working in China and treat such subsidies and allowances as non-taxable benefits. Announcement No. 29 (effective until 31 December 2027) reiterates that foreign individuals who satisfy the criteria for resident individuals may opt to claim specific additional deduction for IIT or enjoy tax exemption policies for subsidies and allowances (not to claim concurrently) in a tax year. This is good news for foreign individuals and the enterprises, as foreign individuals often receive higher subsidies and allowances, and such tax exemption policies may actually reduce IIT burden and enterprises' costs.

The enterprises employing foreign individuals shall study the extended IIT policy for foreign individual subsidies and allowances in time, implement internal policies to comply with administration on exemption of IIT by MOF and SAT, adjust detailed practices, conduct budget management and communicate with the employees.

In recent years, China released a series of tax preferential policies, especially those issued recently. It is anticipated that they will further stimulate economic growth by promoting foreign investment while reducing tax burdens. Meanwhile, the tax authorities are strengthening tax administration with the aim of extending tax base and increasing tax collection. We notice more investigation and tax audit on enterprises from tax authorities regarding fapiao amount, issuer, item, etc. through big data from E-fapiao tool as well as Golden Tax System. Such investigation brings challenges to enterprises on the arrangement of tax exemption to foreign individuals' subsidies and allowances, whether the reimbursement is a proper process, the completeness of fapiao and other supporting documents, and the compliance of tax withholding obligation by enterprises.

Therefore, the enterprises which apply tax exemption policies for foreign individuals' subsidies and allowances shall actively improve the internal control in this aspect. According to Cai Shui Zi [1994] No. 20, Guo Shui Fa [1997] No. 54, Cai Shui [2004] No. 29 and the practical requirements of local in-charge tax authorities, the enterprises shall review the reasonableness of subsidies and allowances via reimbursements or other non-cash form, retain the supporting documents for those eligible for tax exemption, and include the non-eligible or other cash subsidies and allowances into the salary subject to IIT, in order to meet the compliance requirements and to prepare for inspection from tax authorities.

## Next steps

The above announcements relating to IIT policies recently issued by MOF and STA are all tax preferential treatments to benefit enterprises and individuals. As withholding agents, enterprises may adequately assess the applicability of the preferential IIT policies for one-off annual bonus and foreign individuals' subsidies and allowances during the extension period, and conduct regular review to ensure their fulfilling compliance obligations so as to maximize the IIT benefit for the employees.

For additional information concerning this Alert, please contact our EY professionals.

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