

➤ **Q: How to compute and pay the Individual Income Tax on the economic compensation received due to termination of labor contract?**

A: The economic compensation paid in lump-sum to individuals due to termination of labor contract should be subject to the Individual Income Tax as wages and salaries. The tax shall be withheld by the payers at the time of payment. Considering that the lump-sum payment of economic compensation for individuals due to contract termination may not have any regular income for some time, the income within three times of the local average wages in the previous year may be exempt from Individual Income Tax and the part over three times may be regarded as wage and salary income for several months and shall be allowed to be averaged for certain period of time in computing the tax. The computation method is: the compensation income is divided by the number of working years in the enterprise (with maximum of 12 years), the quotient shall be taken as the monthly wage and salary and the Individual Income Tax shall be based on that. In computing the tax, the basic pension insurance, medial insurance, unemployment insurance and house reserve paid according to rules may be deductible.

Example:

Mr. Wang with 12 working experience was dismissed due to the reorganization of the enterprise. He received a lump sum economic compensation of 60000 yuan, paid 6000yuan social insurance and house reserve. The local average of wage last year was 10000 yuan. The Individual Income Tax payable by Mr. Wang is computed as:

a. Taxable income:

$$60000\text{yuan}-10000\text{yuan}\times 3-60000\text{yuan}=24000\text{yuan}$$

b. Average monthly wage by 12 year work experience

$$24000\text{yuan}/12=2000\text{yuan}$$

c. Tax payable

$$[(2000\text{yuan}-800\text{yuan})\times 10\%-25\text{yuan}]\times 12=1140\text{yuan}$$

In addition, where the enterprises announce bankruptcy by State laws, the settlement payment in lump-sum to the employees of the bankrupt enterprises may be exempt from Individual Income Tax.

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