

➤ **Q: How is severance pay taxed?**

A: Regarding the severance pay received by those who are not old enough to retire but quit jobs as ruled because of loss of working ability due to industrial injuries or diseases, the part of the severance pay not exceeding 40% of the previous wages and salaries may be exempt from Individual Income Tax. The part over 40% of the previous wages and salaries should be taxed regularly.

Example:

Mr. Zhang quit job due to disease. His previous monthly wage was 5000yuan. The severance pay after job quitting is 3000yuan for each month. The Individual Income Tax payable is computed as:

- a. The deductible income: $5000\text{yuan} \times 40\% = 2000\text{yuan}$
- b. The taxable income: $3000\text{yuan} - 2000\text{yuan} = 1000\text{yuan}$
- c. Tax payable: $(1000 - 800) \times 5\% = 10\text{yuan}$

The severance pay received by people other than those in above conditions should be taxed as the regular wages and salaries.

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