



Individual income tax threshold increase and new tax rates favour low-wage earners

Regulation discussed in this issue:

- Sixth Amendment to the Individual Income Tax Law of the PRC

Background

On 30 June 2011, the 21st Standing Committee of the National People's Congress (NPC) passed the sixth amendment to the Individual Income Tax Law of the PRC (PRC IIT Law). The amended PRC IIT Law will take effect on 1 September 2011.

The amendment had previously been published in draft for public opinion on 25 April 2011. Taking into account the record nearly 240,000 responses received, the amendment to the PRC IIT Law was finally passed with the following changes:

1. Standard monthly deduction on employment income increased from RMB 2,000 to RMB 3,500

The tax threshold on employment income has been increased to RMB 3,500 / month up from the proposed increase to RMB 3,000 / month in the draft amendment.

Whether or not this increase will have any impact on expatriate employees remains to be seen, as this point would only be addressed in the Detailed Rules for Implementation of the Individual Income Tax Law of the PRC (PRC IIT Law Implementation Rules). In the previous amendment to the PRC IIT Law effective March 2008, the PRC IIT Law Implementation Rules issued on 18 February 2008 kept the threshold for expatriates unchanged. We expect this to be the case again.

2. Number of tax brackets reduced from nine to seven, 15 percent and 40 percent brackets removed

The new IIT rates applicable to employment income are as follows:

Bracket	Monthly taxable income	Tax rate (%)
1	RMB 1,500 or less	3%
2	Income in excess of RMB 1,500 to RMB 4,500	10%
3	Income in excess of RMB 4,500 to RMB 9,000	20%
4	Income in excess of RMB 9,000 to RMB 35,000	25%
5	Income in excess of RMB 35,000 to RMB 55,000	30%
6	Income in excess of RMB 55,000 to RMB 80,000	35%
7	Income in excess of RMB 80,000	45%

The following table shows a comparison of the IIT liabilities calculated using the current and new tax tables, which illustrates a significant shift in tax burden from low- to high- wage earners:

Income net of social insurance	Tax payable (current rates)	Tax payable (new rates)	Increase / (decrease)
2,500	25	-	(25)
5,000	325	45	(280)
12,000	1,625	1,145	(480)
20,000	3,225	3,120	(105)
38,600	7,775	7,775	-
50,000	11,025	11,195	170
90,000	24,825	25,420	595
120,000	37,725	38,920	1,195

3. Adjustment to tax on income of sole traders from production or business operation and income from contracting or leasing activities

The IIT rate table for sole traders in respect of the income from production or business operation and income from contracting or leasing activities has also been revised as follows:

Bracket	Annual taxable income	Tax rate (%)
1	RMB 15,000 or less	5%
2	Income in excess of RMB 15,000 to RMB 30,000	10%
3	Income in excess of RMB 30,000 to RMB 60,000	20%
4	Income in excess of RMB 60,000 to RMB 100,000	30%
5	Income in excess of RMB 100,000	35%

4. IIT filing deadline extended to within 15 days of the following month

Taxpayers and withholding agents now have until the 15th day of the following month to file IIT returns and settle the tax due. This makes the filing deadlines for IIT consistent with that of other taxes such as CIT, Value Added Tax and Business Tax.

KPMG observation

The current amendment to the PRC IIT Law addresses a key aspect of income redistribution, in shifting in the tax burden on low-wage earners to high-wage earners. Yet it is important to note the distinction between “high-wage earner” and “high-income individual”, in that the latter’s income is not derived from personal services, but from other sources such as capital gains from the sale of assets. In furthering the aim of income redistribution, we expect to see more action taken by the PRC tax authorities in strengthening IIT collection in relation to investment income and gains from transfer of capital assets.

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