

GMS Flash Alert

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People's Republic of China - Income Tax Relief for New Employees, Interns

On 28 July 2020, the State Taxation Administration (STA) of the People's Republic of China issued new policy that provides for decreasing the individual income tax (IIT) withholding imposed on the income of new employees and interns.

The policy was embodied in STA Announcement [2020] No. 13 - "Announcement on Adjusting the Individual Income Tax (IIT) Withholding Method for Certain Taxpayers."

WHY THIS MATTERS

This policy could have the result of putting more cash in the pockets of new employees and interns; although, this will not reduce their year-end tax bills.

Withholding agents, payroll administrators, and employers may need to revise their payroll processes, make adjustments to withholding, and modify their record-keeping and document retention policies for the individuals concerned.

More Details

Announcement No. 13, which applies from 1 July 2020, is intended to support graduates entering the workforce as new employees or as students pursuing internships. To qualify, such new employees must be "resident individuals," defined as those who have a domicile in the People's Republic of China ("PRC" or "China"), or individuals who do not have a domicile in China but reside in China for 183 days or more during a calendar year.

The relief is given by enlarging the personal deduction used when calculating IIT withholding each month. For employees the rules would normally reduce the RMB 5,000 monthly allowance to reflect the number of months actually in employment in the year; this is now adjusted as if the employee had commenced employment at the start of the calendar year. The new treatment via the modified IIT withholding calculation method is also applied to interns.

| Taxpayer | New Employees | Students in Full-Time Academic Education |
|---|--|---|
| Income Type | Income from Employment | Independent Personal Services Income |
| Pre-1 July 2020 | | |
| Previous IIT Withholding Method | Cumulative personal deduction for current month = RMB 5,000/month x months in employment with current employer | IIT withheld is calculated based on each payment |
| From 1 July 2020 | | |
| Adjustment to IIT Withholding Method | Cumulative personal deduction for current month = RMB 5,000/month x number of months in calendar year to-date | Cumulative personal deduction for current month = RMB 5,000/month x number of months (year to date) in internship with current employer/tax withholding agent |
| <i>Source: KPMG in the People's Republic of China</i> | | |

RMB 1 = EUR 0.123 | RMB 1 = USD 0.145 | RMB 1 = GBP 0.100 | RMB 1 = AUD 0.201

Supporting documents must be retained by the IIT taxpayers and their employing withholding agents in case of future tax audit. Documents confirming eligibility will vary by graduates (graduation certificate or employment dispatch certificate), interns (student card), or other employees who derive income from salary and wages for the first time during the year (commitment letter).

Where foreign employees are hired, they should be expected to reside in China for 183 days or more during a calendar year to be eligible.

KPMG NOTE

For taxpayers and foreign employees who have started employment/internships prior to 1 July 2020, and had IIT over-withheld for the year, annual reconciliation tax filing may be required after year end to claim tax refunds where applicable. Please consult with your qualified tax professional or with a member of KPMG's tax team (see the Contact Us section) for an evaluation of your situation and assistance.

RELATED RESOURCE:

This article is excerpted, with permission, from "Individual Income Tax Relief for New Employees and Interns" in *China Tax Alert* (Issue 28, August 2020), a publication of the KPMG International member firm in the People's Republic of China.

Contact us

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