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Comparison of IIT between Hong Kong, China and Taiwan for 2020

Individual (personal) income tax is an income tax levied by a country (country or region, the same below) on the personal income of citizens and residents of the country and on the personal income of foreign individuals derived from the country.

In Mainland China, the new *Individual Income Tax Law* (hereafter as IIT Law) has been implemented from January 1, 2019, dividing taxable personal income into nine categories and implementing different tax calculation methods. The new IIT Law grouped four categories income including income from salaries and wages, income from provision of independent personal services, income from author's remuneration and income from royalties into the scope of "Comprehensive Income", and seven-level of progressive tax rates from 3% to 45% has been applied for determining the IIT. Income from operations, interest, dividends, property leasing, the transfer of an asset, incidental income, and other income will still be taxed separately at the rate prescribed for that category of income.

Taiwan implements a comprehensive income tax system, which divides taxable personal income into nine categories, including profit income, operations income, salaries and wages income, interest's income, leasing income, royalty's income and other income. Consolidating all income and then calculating the IIT after deducting the prescribed deductions. The comprehensive income tax implements a five-level of progressive tax rates, with a minimum tax rate of 5% for the taxable amount less than NT \$ 540,000; a maximum tax rate of 40% for the taxable amount over NT \$ 4.53 million.

Hong Kong implements a classified comprehensive income tax system. The personal income involves three taxes including salaries tax, profits tax and property tax. Hong Kong residents can choose to calculate the assessable income and tax payment according to the category of their income or choose "Personal Assessment" which enables an individual to aggregate the income or loss from operations and (or) salaries and (or) property in a single assessment. Salaries tax can choose to apply the standard tax rate of 15% or the five-level of progressive tax rates from 2% to 17%. The profit tax (sole proprietorship) and property tax are both subject to the standard tax rate of 15%.

It is worth to mention that with regard to dividends received by individuals, Mainland China and Taiwan need to determine whether there is a tax liability based on the individual's tax resident status and source of origin. Since Hong Kong has no capital gains tax, there is no dividends derived from individuals from any region are subject to income tax.

In view of the unique tax exemption and deduction policies in each place, it is recommended that taxpayers can arrange and plan their income tax methods in response to such policies, so that they can fully enjoy local tax exemptions and various preferential policies.

This article only briefly introduces the individual income tax payable by individuals in Mainland China, Hong Kong and Taiwan for their income under employment, and makes a simple analysis and comparison of the IIT burden between Mainland China, Hong Kong and Taiwan for Kaizen's clients' reference.

Chapter I Introduction

In Hong Kong, the income earned by individuals due to their employment should be declared and payable in salaries tax. In China Mainland, it should be declared and payable in individual income tax as salaries and wages, and in Taiwan, it should be declared and payable in personal income tax.

From the perspective of tax scope, the regulations of tax laws of China, Hong Kong and Taiwan are similar. All salaries, allowances and subsidies, bonuses, share equity incentives, etc. obtained by an individual related to the employment are liable to pay taxes. However, the differences between the three places are still relatively large in terms of principle of tax, tax rates, tax exemptions and deductions, and declaration methods. We have listed as follows:

Table One: Comparison of Salaries and Wages Income Between Hong Kong, China Mainland and Taiwan

Items	Hong Kong	Taiwan	China Mainland
Principle of Tax	Territoriality Principle	Territoriality Principle	Nationality Principle
Tax Law	Tax Regulations	Income Tax Law (Chapter Two Comprehensive Income Tax Law)	Individual Income Tax Law
Tax Year	April 1 of current year to March 31 of following year	January 1 to December 31 of current year	January 1 to December 31 of current year
Declaration Method	Annual Declaration by Individuals	Annual Declaration by Individuals, but while the monthly salary amount over NT 84,501, the employer needs to withhold tax every month.	Employer withholds tax every month and taxpayers do the annual declaration.

Table One: Comparison of Salaries and Wages income between Hong Kong, China & Taiwan -Cont'd

Items	Hong Kong	Taiwan	China Mainland
Declaration Period	Tax returns have to be submitted within one month from the date of issue	From January 1 to May 31.	Withholding and declaring tax before 15 th of every month. Annual IIT Declaration from March 1 to June 30.
Tax Rate	Standard tax rate of 15% or five-level of progressive tax rate from 2% to 17%.	Five-level of progressive tax rate from 5% to 40%.	Seven-level of progressive tax rate from 3% to 45%.
Basic Exemptions	Single: HK\$ 132,000 Married: HK\$ 264,000	<u>General Exemptions:</u> - NT\$88,000 - Over 70 years old: NT\$ 132,000 <u>General Deductions:</u> - Single: NT\$120,000 - Married: NT\$240,000 <u>Special Deductions for Wages:</u> - NT\$200,000	RMB 60,000 Spouses cannot declaration tax together
Special Deductions	Mandatory Provident Fund (MPF)	Labor Health Insurance	Social Insurance and Housing Provident Fund (HPF)
Other Deductions	<ul style="list-style-type: none"> - Elderly Residential Care Expenses - Single Parent Allowance - Child Allowance - Dependent Brother or Dependent Sister Allowance - Personal Disability Allowance - Self-Education - Loan Interest - Approved Charitable Donations - Qualifying Premiums Paid under the Voluntary Health Insurance Scheme (VHIS) Policy. 	<ul style="list-style-type: none"> - Pre-school Children - Disabled - Savings and Investment - Dependents Long-term Care - Educational Tuition - Loss for Property Transactions 	<ul style="list-style-type: none"> -Elderly Care -Children's Education -Housing Mortgage Interest -Housing Rent -Continuing Education -Critical Illness Medical
Tax Reduction	100% of tax reduction, and maximum HK\$20,000 per case for year of assessment 2019/20	Nil	Nil

1. HK Residents

Hong Kong's taxation system is territoriality base. Any income under employment earned in or derived from Hong Kong or pension, regardless of whether it has been paid in other tax jurisdictions, is subject to salaries tax.

(1) Scope of Taxation

Salaries tax in Hong Kong is similar to the salaries and wages item of individual income tax in Mainland China, or the salary and wages tax items of personal income tax in Taiwan. Its scope of taxation includes:

- (a) Salaries, Wages and Director's Fees
- (b) Commissions, Bonuses, Leave Pay, End of Contract Gratuities and Payments In Lieu of Notice accrued on or after 1 April 2012
- (c) Allowances, Perquisites and Fringe Benefits
- (d) Tips from Any Person
- (e) Salaries Tax Paid by Employers on Behalf of Employees
- (f) Value of a Place of Residence
- (g) Stock Awards and Share Options
- (h) Back Pay, Gratuities, Deferred Pay and Pay in Arrears
- (i) Termination Payments and Retirement Benefits
- (j) Pensions

(2) Tax Year

The tax year of Hong Kong salaries tax is from April 1 of the current year to March 31 of the following year. Individuals should declare all their assessable income to the Inland Revenue Department (IRD) during this period.

(3) Declaration Period and Declaration Method

Different from previous practices, the Hong Kong IRD issued the Property Tax Return and Employer Tax Return for the year of assessment 2019/20 on April 1, 2020. The Profit Tax Return and Personal Assessment will be issued on May 4, 2020 and June 1, 2020 respectively.

In accordance with the regulations, after receiving the tax return, the individuals should complete and submit it to IRD within one month or at any other time specified in the tax return. Otherwise, they may be fined for late submission.

The tax payable can generally be paid in two instalments, in January and April of the following year. The first instalment is 75% of the tax payable and the second instalment is the remaining 25%. Tax payment methods include postal payment, payment in person, payment by mobile phone, Internet or Automatic Teller Machine.

(4) Tax Computation

Individuals can choose the following two methods to calculate the assessable income:

- (a) Calculate and pay the tax according to the individual's various income separately

When choosing this method, the individuals should pay salaries tax on any income from employment and pensions, profits from business, and property tax on property income. They can choose to apply the standard tax rate of 15% or the five-level excess progressive tax rate of 2%-17%. The standard tax rate of 15% applies to both profits tax and property tax.

- (b) Personal assessment

Proprietors, shareholders or owners who meet the application requirements can choose to assess the tax based on personal assessment. At the time of assessment, the tax payable on salaries tax, profits tax and property tax will be calculated together, and then appropriate deductions will be made from the total amount; if there are any balances, the salaries tax rate will be used. This may reduce the total amount of tax payable.

If your only income is chargeable to salaries tax, you will not benefit from electing for personal assessment.

(5) Tax Rate

Individuals are taxed on their net chargeable income and applied the standard tax rate 15% or the five-level progress tax rate from 2% to 17%.

Net chargeable income = Income - Total Deductions - Total Allowances

The tax payable is calculated at the progressive tax rate for the chargeable income; or at the standard tax rate of 15% of the net income (without deducting the tax allowance), whichever is lower.

Individuals can use the progressive tax rate to calculate salaries tax, but the salaries tax payable which is calculated at the progressive tax rate must not exceed the tax payable calculated by using the total income before the deductions multiply by the standard tax rate. If the tax payable amount calculated at the five-level progressive tax rate not exceeds 15% of the taxable income, the tax is calculated by using progressive tax rate; if the calculated tax payable exceeds 15% of the taxable income, the tax is calculated by 15% of the income.

However, individual whose annual income is close to the level specified by the IRD must pay tax at the standard rate. The specific income standard can refer to the *Income Level of Hong Kong that is Subject to Tax at Standard Tax Rates*.

(5) *Tax Rate-Cont'd*

Table 1-1: HK Five-level Progressive Tax Rates (applicable for 2018/2019)

Level	Assessable Amount (HK\$)	Tax Rate	Tax Payable (HK\$)
1	On the first 50,000	2%	1,000
2	On the next 50,000	6%	3,000
	100,000		4,000
3	On the next 50,000	10%	5,000
	150,000		9,000
4	On the next 50,000	14%	7,000
	200,000		16,000
5	Remainder	17%	

(6) *Allowances*

The Hong Kong Tax Law does not stipulate the threshold for salaries tax but sets the tax allowance conditions and amount. Every individual who has paid salaries tax or has applied for personal assessment is entitled to a basic tax allowance. At the same time, other tax allowances can also be claimed in accordance with the tax law to reduce the total assessable income.

Table 1-2: Allowances (applicable from the year of assessment 2018/2019)

Allowance Items	Amount (HK\$)
Basic Allowance	132,000
Married Person's allowance	264,000
Children Allowance	
For each of the 1 st to 9 th Child	120,000
Extra allowance for each child born during the year	120,000
Dependent Parent and Dependent Grandparent Allowance (for each dependant)	
Parent/grandparent aged 55 or above but below 60	25,000
Parent/grandparent aged 60 or above or is eligible to claim an allowance under the Governments Disability Allowance Scheme	50,000
Additional Dependent Parent and Dependent Grandparent Allowance	
Parent/grandparent aged 55 or above but below 60	25,000
Parent/grandparent aged 60 or above or is eligible to claim an allowance under the Governments Disability Allowance Scheme	50,000
Dependent Brother or Sister Allowance (for each dependant)	37,500
Single Parent Allowance	132,000
Disabled Dependant Allowance (For each dependant)	75,000
Personal Disability Allowance	75,000

(7) Deductions

In calculating salaries tax or personal assessment, in addition to various types of tax allowances, individuals can also claim other tax deductions. According to the relevant laws after the amendment, from the tax year beginning on April 1, 2019 (the tax year of 2019/20 and thereafter), the individuals purchase approved products under the eligible voluntary medical insurance plan for themselves or for the specified relatives, paying the eligible annuity premiums and making the MPF voluntary contributions can receive tax deductions under salaries tax and personal assessment. The maximum limits of the two tax deductions are HK \$ 8,000 and 60,000 respectively.

Table 1-3: Deductions for calculating salaries tax and personal assessment (applicable from the year of assessment 2019/2020)

Deduction Items	Max Amount (HK\$)
Expenses of Self-Education	100,000
Elderly Residential Care Expense (to be paid to home care center, per person)	100,000
Home Loan Interest	100,000
Mandatory Contributions to Recognized Retirement Schemes	18,000
Qualifying Premiums Paid under Voluntary Health Insurance Scheme (VHIS) Policy	8,000
Qualifying Annuity Premiums and Tax Deductions MPF Voluntary Contributions	60,000
Approved Charitable Donations [(Income– Allowable Expenses – Depreciation Allowances) * Percentage]	35%

(8) Tax Reduction Policies

Normally, the Hong Kong government will introduce tax reduction measures at the beginning of each budget year, including tax relief policies for income tax, salaries tax and personal assessment. According to the 2020/21 Budget released, a 100% tax relief will be implemented for salaries tax, income tax and personal assessment for the year of assessment 2019/20, but each case the tax relief will not exceed HK \$ 20,000

2. Taiwan Residents

Taiwan's individual income tax adopts the territoriality principle, and only levy tax for the income from Taiwan. For any individuals having income from Taiwan, the individual income tax is levied for the income from sources in Taiwan. Residents in Taiwan should declare the income, claim exemptions and deductions of his/her spouse and dependents in the Individual Income Tax Return. Individuals who are not reside in Taiwan but have income from sources in Taiwan, unless otherwise specified, individual income tax is computed on gross income and taxes are collected through tax withheld at source.

Taiwan's individual income tax is based on households and adopts an individual income tax return system. In the case that the individual taxpayer, his/her spouse, and/or dependents, who shall file a joint consolidated income tax return, have the gross consolidated income amount which includes all kinds of incomes. The gross consolidated income includes:

- (a) Income from Profit-seeking
- (b) Income from Professional Practice
- (c) Employment Income
- (d) Interest Income
- (e) Income from Lease and Royalties
- (f) Income from Self-undertaking in Farming, Fishing, Animal Husbandry, Forestry and Mining.
- (g) Income from Property Transactions
- (h) Income from Contests and Games and from Prizes and Awards Won by Chance.
- (i) Other income.

(1) Tax Year

The tax year for Taiwan's individual income tax is from January 1 to December 31 of each year. Taxpayers (individuals) should report all taxable income during this period National Taxation Bureau.

(2) Declaration Period

The declaration period of annual individual income tax is between May 1 to May 31 of the following year (due to the new coronavirus epidemic, the 2019 individual income tax declaration period is particularly extended to June 30, 2020). During this period, the taxpayers (individuals) filing the Individual Income Tax Return provided by the National Taxation Bureau manually or filing the Individual Income Tax Return via Internet (Internet Declaration). Taxpayers (individuals) who apply the service of the pre-calculation of individual income tax returns can also use the pre-calculation notice and other relevant form for tax payment or reply confirmation.

(3) Declaration Method

There are three methods of individual income tax declaration: filing via internet, filing via barcodes, and filing manually. In order to simplify the individual income tax declaration process, the National Taxation Bureaus and the Ministry of Finance of each regions provide the service of the pre-calculation of individual income tax returns for simplified cases. After the taxpayers (individuals) confirm the pre-calculation notice and other relevant forms they received, they should complete the payment of tax (tax payment case) or reply confirmation (tax refund case and non-refundable cases) within the prescribed period, then the individual income tax declaration is completed.

(4) Tax Computation

Net Consolidated Income Tax (Net Taxable Income) = Gross Consolidated Income - Exemptions - Standard / Itemized Deductions - Special Deductions - Basic Living Expenses

*Tax Payable = Net Consolidated Income * Tax Rate% - Progressive Difference*

Tax Refundable or Tax Self-payable = Tax payable - Total Prepaid Tax and Tax Credit

(5) Individual Income Tax Rate

Table 2-1 Taiwan Progressive Tax Rates (applicable for 2019)

Level	Net Consolidated Income (NT\$)	Tax Rate	Progressive Difference (NT\$)
1	0 – 540,000	5%	0
2	540,001 – 1,210,000	12%	37,800
3	1,210,001 – 2,420,000	20%	134,600
4	2,420,001 – 4,530,000	30%	376,600
5	4,530,001 or above	40%	829,600

(6) Exemptions

Personal exemptions increase by 50% if the taxpayer, his/her spouse and the dependent of immediate families are or over 70 years of age. For the 2019 individual income tax return, the personal exemption is NT\$88,000 for each person, including taxpayer, his/her spouse and immediate families, or NT\$132,000 for those who are or over 70 years of age.

(7) Standard Deductions and Itemized Deductions

Deductions include general deduction and special deductions. The general deductions are divided into standard deductions and itemized deductions. A taxpayer may select either the standard deduction or itemized deductions which is more beneficial to them.

The standard deduction for 2019 is NT \$ 120,000 for single person and NT \$ 240,000 for married persons filing jointly.

(7) Standard Deductions and Itemized Deductions-Cont'd

12 Allowable itemized deductions, including contributions and donations, insurance premiums, medical and childbirth expenses, losses from disaster, interest paid on loans for the purchase of an owner-occupied house, rent for housing, donations to political parties under the political contribution law, donations to political organizations under the political contribution law, donations for candidates to be elected and election expenses for candidates according to the Public Officers Election Removal Law, which can be deducted in accordance with the provisions of the Income Tax Law.

(8) Special Deductions

Previously, the special deductions, including the special deduction for employment income, loss from property transactions, savings and investments, physically or mentally challenged, educational tuition, and pre-school children. In order to cooperate with the government's promotion of the long-term elderly care policy, the 2020 tax return also included the long-term elderly deduction, which is deducted by a fixed amount of NT \$ 120,000 per person. However, the special deduction for long-term elderly care are not applicable to taxpayers whose applicable tax rate is greater or equal to 20% for the consolidated individual income after the amount of the long-term care deduction, or to those who opt for the single tax rate of 28% on dividend income computed separately.

In addition, the income tax policy in 2020 has been adjusted. Since the tax year of 2019, a dual-track salary deduction system will be implemented. The employment deduction may be elected to use either fixed salary deduction limited to NT\$200,000 for each person or special deductions for necessary salary expenses from employment income to calculate taxable salary income.

Necessary salary expenses including vocational clothing expenses, upgrading training expense, and vocational tool expenses which are directly related to services rendered.

As the upper limit of each necessary salary expense is 3% of the annual salary income, and the upper limit of the special deduction for salary income is NT \$ 200,000, it is beneficial for taxpayer to choose the necessary salary expense deduction while the taxpayer's annual income exceeds NT \$ 2.2223 million.

(9) Basic Living Expenses

For tax year 2019, the basic living expense has increased from NT\$171,000 to NT\$175,000 per person and the calculation method for comparison of basic living expenses has also been changed. If the amount of basic living expense is higher than the sum of personal exemption, general deduction, special deduction, the difference can be used as an additional deduction from the gross consolidated income.

The Basic Living Expense Difference calculation formula is:

Total Basic Living Expenses - (Personal Exemptions + Standard / Itemized Deductions + Pre-school Deduction + Disability Deduction + Deduction for Savings and Investment + Deduction for Education and Tuition)

(10) Summary of Exemptions and Deductions

According to the current standard of tax exemptions and deductions, for the 2019 consolidated income tax return, taxpayers are exempt from individual income tax when they are singles with annual income of less than NT \$ 408,000, or childless couples with annual income of less than NT \$ 816,000, or couples have two children under the age of five and have income less than NT \$ 123.2, or couples have two children under the university and have annual income of NT \$ 1.1 million.

Please refer to the list of Taiwan individual income tax exemptions and deductions.

Table 2-2: Taiwan Summary of Exemptions and Deductions (applicable from 2019)

Categories	Applicable Scope	Deduction Amount (NT\$)
Exemptions		
Exemptions	General	88,000
	Taxpayer, his/her spouse and immediate families are over 70 years of age	132,000
General Deductions		
Standard Deductions	Single	120,000
	Married (jointly declaration)	240,000
Itemized Deductions	Donations to educational, cultural, public welfare or charitable organizations or associations.	Upper limit is 20% of the consolidated income.
	Donations to government or national defence, labour force, historical monument maintenance	Verified amount (no upper limit)
	Donations to political organization under the political contribution law	Less than 20% of total consolidated income and less than 200,000 for each taxpayer
	Life Insurance	Upper limit 24,000 / person
	National Health Insurance	Verified amount
	Medical Expenses	Verified amount
	Losses from Disaster	Verified amount
	Interest Paid on Loans for the Purchase of an Owner-occupied house/Rental Payment	Either interest paid on loans for the purchase of an owner-occupied house maximum of NT\$300,000 or rental payment maximum of NT\$120,000 for the lease.

Table 2-2: Taiwan Summary of Exemption and Deductions (applicable from 2019) – Cont'd

Categories	Applicable Scope	Deduction Amount (NT\$)	
Special Deduction			
Special Deductions	Salary Special Deductions/Necessary Salary Expense	200,000 / person	Upper limit for each item is 3% of salary income.
	Loss from Property Transactions Deduction	The upper limit is the income from property transactions of the year. the amount over than the upper limit can be deducted within three years.	
	Physically or Mentally Challenged Person Deduction	200,000 / person	
	Savings and Investment Deduction	Upper limit 270,000 / household	
	Educational Tuition Deduction	25,000 / person	
	Pre-school Children Deduction	120,000 / person	
	Long-term Elderly Care Deduction	120,000 / person	

3. China Mainland Residents

According to the Tax Law of Mainland China (hereinafter referred to as China), the employment income earned by individuals in China called salaries and wages income, including salaries and wages, bonuses, year-end salary increases, labour dividends, equity incentives, allowances, subsidies and other income related to employment are one part of the comprehensive income. Regardless of whether the payment is made in China or not, it is the income derived from China, and individual income tax should be declared and paid according to the law.

According to the regulations, when taxpayers obtain salaries and wages income, they shall apply the seven-level of progressive tax rates to calculate individual income tax on an annual basis and the withhold and prepay on a monthly basis. Then complete the individual income tax annual declaration from March 1 to June 30 of following year according to the actual income obtained.

(1) Tax Year

Starting from January 1, 2019, China's individual income tax has been calculated on an annual basis, like Hong Kong and Taiwan. The tax year is from January to December 31 of each year, the taxpayers need to declare their all incomes of this period to tax bureau.

(2) Declaration Method and Declaration Period

However, the difference with Hong Kong and Taiwan is that the individual income tax on salaries and wages income in China is subject to monthly withholding and prepayment and annual declaration.

The withholding agent is the employer who pre-calculates and withholds the individual income tax payable when pays the monthly salary to employees, then the withholding agents pays the individual income tax to the tax bureau within the specified reporting period of the following month.

The period for monthly withholding and declaration is from the 1st to the 15th of each month (in case of regular holidays, it will be postponed). During this period, the withholding agent shall complete individual income tax declaration and payment on the salaries and wages obtained by employees in the last month. Taxpayers without withholding agents can go to the tax bureau in person to file their own declarations.

According to the regulations of the IIT Law, resident individuals need to calculate the tax amount of comprehensive income including salaries and wages, labour remuneration, author's remuneration, and royalties obtained from January 1 to December 31 of the previous year after the end of the year, minus the amount of tax paid in advance for the current year. Then calculate the amount of tax refundable or additional payable for the current year on annual declaration to tax bureau.

The annual declaration period of individual income tax is from March 1 to June 30 of the following year when the income is obtained. Eligible taxpayers can handle the annual declaration by themselves, or they can entrust withholding agents or other units and individuals to handle for them.

(3) Cumulative withholding method

When the withholding agent pays comprehensive income such as salaries and wages to the resident individual, the withholding tax is calculated according to the cumulative withholding method, and individual income tax is withheld on a monthly basis. When the taxable income is still negative after the end of the tax year, the taxpayer shall apply the tax refund by annual declaration. Calculated as follows:

Withholding Tax in Current Period

*= (Cumulative Withholding Taxable Income * Withholding Tax Rate - Quick Deduction) - Cumulative Tax Exemptions and Deductions - Cumulative Tax Withheld*

Cumulative Taxable Income for Withholding and Prepayment

= Cumulative Income - Cumulative Tax Exempted Income - Cumulative Deductions - Cumulative Special Deductions - Cumulated Special Additional Deductions - Other Cumulated deductions Stipulated by Law

(4) Annual One-off Bonus

Resident individuals who receive an annual one-off bonus can choose the following two methods to calculate the tax payable amount before December 31, 2021.

- (a) The annual one-off bonus is not integrated into the comprehensive income of the year. The annual one-off bonus income is divided by the amount obtained in 12 months and determine the applicable tax rates and quick deductions according to the monthly comprehensive income tax rate table (Table 3-3) to calculate the tax.

The calculation formula is:

$$\text{Tax Payable} = \text{Annual One-off Bonus Income} * \text{Applicable Tax Rate} - \text{Quick Deductions}$$

- (b) Resident individuals who obtain an annual one-off bonus also can choose integrated into the comprehensive income of the year to calculate tax, and the cumulative withholding method is applicable.

Starting from January 1, 2022, individual residents who receive an annual one-off bonus for the whole year must be integrated into the comprehensive income of the year to calculate and pay individual income tax.

(5) Share Option Incentive

Resident individuals who obtain share option incentives such as stock options, stock appreciation rights, restricted stocks, and equity awards are not included in the comprehensive income of the year before December 31, 2021 to calculate the tax according to comprehensive income tax rate. If a resident individual obtains two or more equity incentives within a tax year, they shall be integrated for calculation.

The calculation formula is

$$\text{Tax Payable} = \text{Share Option Incentive income} * \text{Applicable Tax Rate} - \text{Quick Deduction}$$

(6) Exemptions and Deductions

For China individual residents, when calculating individual income tax on salaries and wages, RMB 60,000 special deductions, special additional deductions and other deductions determined according to law can be deducted for each year.

During the period from January 1, 2019 to December 31, 2021, foreign individuals who meet the conditions of the resident can choose to enjoy the deduction according to the above standards, or enjoy allowances such as housing subsidies, language training fees, child education fees, etc. These two preferential policies cannot be enjoyed at the same time. From January 1, 2022, foreign individuals will only be able to apply the same deduction criteria as Chinese individual residents.

(6) *Exemptions and Deductions-Cont'd*

Table 3-1 IIT Exemptions and Deduction Amount (applicable from the year 2019)

Categories	Items	Deduction Amount (RMB)	
		Every Month	Every Year
Exemptions	Basic Exemption Amount	5,000	60,000
Special Deductions	Basic Pension Insurance	Deduction within the limit	Deduction within the limit
	Basic Medical Insurance		
	Unemployment Insurance		
	Housing Provident Fund		
Additional Special Deductions	Children's Education	1,000 per child	12,000 per child
	Continuing Education		
	Formal Schooling	400	4,800
	Professional technicians' occupational qualifications	-	3,600
	Critical Illness Medical Expenses	-	The part of RMB 15,000 exceed the medical insurance and borne by the patient, deducted as incurred with the limits RMB 80,000.
	Housing Mortgage Interest	1,000	12,000
	Housing Rent	800 Or 1,100 Or 1,500	9,600 Or 13,200 Or 18,000
	Elderly Care	No more than RMB 1,000 or RMB 2,000	No more than RMB12,000 or RMB 24,000
Other Deductions	Company Annuity	Per regulations by State	Per regulations by State
	Occupational Annuity	Statutory	Statutory
	Commercial Health Insurance	-	2,400
	Tax Deferred Commercial Pension Insurance	Per regulations by State	Per regulations by State

(7) Tax Rate

According to the regulations, the taxpayer's income from salaries and wages is subject to a seven-level of progressive tax rates in the range of 3% to 45%, and the individual income tax is calculated on an annual basis, and a monthly withholding and prepayment method is implemented

Table 3-2: Salaries and Wages IIT Rate (applicable from the year 2019)

Level	Taxable Income (RMB)	Tax Rate (%)	Quick Deduction (RMB)
1	Less than 36,000	3	0
2	More than 36,000 and less than 144,000	10	2,520
3	More than 144,000 and less than 300,000	20	16,920
4	More than 300,000 and less than 420,000	25	31,920
5	More than 420,000 and less than 660,000	30	52,920
6	More than 660,000 and less than 960,000	35	85,920
7	Over 960,000	45	181,920

Table 3-3: Monthly Comprehensive IIT Rate (applicable from the year 2019)

Level	Taxable Income (RMB)	Tax Rate (%)	Quick Deduction (RMB)
1	Less than 3,000	3	0
2	More than 3,000 and less than 12,000	10	210
3	More than 12,000 and less than 25,000	20	1,410
4	More than 25,000 and less than 35,000	25	2,660
5	More than 35,000 and less than 55,000	30	4,410
6	More than 55,000 and less than 80,000	35	7,160
7	Over 80,000	45	15,160

Section II Case Analysis

This section takes the form of an example for taxpayer who employed in China, Hong Kong and Taiwan, and receive same amount of salaries and wages, to calculate and compare the income tax payable for these three places. A comparative analysis of taxpayers' tax burdens.

Unless otherwise stated, the examples in this section are based on the following conditions:

1. The taxpayer only obtains employment income / salaries income and does not have any other taxable income that needs to be declared.
2. Whether the parents are supported is only based on the local legal age standard, and other factors are not considered for the time being.
3. Except for relatives such as spouses, parents, and children supported by taxpayers, other tax allowances, deductions, and expenses are not considered.
4. Based on the currency exchange, the monetary value of the salary income obtained by taxpayers in the three places is substantially equal. The exchange rate is: [Exchange rate between HKD and NTD: 1:4] [Exchange rate between HKD and RMB: 1:0.9]
5. The taxpayers' MPF contributions in Hong Kong, labour and health insurance costs withheld in Taiwan, and basic social insurance premiums and housing provident funds withheld in Shanghai are based on the taxpayer's salary in 2020. The housing provident fund contribution rate in Shanghai is 7%.

The seven cases listed in this section for the data for the employment income/salary income and taxable income data for China, Hong Kong and Taiwan's are summarized as follows:

Case			Employment /Salaries Income			Tax Payable		
			Hong Kong (HK\$)	Taiwan (NT\$)	Shanghai (RMB)	Hong Kong (HK\$)	Taiwan (NT\$)	Shanghai (RMB)
Single	1	No dependent relatives	195,000	780,000	175,500	0	18,600	5,250
	2	Have dependent relatives				0	2,750	2,850
Married (Single party earning)	3	Parents aged below 60 One child	520,000	2,080,000	468,000	0	140,600	41,014.56
	4	Dependent parents Two children				0	24,000	38,614.56
	5	Dependent parents No dependent spouse's parents Two children				0	61,800	38,614.56
Married (Both parties earning)	6	Parents aged below 60 One child				0	188,900	42,214.56
	7	Dependent parents Two children				0	127,080	41,014.56

Based on the aforementioned exchange rate between HKD, RMB and NTD, after converting the employment income /salaries income and tax payable denominated in RMB and NTD into HKD, the tax payable of Mainland China, Hong Kong and Taiwan are as follows. (Maximum tax payable and tax bearing rate is marked with red):

Cases			Employment /Salaries Income (HK\$)	Tax Payable (HK\$)			Tax Bearing Rate		
				Hong Kong	Taiwan	Shanghai	Hong Kong	Taiwan	Shanghai
Single	1	No dependent relatives	195,000	0	4,650	5,833	0	2.38%	2.99%
	2	Have dependent relatives		0	688	3,167	0	0.35%	1.62%
Married (Single party earning)	3	Parents aged below 60 One child	520,000	0	35,150	45,572	0	6.76%	8.76%
	4	Dependent parents Two children		0	6,000	42,905	0	1.15%	8.25%
	5	Dependent parents No dependent spouse's parents Two children		0	15,450	42,905	0	2.97%	8.25%
Married (Both parties earning)	6	Parents aged below 60 One child		0	47,225	46,905	0	9.08%	9.02%
	7	Dependent parents Two children		0	31,770	45,572	0	6.11%	8.76%

From the results of above calculation, it can be seen that according to Hong Kong's tax relief measures, when the tax payable is less than HK \$ 20,000, Hong Kong residents do not need to pay taxes. Hong Kong residents have the lowest income tax for the same amount of employment income than the residents in Mainland China and Taiwan. The main reason is that Hong Kong 's personal income tax (individual income tax) can obtain higher tax allowances and more tax exemptions and deductions. In addition, the Hong Kong Inland Revenue Department has not set excessively high and complicated tax exemption conditions, so that Hong Kong residents are more likely to meet the requirements of tax exemption or deduction, so they can enjoy various tax preferential policies more generally and easily.

Compared with Taiwan and Shanghai, the tax burden of Shanghai residents is higher because although the taxpayers in mainland China have already calculated the annual comprehensive tax and enjoyed a special additional deduction, but in fact they cannot declare the family as the unit, and there are many restrictions on tax exemptions and deductions. For example, husband and wife cannot file a joint declaration, and when the husband or wife has no income, the taxpayer cannot obtain any allowance. For any supporting parents, the number of supporting parents are not taken into account for the special supplementary deduction regardless of how many dependants the taxpayers should support, the total deduction shall not exceed RMB 24,000 for all taxpayers who are the single child, the maximum per person shall not exceed RMB 12,000 for taxpayers who are non-single child.

The Taiwan tax law allows taxpayers to declare and pay individual income tax on a family basis. This method has obvious advantages when the family income is low, the parents and several children need to be supported. However, compared with Hong Kong, Taiwan's income tax law also has more restrictions on tax exemptions and deductions and more complex requirements, such as wealth restrictions clauses. In addition, according to the calculation results of Examples 6 and 7, in the case where the family income is high and the husband and wife have salary income, the amount of tax levied on the salary income of a taxpayer or his/her spouse computed separately and then declared and paid on a consolidated basis by the taxpayers is lower than the consolidated declaration, the tax method of computed separately is more advantageous. This is because the higher the net comprehensive income obtained during the consolidated calculation, the higher the corresponding progressive tax rate and the higher the tax payable.

Case One: Single Employees

Income Items	Hong Kong Mr. A (HK\$)	Taiwan Mr. B (NT\$)	Shanghai Mr. C (RMB)
Monthly Salary	15,000	60,000	13,500
Annual One-off Bonus	15,000	60,000	13,500
Annual Salary	195,000	780,000	175,500
Expense Items	MPF 9,000	Labor Insurance 12,096	Social Insurance 17,010
		Health Insurance 11,280	HPF 11,340

1. No Dependent Relatives

[Example 1] The taxpayer is a single without siblings, his father is 54 years old and his mother is 53 years old.

(1) Hong Kong Residents

Items		Amount (HK\$)
Salaries		195,000
Exemptions and Deductions	Exemptions for single	132,000
	MPF	9,000
	Total Exemptions and Deductions	141,000
<i>Chargeable Income</i>		54,000
On the first 50,000, tax rate is 2%, tax payable		1,000
Remainder 4,000, tax rate is 6%, tax payable		240
<i>Total Tax Payable</i>		1,240
Less: 100% of tax relief (Upper limit 20,000)		1,240
<i>Net Tax Payable</i>		0

(2) Taiwan Residents

Items		Amount (NT\$)
The Gross Consolidated Income		780,000
Exemptions and Deductions	General exemptions (Taxpayer)	88,000
	General deductions (single)	120,000
	Special deductions for wages	200,000
	Total Exemptions and Deductions	408,000
<i>The Net Consolidated Income</i>		372,000
Tax Rate		5%
<i>Tax Payable</i>		18,600

(2) Taiwan Residents-Cont'd

Note: While the Taiwan resident taxpayers' parents are under the age of 60, they cannot declare as dependent parents and need to declare the individual income tax separately. List the deductions of labour insurance premiums and health insurance premiums that are lower than the standard deductions, so choose the standard deductions that are beneficial to taxpayers.

(3) Shanghai Residents

The taxpayer is the single child and the parents are not aged over 60, so they cannot apply for a special additional deduction for the elderly care.

(a) Individual Income Tax for Salaries and Wages

Items		Amount (RMB)
Annual Salaries and Wages		162,000
Deductions	Basic exemption amount	60,000
	Special deductions: Social Insurance (individual part)	17,010
	Special deductions: HPF (individual part)	11,340
	Special additional deductions: Elderly care (for single child)	
	Total Deductions	88,350
Taxable Income		73,650
Tax Rate		10%
Quick Deductions		2,520
Tax Payable Salaries and Wages		4,845

(b) Individual Income Tax for Annual One-off Bonus

Items	Amount (RMB)
Total Annual One-off bonus	13,500
Taxable Income	13,500
Tax Rate	3%
Quick Deductions	0
Tax Payable for Annual One-off Bonus	405

(3) *Shanghai Residents-Cont'd*

(c) Annual Individual Income Tax Payable (Salaries and Wages, Annual One-off Bonus)

Items	Amount (RMB)
Annual Tax Payable Salaries and Wages	4,845
Tax Payable for Annual One-off Bonus	405
<i>Total Annual Tax Payable</i>	<i>5,250</i>

2. Have Dependent Relatives

[Example 2] The taxpayer is single without siblings and lives with parents. His father is 60 years old and his mother is 58 years old.

(1) **Hong Kong Residents**

The taxpayer's parents have all met the age standard of the tax allowance and live together with the taxpayer. In addition to the tax allowance of dependent parents, an additional tax allowance can also be applied. The total amount of tax exemptions and deductions exceeds the annual income, and taxpayers are not required to pay taxes.

Items		Amount (HK\$)
Salaries		195,000
Allowances and Deductions	Basic allowances	132,000
	Allowance for dependent mother aged over 55 but below 60	25,000
	Allowance for dependent father aged 60	50,000
	Allowance for living with mother aged over 55	25,000
	Allowance for living with father aged over 60	50,000
	MFP	9,000
Total Exemptions and Deductions		291,000
<i>Chargeable Income</i>		<i>0</i>

(2) Taiwan Residents

A taxpayer's father is over 60 years old and his mother is under 60 years old who has no ability to support herself, can declare dependent and file a tax return with the taxpayer. Both of parents are under the age of 70 and all 3 people are subject to the general tax allowance of NT\$ 88,000 per person.

Items		Amount (NT\$)
The Gross Consolidated Income		780,000
Exemptions and Deductions	General exemptions (88,000 * 3 persons)	264,000
	Standard deduction (single)	120,000
	Special deduction for employment income	200,000
	The Basic Living Expense Difference 175,000*3 persons - (264,000+120,000)	141,000
	Total Exemptions and Deductions	725,000
The Net Consolidated Income		55,000
Tax Rate is 5% , Tax Payable		2,750

(3) Shanghai Residents

The taxpayer is a single child, and one of the parents has reached the age of 60 and can apply for a special additional deduction for elderly care for RMB 24,000 per year.

(a) Individual Income Tax for Salaries and Wages

Items		Amount (RMB)
Annual Salaries and Wages		162,000
Deductions	Basic exemption amount	60,000
	Special deductions: Social insurance (individual part)	17,010
	Special deductions: HPF (individual part)	11,340
	Special additional deduction: Elderly care (for single child)	24,000
	Total Deductions	112,350
Taxable Income		49,650
Tax Rate		10%
Quick Deductions		2,520
Tax Payable for Salaries and Wages		2,445

(3) *Shanghai Residents-Cont'd*

(b) Individual Income Tax for Annual One-off Bonus

Items	Amount (RMB)
Annual One-off Bonus	13,500
Taxable Income	13,500
Tax Rate	3%
Quick Deductions	0
<i>Tax Payable for Annual One-off bonus</i>	<i>405</i>

(c) Annual Individual Income Tax Payable (Salaries and Wages, Annual One-off Bonus)

Items	Amount (RMB)
Tax Payable for Salaries and Wages	2,445
Tax Payable for Annual One-off Bonus	405
<i>Total Annual Tax Payable</i>	<i>2,850</i>

Case Two: Married (Single Party Earning)

Income Items	Hong Kong Mr. A (HK\$)	Taiwan Mr. B (NT\$)	Shanghai Mr. C (RMB)
Monthly Salary	40,000	160,000	36,000
Annual One-off Bonus	40,000	160,000	36,000
Annual Salary	520,000	2,080,000	468,000
Expense Items	MPF 18,000	Labor Insurance 12,096	Social Insurance 31,039.20
		Health Insurance 29,652	HPF 20,688

1. Parents Under 60 Years Old and Have Ability to Support Themselves

[Example 3] The taxpayer is married, and the spouse has no income. The taxpayer and the spouse are single child. The taxpayer has a child over 3 years old and lives with his parents. Father is 62 years old and mother is 58 years old. The spouse's father is 60 years old and the mother is 55 years old.

(1) Hong Kong Residents

- (a) The taxpayer's spouse has no work and no income. So, the married person's allowance is applied.
- (b) The age of the taxpayer's parents and spouse's parents meets the tax exemption conditions. The taxpayer lives with parents, he can get an additional tax allowance for dependent parents.
- (c) The total amount of tax exemptions and deductions exceeds the annual salaries income, and the taxpayer is not required to pay taxes.

Items		Amount (HK\$)
Salaries		520,000
Allowances and Deductions	Married person's allowance	264,000
	Allowance for living with father aged over 60	100,000
	Allowance for living with mother aged over 55	50,000
	Allowance for dependent spouse's father aged over 60	50,000
	Allowance for dependent spouse's mother aged over 55	25,000
	Children allowance for one child	120,000
	MPF	18,000
	Total Exemptions and Allowances	627,000
Chargeable Income		0
Tax Payable		0

(2) Taiwan Residents

- (1) The taxpayer's and spouse's mother are under the age of 60, cannot be declared as dependant, and the taxpayer, spouse and their parents should declare individual income tax separately.
- (2) The taxpayer, his spouse and their child, can apply for the general tax allowance which is NTD 88,000 per person (three persons).
- (3) The labor insurance premiums and health insurance premiums of itemized deductions, that are lower than the standard deductions, so choose the standard deductions which is beneficial to taxpayers.
- (4) The taxpayer can apply the pre-school deduction of NTD 120,000 while one of the taxpayers' children under 5 years old. However, the tax rate applicable to the taxpayer after applying the pre-school allowance is 20%, so the pre-school deduction cannot be used, and the net taxable income should be returned and adjusted.

Items		Amount (NT\$)
The Gross Consolidated Income		2,080,000
Exemptions and Deductions	General exemptions (88,000*3 persons)	264,000
	Standard deduction (Married)	240,000
	Special deduction for employment income	200,000
	Pre-school children deduction	120,000
	Total Exemptions and Deductions	824,000
The Net Consolidated Income		1,256,000
Applicable tax rate 20% , so cannot apply pre-school children deduction		120,000
Final Net Consolidated Income		1,376,000
Tax Rate		20%
Progressive Difference		134,600
Tax Payable		140,600

(3) Shanghai Residents

The taxpayer is the single child, one of the parents is over 60 years old. Although the spouse's father is also over 60 years old, the number of elderly dependents is not affecting the special additional deduction. As single child can apply for a deduction of RMB 24,000 per year.

A child of a taxpayer who has reached the age of 3 to meet the special additional deduction standard for children's education can apply for a deduction of RMB 12,000 per child per year.

(3) *Shanghai Residents-Cont.*

(a) Individual Income Tax for Salaries and Wages

Items		Amount (RMB)
Annual Salaries and Wages		432,000
Deductions	Basic exemption amount	60,000
	Special deduction:	
	Social insurance (individual part)	31,039.20
	Special deduction: HPF (individual part)	20,688
	Special additional deduction:	
	Elderly care (for single child)	24,000
	Special additional deduction:	
	Children's education (one child)	12,000
Total Deductions		147,727.20
Taxable Income		284,272.80
Tax Rate		20%
Quick Deduction		16,920
Tax Payable for Annual Salaries and Wages		39,934.56

(b) Individual Income Tax for Annual One-off Bonus

Items	Amount (RMB)
Annual One-off Bonus	36,000
Taxable Income	36,000
Tax Rate	3%
Quick Deduction	0
Tax Payable for Annual One-off Bonus	1,080

(c) Annual Individual Income Tax Payable (Salaries and Wages, Annual One-off Bonus)

Items	Amount (RMB)
Tax Payable for Annual Salaries and Wages	39,934.56
Tax Payable for Annual One-off Bonus	1,080
Total Annual Tax Payable	41,014.56

2. Dependent Parents and Dependent Spouse's Parents

[Example 4] The taxpayer is married, and the spouse has no income. They all are the single child and have two children which are age 9 and age 4. The taxpayer lives with his parents, his father is 70 years old and his mother is 65 years old. The spouse's parents are over 70 years old.

(1) Hong Kong Residents

Items		Amount (HK\$)
Salaries		520,000
Allowance and Deductions	Married person's allowance	264,000
	Allowance for dependent parents aged over 60	100,000
	Allowance for living with parents aged over 60	100,000
	Allowance for dependent spouse's parents aged over 60	100,000
	Children allowance (two children)	240,000
	MFP	18,000
	Total Allowance and Deductions	822,000
Assessable Income		0

(2) Taiwan Residents

Items		Amount (NT\$)
The Gross Consolidated Income		2,080,000
Exemptions and Deductions	General exemptions (88,000*5 persons+132,000*3persons)	836,000
	Standard deduction (Married)	240,000
	Special deduction for employment income	200,000
	Pre-school children deduction	120,000
	The basic living expense difference	204,000
	Total Exemptions and Deductions	1,600,000
The Net Consolidated Income		480,000
Tax Rate		5%
Tax Payable		24,000

- (a) For total eight persons including the taxpayer, spouse, 2 children and 4 retired parents, five of them which can apply the general exemption of NT\$ 88,000 per person, and three of them which are over 70 years old can apply the general exemption of NT\$ 132,000 per person.
- (b) One of the children is under 5 years old and can use the pre-school children deduction of NT\$ 120,000.

(2) Taiwan Residents – Cont'd

- (c) The basic living expense different of NT \$ 204,000 can be deducted from the income:
Total basic living expenses-(Exemption amount + Standard /Itemized deduction amount + pre-school children deduction + Physically or mentally challenged person deduction+ Savings and investment deduction + Education and tuition deduction)
 $= 175,000 * 8 - (836,000 + 240,000 + 120,000) = 1,400,000 - 1,196,000 = 204,000$

(3) Shanghai Residents**(a) Individual Income Tax for Salaries and Wages**

Items		Amount (RMB)
Annual Salaries and Wages		432,000
Deductions	Basic exemption amount	60,000
	Special deduction: Social insurance (individual part)	31,039.20
	Special deduction: HPF (individual part)	20,688
	Special additional deduction: Elderly care (for single child)	24,000
	Special additional deduction: Children's education (two children)	24,000
	Total Deductions	159,727.20
	Taxable Income	272,272.80
Tax Rate		20%
Quick Deductions		16,920
Tax Payable for Salaries and Wages		37,534.56

(b) Individual Income Tax for Annual One-off Bonus

Items	Amount (RMB)
Annual One-off Bonus	36,000
Taxable Income	36,000
Tax Rate	3%
Quick Deduction	0
Tax Payable for Annual One-off Bonus	1,080

(c) Annual Individual Income Tax Payable (Salaries and Wages, Annual One-off Bonus)

Items	Amount (RMB)
Tax Payable for Annual Salaries and Wages	37,534.56
Tax Payable for Annual One-off Bonus	1,080
Total Annual Tax Payable	38,614.56

3. Supported Parents (Unsupported Spouse's Parents)

[Example 5] The taxpayer is married without siblings, and his spouse has no income. They have two children which age are 15 and 10 years old. The taxpayer does not live with his parents, his father is over 70 years old, and his mother is over 65 years old.

(1) Hong Kong Residents

Items		Amount (HK\$)
Salaries		520,000
Allowances and Deductions	Married person's allowance	264,000
	Allowance for supporting parents aged over 60	100,000
	Children allowance (two children)	240,000
	MPF	18,000
	Total Allowances and Deductions	622,000
Chargeable Income		0

(2) Taiwan Residents

The basic living expense different of NT \$ 204,000 can be deducted from the income:
Total basic living expenses-(*Exemption amount* + *Standard /Itemized deduction amount* + *pre-school children deduction* + *Physically or mentally challenged person deduction*+ *Savings and investment deduction* + *Education and tuition deduction*)
 $= 175,000 \times 6 - (572,000 + 240,000) = 1,050,000 - 812,000 = 238,000$

Items		Amount (NT\$)
The Gross Consolidated Income		2,080,000
Exemptions and Deductions	General exemptions (88,000 *5 persons +132,00)	572,000
	Standard deduction (Married)	240,000
	Special deduction for employment income	200,000
	The basic living expense difference	238,000
	Total Exemptions and Deductions	1250,000
The Net Consolidated Income		830,000
Tax Rate		12%
Progressive Difference		37,800
Tax Payable		61,800

(3) Shanghai Residents

The calculation for this example is same with [Example 4]. Please refer to [Example 4] for the tax payable.

Case Three: Married (Both Parties Earning)

Income Items	Hong Kong Mr. A (HK\$)	Taiwan Mr. B (NT\$)	Shanghai Mr. C (RMB)
Monthly Salary	40,000	160,000	36,000
Annual One-off Bonus	40,000	160,000	36,000
Annual Salary	520,000	2,080,000	468,000
Expense Items	MPF 18,000	Labor Insurance 12,096	Social Insurance 31,039.20
		Health Insurance 29,652	HPF 20,688

1. Parents Under 60 Years Old and Have Ability to Support Themselves

[Example 6] The taxpayer is married with one child over 3 years old, and they have the same salary. The taxpayer lives with his parents. His father is 62 years old and his mother is 58 years old. The spouse's father is 60 years old and the mother is 55 years old.

(1) Hong Kong Residents

The taxpayer and the spouse can choose to file separate assessment or joint assessment. The Hong Kong IRD will automatically calculate the taxpayer's tax through to compare the results of the two method and choose one whichever is lower.

(a) If the husband and wife file a joint assessment, details of the salaries tax payable as below

Items		Amount (HD\$)
Total Salaries on Joint Assessment		1,040,000
Allowances and Deductions	Married person's allowance	264,000
	Allowance for living with dependent parents aged over 60	100,000
	Allowance for living with dependent parents aged over 55	50,000
	Allowance for dependent parents aged over 60	50,000
	Allowance for dependent parents aged over 55	25,000
	Children allowance (one child)	120,000
	MPF	36,000
	Total Allowances and Deductions	645,000
Chargeable Income		395,000
First 200,000, tax payable		16,000
Reminder 195,000, tax Rate 17%, tax payable		33,150
Total Tax Payable		49,150
Less: 100% of tax relief (Upper limit 20,000)		20,000
Net Tax Payable		29,150

- (b) If the husband and wife file separate assessment, the details of salaries tax payable by the husband as below

Items		Amount (HK\$)
Husband's Salaries		520,000
Allowances and Deductions	Married person's allowance (declare separately)	132,000
	Allowance for living with dependent father aged over 60	100,000
	Allowance for living with dependent mother aged over 55	50,000
	Allowance for dependent spouse's mother aged over 55	25,000
	MPF	18,000
Total Allowances and Deductions		325,000
Chargeable Income		195,000
First 150,000, tax payable		9,000
Reminder 45,000, tax rate 14%, tax payable		6,300
Total Tax Payable		15,300
Less: 100% of tax relief (Upper limit 20,000)		15,300
Net tax Payable		0

- (c) If the husband and wife file separate assessment, the details of salaries tax payable by the wife as below:

Items		Amount (HK\$)
Wife's Salaries		520,000
Allowances and Deductions	Married person's allowance (declare separately)	132,000
	Allowance for dependent spouse's father aged over 60	50,000
	Children allowance (one child)	120,000
	MPF	18,000
	Total Allowances and Deductions	320,000
Chargeable Income		200,000
Tax Payable		16,000
Less: 100% of tax relief (Upper limit 20,000)		16,000
Net Tax Payable		0

Under above situation, no matter whether the husband and wife choose to file separate assessment or joint assessment, they are not required to pay salaries tax. But comparing the tax payable before enjoying the tax relief, the tax payable of HK \$ 31,300 for separate assessment (15,300 + 16,000) is lower than the tax payable of HK \$ 49,150 for joint assessment, the tax payable should be the lower one.

(2) Taiwan Residents

The taxpayer and spouse can choose to calculate the tax separately and then make a comprehensive declaration, or they can choose to jointly calculate the tax and make a comprehensive declaration.

Taxpayer's and spouse's mothers are under the age of 60, so they cannot declare the dependent, so, the taxpayer, his spouse and their parents should file separate tax declaration for themselves. For the taxpayer, his spouse and one child, there persons in total, the general tax allowance of NT \$ 88,000 per person will be applied.

(a) Joint Declaration

Items		Amount (NT\$)
The Gross Consolidated Income		4,160,000
Exemptions and Deductions	General exemptions (88,000 * 3 persons)	264,000
	Standard deduction (Married)	240,000
	Special deduction for employment income	400,000
	Pre-school children deduction	120,000
	The basic living expense difference	21,000
	Total Exemptions and Deductions	1,045,000
The Net Consolidated Income		3,115,000
Applied tax rate 30% , pre-school children deduction cannot be applied		120,000
Final Net Consolidated Income		3,235,000
Tax Rate		30%
Progressive Difference		376,600
Tax Payable		593,900

The basic living expense difference formula calculates the difference of NT \$ 21,000 and can be deducted from the income:

$$\begin{aligned}
 & \text{Total basic living expenses} - (\text{General exemptions} + \text{standard / itemized deductions} + \text{pre-school children deduction} + \text{Physical or mentally challenged person deduction} + \text{Savings and investment deduction} + \text{Education and tuition deduction}) \\
 &= 175,000 \times 3 - (264,000 + 240,000) = 525,000 - 504,000 = 21,000
 \end{aligned}$$

The tax rate applicable to the taxpayer after applying the pre-school allowance for pre-school children is 30%, so the pre-school children deduction cannot be applied, and the net consolidated income should be adjusted.

(2) *Taiwan Residents-Cont'd*

- (b) If the husband and wife file separate assessment, the details of salaries tax payable by the husband as below

Items		Amount (NT\$)
Husband's Gross Consolidated Income		4,160,000
Exemptions and Deductions	General exemption	88,000
	Special deduction for employment income	200,000
	Total Exemptions and Deductions	208,000
The Net Consolidated Income		1,792,000
Tax Rate		20%
Progressive Difference		134,600
<i>Tax Payable</i>		<i>223,800</i>

- (c) If the husband and wife file separate assessment, the details of salaries tax payable by the wife as below:

Items		Amount (NT\$)
The Total Net Consolidated Income		3,235,000
Less: Husband's net consolidated income		1,792,000
Wife's Net Consolidated Income		1,443,000
Tax Rate		20%
Progressive Difference		134,600
<i>Tax Payable</i>		<i>154,000</i>

- (d) If the husband and wife file separate assessment, the total tax payable is NT \$ 223,800 + 154,000 = 377,800.

Comparing the tax calculation, the tax payable for separate assessment is NT\$377,800 which is lower than the tax payable for joint assessment amount NT\$593,900. The final tax payable is NT\$ 377,800. The average tax payable for husband and wife is NT\$188,900.

(3) Shanghai Residents

The calculation of China's individual income tax does not take the family as the unit, and the taxpayers who obtain individual income shall declare the individual income tax. Both husband and wife are single child, and all their fathers are over 60 years old, so both can apply for a special additional deduction for supporting the elderly with single child.

Taxpayers can apply for a special additional deduction for children education of RMB 12,000 for children over the age of three. 50% will be deducted for both or 100% in full for one of them can be applied. In this example, the taxpayers deduct 50%, which is RMB 6,000.

(a) Individual Income Tax for Salaries and Wages

Items		Amount (RMB)
Annual Salaries and Wages		432,000
Deductions	Basic exemption amount	60,000
	Special deduction: Social insurance (individual part)	31,039.20
	Special deduction: HPF (individual part)	20,688
	Special additional deduction: Elderly care (for single child)	24,000
	Special additional deduction: Children education (one child)	6,000
	Total Deductions	141,727.20
Taxable Income		290,272.80
Tax Rate		20%
Quick Deductions		16,920
Tax Payable for Salaries and Wages		41,134.56

(b) Individual Income Tax for Annual One-off Bonus

Items	Amount (RMB)
Annual One-off Bonus	36,000
Taxable Income	36,000
Tax Rate	3%
Quick Deduction	0
Tax Payable for Annual One-off Bonus	1,080

(c) Annual Individual Income Tax Payable (Salaries and Wages, Annual One-off Bonus)

Items	Amount (RMB)
Tax Payable for Annual Salaries and Wages	41,134.56
Tax Payable for Annual One-off Bonus	1,080
Total Annual tax Payable	42,214.56

2. Dependent Parents

[Example 7] The taxpayer is married, the husband and wife have the same salary, and they are single child. They have two children who are 4 and 9 years old. The taxpayer lives with his parents, his father is 70 years old and his mother is 65 years old. Spouse's parents are over 70 years old.

(1) Hong Kong Residents

(a) If the husband and wife file a joint assessment, details of the salaries tax payable as below

Items		Amount (HK\$)
Total Salaries on Joint Assessment		1,040,000
Allowances and Deductions	Married person's allowance	264,000
	Allowance for living with dependent parents aged over 60	100,000
	Extra allowance for living with dependent parents aged over 60	100,000
	Allowance for dependent parents aged over 60	100,000
	Children allowance (two children)	240,000
	MPF	36,000
	Total Allowances and Deductions	840,000
Chargeable Income		200,000
Tax Payable		16,000
Less: 100% of tax relief (Upper limit 20,000)		16,000
Net Tax Payable		0

(b) If the husband and wife file separate assessment, the details of salaries tax payable by the husband as below

Items		Amount (HK\$)
Husband's Salaries		520,000
Allowances and Deductions	Married person's allowance	132,000
	Allowance for dependent father aged over 60	50,000
	Children allowance (two children)	240,000
	MPF	18,000
	Total Allowances and Deductions	440,000
Chargeable Income		80,000
Tax Payable		2,800
Less: 100% of tax relief (Upper limit 20,000)		2,800
Net Tax Payable		0

(1) Hong Kong Residents-Cont'd

- (c) If the husband and wife file separate assessment, the details of salaries tax payable by the wife as below:

Items		Amount (HK\$)
Wife's Salaries		520,000
Allowances and Deductions	Married person's allowance	132,000
	Allowance for dependent mother aged over 60	50,000
	Allowance for living with dependent parents aged over 60	200,000
	MPF	18,000
	Total Allowances and Deductions	400,000
Chargeable Income		120,000
First 100,000, tax payable		4,000
Remining 20,000, tax rate 17%, tax payable		2,000
Total Tax Payable		6,000
Less: 100% of tax relief (Upper limit 20,000)		6,000
Tax Payable		0

Under above situation, no matter whether the husband and wife choose to file separate assessment or joint assessment, they are not required to pay salaries tax. But comparing the tax payable before enjoying the tax relief, the tax payable of HK \$ 8,800 for separate assessment (2,800 + 6,000) is lower than the tax payable of HK\$ 16,000 for joint assessment, the tax payable should be the lower one.

(2) Shanghai Residents

The calculation of China's individual income tax does not take the family as the unit, and the taxpayers who obtain individual income shall declare the individual income tax separately. Both husband and wife are single child, and all their fathers are aged over 60, so both can apply for a special additional deduction for supporting the elderly with single child.

Two children of the taxpayer who aged over 3 to meet the special additional deduction standard for children's education which can apply for a deduction of RMB 12,000 per child for the whole year. It can be deducted in full by one or 50% respectively. In this example, the taxpayers deduct 50% or RMB 12,000.

The calculation for the husband and wife to declare separately is the same as [Example 3], and the results are as follows:

Items	Amount (RMB)
Tax Payable for Annual Salaries and Wages	39,934.56
Tax Payable for Annual One-off Bonus	1,080
Total Annual Tax Payable	41,014.56

(3) Taiwan Residents

The taxpayer and spouse can choose to calculate the tax separately and then make a comprehensive declaration, or they can choose to jointly calculate the tax and make a comprehensive declaration.

8 people including taxpayer and spouse, 2 children, and 4 parents. 5 of which are applicable to the general exemptions of NT \$ 88,000 / person, and the remaining 3 persons which aged 70 or above are applicable to NT \$ 132,000 for long-term elderly care deduction.

(a) Joint Declaration

Items		Amount (NT\$)
The Gross Consolidated Income		4,160,000
Exemptions and Deductions	General exemptions (88,000*5persons+132,000*3 persons)	836,000
	Standard deduction (Married)	240,000
	Special deduction for employment income	400,000
	Pre-education children deduction	120,000
	The basic living expense difference	324,000
	Total Allowances and Deductions	1,920,000
The Net Consolidated Income		2,240,000
Applied tax rate 20% , pre-school children deduction cannot be applied		120,000
Final Net Consolidated Income		2,360,000
Tax Rate		20%
Progressive Difference		134,600
Tax Payable		337,400

The basic living expense difference formula calculates the difference NT \$ 324,000 which can be deducted from the income:

$$\begin{aligned}
 & \text{Total basic living expenses} - (\text{General exemptions} + \text{Standard / itemized} + \text{Pre-school children deduction} + \text{Physical or mentally challenged person deduction} + \text{Savings and investment deduction} + \text{Education and tuition deduction}) \\
 & = 175,000 * 8 - (836,000 + 240,000) = 1,400,000 - 1,076,000 = 324,000
 \end{aligned}$$

The applicable tax rate is 30% after applying the pre-school children deduction, so the pre-school children deduction cannot be used, and the net taxable income should be returned and adjusted.

(3) Taiwan Residents-Cont'd

- (b) If the husband and wife file separate assessment, the details of salaries tax payable by husband as below:

Items		Amount (NT\$)
Husband's Gross Consolidated Income		4,160,000
Exemptions and Deductions	General exemption	88,000
	Special deduction for employment income	200,000
	Total Exemptions and Deductions	208,000
The Net Consolidated Income		1,792,000
Tax Rate		20%
Progressive Difference		134,600
Tax Payable		223,800

- (c) If the husband and wife file separate assessment, the details of salaries tax payable by wife as below:

Items		Amount (NT\$)
The Total Net Consolidated Income		2,360,000
Less: Husband's net consolidated income		1,792,000
Wife's Net Consolidated Income		568,000
Tax Rate		12%
Progressive Difference		37,800
Tax Payable		30,360

- (d) If the husband and wife file separate assessment, the total tax payable is NT \$ 223,800 + 30,360 = 254,160.

Comparing the tax calculation, the tax payable for separate assessment is NT\$254,160 which is lower than the tax payable for joint assessment amount NT\$337,400. The final tax payable is NT\$ 254,160. The average tax payable for husband and wife is NT\$127,080.

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Company Formation & Registration
Bank Account Application
Company Secretary
Registered Office & Business Address
Compliances & Maintenance
Dis-registration & Dissolution

ACCOUNTING & AUDITING

Financial Advisory
Due Diligence
Company Secretary
Accounting & Book-keeping
Statutory Audit
Special Audit

TAXATION

Tax Advisory
Tax Planning
Tax Reporting
Tax Compliance
Tax Audit
Transfer Pricing

VISA

Work Visa
Business Visa
Company Secretary
Investment Visa
Immigration
Post Landing Support

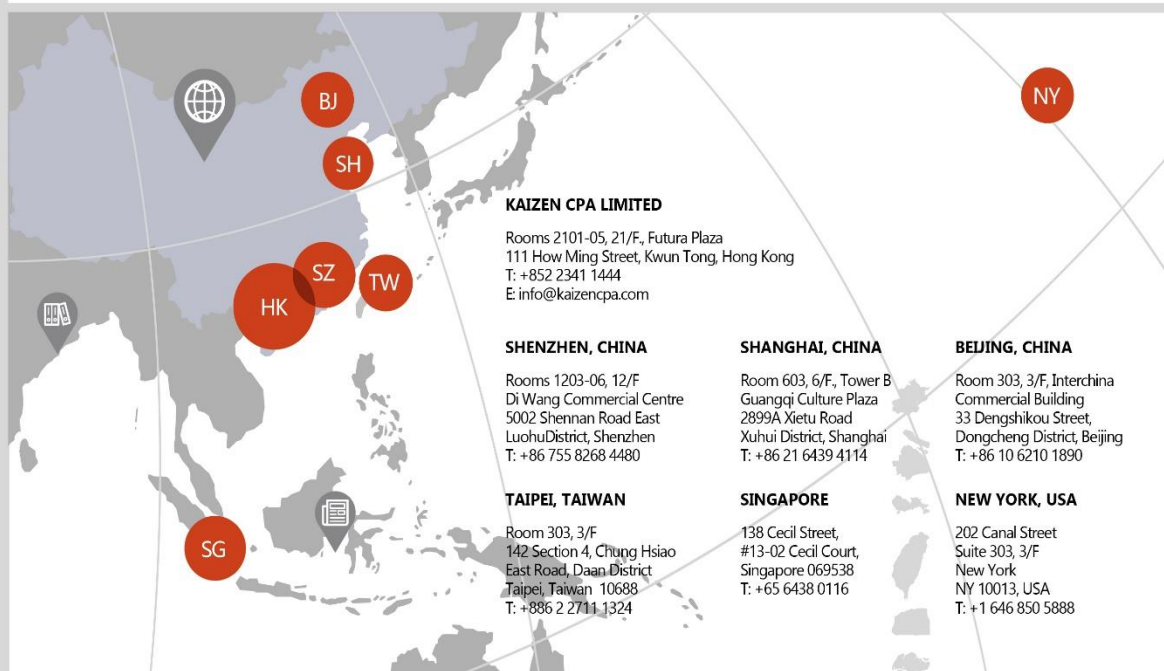
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Staff Hiring
Labor Displacement
Payroll Processing
Human Resource
Labor Law Advisory

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Trademark Infringement
Trademark Watch
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Patent Registration
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