China

Individual Income Tax Reform – Additional Specific Deductions

Further to the *Amendment to the PRC Individual Income Tax ("**IIT**") Law* which was issued on August 31, 2018 and expected to be fully effective on January 1, 2019, the Chinese State Administration of Taxation issued for comments, the much awaited first draft of the *Additional Specific Deductions Interim Rules* (the "**Draft**") on October 20, 2018. The **Draft** details the specific content and application conditions for the six specific deductions provided for in the Amendment in a general way, which allow the deduction of certain expenses from the taxpayer's IIT basis. Such deductions will allow every taxpayer to reduce, more or less, substantially the amount of their IIT:

The content and application conditions for six specific deductions are detailed in the table below:

<table>
<tr><th rowspan="2">Specific deductions</th><th colspan="2">Standard deduction amount</th><th colspan="2" rowspan="2">Scope of application</th><th rowspan="2">Deduction beneficiaries</th></tr>
<tr><th>Each year (RMB)</th><th>Each month (RMB)</th></tr>
<tr><td rowspan="4">Child's education</td><td rowspan="4">12,000</td><td rowspan="4">1,000</td><td>Pre-school education</td><td>3 years old – beginning of elementary school</td><td rowspan="4">50% for each parent; or

100% for one of the parents as agreed between the parents</td></tr>
<tr><td rowspan="3">Academic education</td><td>Compulsory education (elementary school and junior middle school)</td></tr>
<tr><td>High school education</td></tr>
<tr><td>Higher education (college education, university education, graduate education and PHD education)</td></tr>
<tr><td>Continuing education</td><td>4,800</td><td>400</td><td>Academic education</td><td>The same as above</td><td>If the beneficiary of the education is the child, the same system as mentioned above; <u>OR</u>

If the beneficiary is the taxpayer himself/herself, 100% deduction by the taxpayer</td></tr>
<tr><td colspan="2">3,600 on the year when the certificate is obtained</td><td>Continuing education</td><td>Technical personnel or professional</td><td>Taxpayer</td></tr>
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				technology personnel qualification continuing education	
Medical expenses for critical Illnesses	Maximum limit is 60,000 each year to be deducted at the time of IIT annual-declaration		Limited to the expenses recorded in the medical insurance system, however, borne by taxpayer which amount exceeds 15,000		Taxpayer
Housing mortgage interest	12,000	1,000	Housing mortgage interest for the purchase of the first home		Taxpayer, or one of the spouses as agreed
Rent	14,400	1,200	Big-sized cities		Taxpayer; or when the spouses live in the same city, either husband or wife can benefit from such deduction as agreed; If the spouses live in different cities, each of the spouses can benefit from the deduction
	12,000	1,000	Middle-sized cities		
	9,600	800	Small-sized cities		
Elderly support	24,000	2,000	Only child	Parents or grandparents more than 60 years old	Taxpayer
	24,000 (maximum of 12,000 for each child)	2,000 (maximum of 1,000 for each child)	More than one child	Parents or grandparents more than 60 years old	i) Divided equally; or ii) nominated by elderly; or iii) agreed between brothers and/or sisters

Other measures:

Taxpayer needs to submit the relevant information to the withholding agent (generally his/her employer) which should submit the received information to the in-charge tax bureau for the first time of performing deduction. The relevant information includes the ID information of the taxpayer, spouse, children, and elderly being supported, etc., and other information related to the specific deductions. The taxpayer shall be responsible for the truthfulness of the information submitted. Please kindly note that for deductions of medical expenses for critical illnesses, housing mortgage interest and housing rent, the **Draft** stipulates that all the supporting documents need to be kept by taxpayer for record purposes. As such, the Draft does not specify whether or not the relevant invoices (fapiao) need to be submitted to the in-charge tax bureau for the first time of performing deduction.

Under the current IIT regulation system, the expatriates can enjoy the IIT preferential treatment on child's education fee, housing rents, language training, etc. The **Draft** stipulates that the expatriates can choose whether they would like to apply the new specific deductions as indicated above or they would like to keep the current treatment. However, for the same kind of deduction items, the expatriates cannot enjoy

simultaneously the preferential treatment and the specific deductions. The expatriate must consider, based on his/her own personal situation, which option will be more tax-saving for him/her.

It is only a simple Draft for comment at this stage, and it is not impossible that the final version may be slightly different.

This alert is provided for general informational purposes only. Any information contained in this should not be construed as legal advice and is not intended to be a substitute for legal counsel on any subject matter.