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Exemptions from Individual Income Tax in China

Individual Income Tax (called as IIT in the following paragraphs) is connected to both corporations and individuals. Chinese (mainland) IIT is applicable to Chinese mainland residents who has income and earnings, as well as non-residents but has income or earnings from mainland China. As present, the following conditions are exempt from IIT:

1. Subsidies, grants or allowance besides normal salary

One-child subsidy, child-care allowance, travel allowance and overtime meal allowance are free from IIT.

2. Official use of vehicle and communication subsidy

Personal official use of vehicle and communication subsidy generated according to relevant policy reform, are partially deductible before adding to salary. IIT is then calculated on the lumpsum.

The applicable deduction standard is contingent by terms. It is investigated and measured by the Provincial Administration of Taxation, with factual expense consideration on vehicle and communication subsidies circumstances. After approval and confirmation from the provincial government, it should then be reported to the State Administration of Taxation.

3. Welfare benefits (living allowance)

Under certain circumstances which caused difficulties to taxpayers and or their family members, taxpayers may receive a financial aid from their employers, public sector, national authorities, social organisations. This financial aid is from welfare benefits reserve or trade union fund shall be exempt from IIT.

4. Grants and compensation

Personal grants and compensations are free from IIT. Grants here refers to the supportive payment from any level of government. Compensation here refers to death pension made by any national authorities, public sectors, collective economic organisations to the family and relatives of the deceased.

5. Employment injury insurance

Payment received by the injured employees or their families referred to the Employment Injury Insurance Regulation, including one-off invalidity allowance, disability allowance, one-off Medicaid allowance, one-off employment subsidy for wounded and disabled, Medical treatment for industrial injury, Food allowance for hospitalization, Transportation, board and lodging expenses for medical treatment in other places, Industrial injury rehabilitation allowance, auxiliary equipment allowance, living care allowance etc., as well as, funeral grants, dependent family allowance, one-off death allowance received by one's family in the case of death at work under the Employment Injury Insurance Regulation, are exempted from IIT.

6. Social insurance and housing provident fund paid by both individuals and their employers

The basic endowment insurance, basic medical care insurance, unemployment insurance, employment injury insurance and maternity insurance, as well as housing provident fund paid by public sectors with accordance to related regulations, are exempt from IIT. Above social insurance and housing provident fund payable by the individual shall be deducted from their salary when calculating IIT.

7. Individual withdrawal social insurance and housing provident fund

Individual payable social insurance (lumpsum of the listed insurance in the previous paragraph) and housing provident fund that has been withdraw by individuals shall be exempt free IIT.

8. Maternity allowance

The maternity allowance, maternity medical care allowance and other similar grants in substance received by childbearing female from any level of government (above county level) under related national regulations, are exempt from IIT.

9. Grants and allowances that provided by the government to the general public

The special allowance, academician allowance, senior academician allowance, as well as other allowance stipulated by the State Council, are free from IIT.

10. Retirement pay and leave pay

Settlement allowance, severance pay, basic endowment allowance or retirement pay, leave pay and retirement allowance that payable to cadres and staff members are exempt from IIT.

11. Allowance for delayed retirement payable to senior experts by their employers

When senior experts remaining on duty after the retirement age (experts subject to government special allowance, scholars, academician of Chinese Academy of Science or Engineering), the allowance received during the employment extension, are treated as retirement pay or leave pay. Thus, these allowance are exempt from IIT.

12. Transformation of achievement payable to scientific and technical personnel

Cash payments made by non-for-profit organisations and higher education institutions established with approval of the People's Republic of China on Promoting the Transformation of Scientific and Technological Achievements, to scientific and technical personnel, as transformation of achievement, shall be halved when calculating IIT as part of salary.

13. Equity award to technical personnel

After approved by the administrative tax authority, any transformation of achievement made by scientific personnel in equity award format in of work at scientific institutions, higher education institutions, are free from IIT.

14. Salary allowance paid by Asian Development Bank

Salary and allowance paid to Chinese citizens (including experts work for ADB) by Asian Development Bank, after proven employment status as well as approved by Chinese tax authorities, are free from IIT.

15. Military severance pay, demobilization pay and decommissioning pay

Military severance pays, demobilization pays and decommissioning pays are free from IIT.

16. Military allowance

There are 13 items are exempt from IIT for military personnel. Including government special allowance, welfare benefits, Phased subsidy for husband and wife, unemployed camp family life care allowance, health care expenses for only child, Childcare and education subsidy, Public service fee for military personnel (above sergeant) on service (including nanny expenses), Military grain price difference subsidy, Military occupational allowance, Subsidy for difficult and remote areas set by military, Professional subsidy, Post subsidy for grassroots officers (battalion commander, company commander, platoon leader) and meal allowance.

17. One-off discharge pay and one-off financial aid to off duty military personnel

One-off discharge paid by army, as well as financial aid paid by local government to voluntary off-service military personnel under certain circumstances are exempt from IIT.

18. Meal allowance for crew member

Collective meal allowance, besides payable to individuals, is free from IIT.

19. Discount on chargeable IIT for crew member

The salary shall be halved into the salary base when calculating IIT for crew member whose accumulated days pm service exceeds 183 days.

20. Grants and allowance for COVID-19

Since the 1st January 2020, any bonus and temporary employment allowance paid to medical staff and other related workers by all levels of government are free from IIT. This preferential policy is subject to termination with further notice.

21. Protective equipment for prevention of COVID-19 given by employer

Protect facilities given by enterprises for prevention of COVID-19 like medicine, medical supplies (cash excluded) etc. can be exempted from IIT.

22. Income of diplomatist

Income of diplomatic representatives, consular officers and other staff of embassies and consulates in China can be exempted from IIT.

23. Subsidy of foreigner

Housing allowance, meal allowance, moving expenses, laundry expenses, domestic and overseas business trip allowance, family visit costs, language training costs, children education costs paid to foreigners by non-cash method or reimbursement can be exempted from IIT. The deadline of this preferential policy is 31 December 2021.

24. Salary income of special foreign experts

Salary income of special foreign specialists can be exempted from IIT if meet one of below conditions:

- (1) Foreign experts sent by World Bank directly to China according to World Bank special loan agreement;
- (2) Experts sent by United Nations Organization directly to China;
- (3) Experts work in China for assistance projects;
- (4) Experts sent to China by a donor country for non-reimbursable assistance projects;
- (5) Cultural and educational experts who are sent to China to work for less than 2 years under cultural exchange programs between China and foreign governments and whose salaries are borne by the country;
- (6) Cultural and educational experts who sent to China to work for less than 2 years under China's international exchange programs and whose salaries are borne by the country;
- (7) Experts who works in China under civil research agreement and whose salaries are borne by the foreign government.

25. Subsidies for tax burden difference for foreign talents

From 1 January 2019 to 31 December 2023, the allowances paid to make up tax burden difference by Guangdong provincial government and Shenzhen government for foreign top talents and talent in highly demand who work in Big Bay Area(include Hongkong, Macau and Taiwan) can be exempted from IIT.

26. Labour remuneration of foreign technical officials for the Olympic Games

Labour remuneration paid to foreign consultants and referees by Beijing Olympic Winter Games Organizing Committee and the Organizing Committee of Test Events can be exempted from IIT, on condition that these foreign technical officials invited by Beijing Olympic Winter Games

Organizing Committee and come to China in the period of Beijing 2022 Olympic Winter Games, Winter Paralympic Games and Test Events.

27. Subsidies in Tibet

(1) Allowances for difficult and remote area, variable wages, additional seniority pay, resettlement fees and housing subsidies for retirees obtained from Tibet can be exempted from IIT.

(2) Tibet special allowance paid to public sector employees who work in Tibet can be exempted from IIT.

28. Income of disabled person, lonely elderly person and families of martyrs

Income of disabled person, lonely elderly person and families of martyrs can enjoy tax deduction, the specific percentage and period shall be prescribed by the provincial government, autonomous regions and municipal cities, and shall also be reported to the Standing Committee of the People's Congress of corresponding level for record.

29. Rent subsidies

Rent subsidies paid by local government to the guaranteed families who meet the stipulated conditions can be exempted from IIT.

30. One-off compensation for termination of labour relationship

One-off compensation obtained from termination of labour relationship (include economic compensation, living subsidies and other subsidies) can be exempted from IIT for the part within 3 times of local annual average salary.

31. One-off bankruptcy settlement fee

One-off bankruptcy settlement fee obtained from the enterprise who declare bankruptcy in accordance with the relevant laws of China can be exempted from IIT.

32. Equity incentive of private companies

IIT payment can be deferred to the time of equity transfer instead of at the obtaining of stock options, equity options, restricted stock and equity awards paid for employees of private companies.

33. Quantified assets paid to employees

The collectively owned enterprises can be transformed into joint-stock cooperative enterprises, the IIT payment can be suspended for the quantified assets in the form of shares obtained by the employees during this process.

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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