



## China Tax Briefing

General Introduction on PRC Individual Income Tax  
("IIT") for Foreign Individuals

2022



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MATTERS  
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# 1. Residency

The new PRC IIT law introduces the internationally recognized "183-day" test for determining whether an individual is a Chinese tax resident, which means a China-domiciled individual, or a non-China-domiciled individual (foreigners usually fall into this category) who stays in China for 183 days or more will be considered a Chinese resident for tax purposes, with the individual's China-and non-China-source income subject to Chinese IIT pursuant to the IIT law. The definition of residency is set out below:

	Definition	Tax Scope
Resident	<ul style="list-style-type: none"><li>China-domiciled individuals</li><li>Non-China-domiciled individuals who stay in Mainland China for 183 days or more in a calendar year</li></ul>	Both China and non-China source income
Non-resident	<ul style="list-style-type: none"><li>Non-China-domiciled individuals who stay in Mainland China for less than 183 days in a calendar year</li></ul>	Only China-source income

- An individual is considered as having domiciled in China if he habitually resides in China due to his household registration (or hukou), family, or economic ties.
- If a non-domiciled individual has spent less than 24 hours a day in China, it will not be counted as a China day.
- For employment income, the source is generally determined by the location where the employment and/or the job duties are carried out. The employment income related to China employment / working period in China is generally treated as China source income and should be subject to PRC IIT accordingly.
- For China tax resident, the PRC IIT on employment income will be calculated on accumulative provisional withholding calculation method, while for China non-resident, the PRC IIT on employment income will be calculated on monthly withholding calculation method.

## 2. Six-year Rule

The “six-year” test (i.e. if a non-China domiciled individual resides in China for not more than 183 days in any tax year during the 6-year period or stay outside China for more than 30 days in a single trip in any tax year during the 6 –year period) currently offered to non-China domiciled individuals to protect their certain foreign-source income from being taxed in China has been in effect since 2019.

Please consider to be out of mainland China for more than 30 days consecutively in the 6th year or earlier in order to break the sixth year cycle.

### When to be taxed on world-wide income

Being a resident in China for six consecutive tax year (i.e., spending 183 days or more in China in each single year), and no single trip of over 30 consecutive days outside China in any year during the six-year period, from the 7th resident year in China

### How arrival/ departure days counted

Days outside of China  
(24-hour rule)

- Fresh-start for counting of “six year” from 2019
- Even if established 6-year residence, the clock could be reset if having over 30-day trip outside China
- Subject to record-filing requirement for enjoying the six-year residence rule

### 3. Taxable Income

Generally speaking, all monetary employment income received is subject to the PRC IIT, except for some "benefits-in-kind" (entitled to foreigners working in China). Types of taxable monetary remunerations generally include, but not limited to:

- Base salary;
- Hardship, cost of living allowance and other cash allowances;
- Per diem allowance;
- Bonus;
- Overtime;
- Equity-based income, e.g. stock options, restricted stocks and etc.;
- Contributions to commercial insurances in overseas and/or in China;
- Other incomes related to the employment/assignment in China

## 4. Standard Deduction

- IIT is withheld and payable on a monthly basis. A resident individual is entitled to a standard deduction of RMB 60,000 per year (RMB 5,000 for each month's employment income received), and a non-resident individual is entitled to a standard deduction of RMB 5,000 per month for each month's employment income received.
- For a resident, contributions to China statutory social security scheme and housing fund by employer and employees are tax free for IIT purpose.

## 5. Monthly IIT Filing

IIT is generally reported and paid through withholding agents on a monthly basis. For China tax resident, the PRC IIT on employment income will be calculated on accumulative provisional withholding calculation method, while for China non-resident, the PRC IIT on employment income will be calculated on monthly withholding calculation method.

**Deadline:** Withholding agents and individuals (both residents and non-residents) who lodge returns personally shall submit tax returns and settle payment within 15 days after the end of the month in which the income was derived.

## 6. Annual IIT Reconciliation Filing

A China tax resident is required to file annual IIT reconciliation return under following circumstance:

- Receiving comprehensive income from two or more sources, and the total comprehensive income net of itemized deductions is more than RMB60,000;
- Receiving independent personal services income, author's remuneration and/or royalties; and total comprehensive income net of itemized deductions is more than RMB60,000;
- Advance IIT withholding on comprehensive income is less than the IIT payable in the relevant tax year;
- Applying for tax refund.

Resident individual receives foreign-sourced income should file the annual IIT reconciliation return between 1 March and 30 June of the following year where the income was derived.



## 7. PRC Social security

- Effective from October 15, 2011, all foreigners who legally work in China, including those on secondment arrangements need to participate in the Chinese Social Security Scheme, which includes basic pension, basic medical insurance, work-related injury insurance, unemployment insurance and maternity insurance schemes. Both employers and employees are required to contribute into these schemes.
- Social security in China, at implementation level, remains managed and administered at municipal level; as such there are regional implementation variations from city to city.

## 8. Benefits-in-Kind (BIK) vs. Additional Itemized Deductions (AID) for Foreign Individuals

- According to the prevailing PRC tax rules, during the period January 1, 2019 to December 31, 2023, foreign employees who are residents in China may opt to claim either additional itemized deductions (e.g. children's education, housing rental and continuing education) or continue to enjoy the non-taxable benefit-in-kind policy. Once an election is made, it cannot be changed within a tax year. As from January 1, 2024, foreign employees can no longer enjoy the non-taxable BIKs on housing rental, children's education and language training, unless a further extension is granted.
- Such nontaxable benefits should be paid to the foreigners on a reimbursement basis or settled directly by employer, and such reimbursement/payment should be made at a reasonable level, supported by appropriate documents. The employer, being the tax withholding agent on employees' salary income, should retain such documentation/receipts to substantiate the claim in case of being challenged or audited by the local tax authorities.

## 9. Transition Rules – Annual Bonus / equity incentive income

Resident	
2019.01.01 - 2023.12.31	From 2024.01.01
<b>Annual bonus:</b> <ul style="list-style-type: none"><li>• Taxpayer could choose to include annual bonus as comprehensive income; or</li><li>• Divide the annual bonus by 12 and apply monthly tax rate and quick deduction to assess separately</li></ul>	Include as comprehensive income, unless a further extension of the Transition Rule is granted

Annual  
Bonus

2019.01.01 - 2022.12.31	From 2023.01.01
<b>Equity incentive income from the listed company:</b> <ul style="list-style-type: none"><li>• If the equity incentive income is in compliance with the relevant tax regulations, assessed separately from other comprehensive income;</li><li>• Equity incentive income received in the same tax year should be aggregated for tax calculation.</li></ul>	Details to be announced

Equity  
Incentive  
Income

Non-resident
From 2019.01.01
<b>Bonus related to multiple months:</b> <ul style="list-style-type: none"><li>• Divide the bonus by 6 and apply monthly tax rate and quick deduction (without deductible expenses) to assess separately from other salaries and wages</li><li>• Preferential tax calculation method is only applicable once in a tax year</li></ul>
<b>Equity incentive income from the listed company:</b> <ul style="list-style-type: none"><li>• Divide the equity incentive income by 6 and apply monthly tax rate and quick deduction (without deductible expenses) to assess separately from other salaries and wages</li><li>• Equity incentive income received in the same tax year should be aggregated for tax calculation</li></ul>

## 10. IIT tax rate table

### Provisional IIT Withholding Rate\*

(Applicable for salaries and wages withholding of tax resident individuals)

Tax brackets	Accumulative withholding taxable income (RMB)	Provisional tax rate (%)	Quick deduction (RMB)
1	Not more than 36,000	3	0
2	More than 36,000 to 144,000	10	2,520
3	More than 144,000 to 300,000	20	16,920
4	More than 300,000 to 420,000	25	31,920
5	More than 420,000 to 660,000	30	52,920
6	More than 660,000 to 960,000	35	85,920
7	More than 960,000	45	181,920

### IIT Tax Withholding Rate\*

(Applicable for salaries and wages, remuneration for (independent) services, authors' remuneration, income from royalties of non-resident individuals)

Tax brackets	Taxable income (RMB)	Tax Rate (%)	Quick deduction (RMB)
1	Not more than 3,000	3	0
2	More than 3,000 to 12,000	10	210
3	More than 12,000 to 25,000	20	1,410
4	More than 25,000 to 35,000	25	2,660
5	More than 35,000 to 55,000	30	4,410
6	More than 55,000 to 80,000	35	7,160
7	More than 80,000	45	15,160

\*Information subject to change



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