

Tax reductions and exemptions for IIT

The following items may be free from the Individual Income Tax:

- a. Awards for achievements in science, education, technology, culture, public health, physical culture and environmental protection granted by the Provincial People's Governments, Ministries and Commissions under the State Council, the People's Liberation Army Units at army level and above and by foreign or international organizations.
- b. The interest on bond issued by the Ministry of Finance and on the financial bond issued upon approval by the State Council, the interest on the educational saving deposits (refers to the earmarked saving deposits for education by individuals with specified amount and opened with the bank designated according to State rules), the interest on other earmarked saving deposits or special fund deposits of saving nature (at present including house reserves, health insurance, basic aged insurance and unemployment insurance fund) specified by the finance department of the State.
- c. Special Government allowances paid in accordance with the State Council regulations, and the allowances and subsidies specified as being exempt from Individual Income Tax by the State Council (such as the academician allowances paid to the academicians of China Science Academy and China Engineering Academy and the allowances paid to the senior academicians).
- d. Welfare benefits (refers to the allowances for life poverty paid out of the union funds or welfare reserves drawn by enterprises, institutions, governmental organs and social organizations according to relevant rules of the State), survivors pensions and relief payments (refer to the allowances for life poverty paid by the civil department to individuals).
- e. Insurance indemnities.
- f. Military severance payment and demobilization payment received by members of the armed forces.
- g. Settlement payment, severance payment, retirement payment and retirement living allowances received by public servants and workers under State uniform provisions.
- h. Income earned by the diplomatic agents(including ambassadors, ministers, charged affaires, and other staff of embassy with diplomatic title) and consular officers and other personnel in the embassies and consulates in China, who are exempt from tax under the provisions of the relevant laws of China.
- i. Income exempt from tax as stipulated in the international conventions to which the Chinese Government is a party and in the agreements it has entered into.
- j. The basic aged pensions, the basic health insurance, unemployment insurance and house reserves paid to the designated financial institutions by enterprises and individuals for individuals by rules.
- k. To encourage personal change or buying of houses, for the taxpayers who sell their own residential houses and plan to buy new houses at the market price after one year of the sale of the old houses, the Individual Income Tax may be totally or partly exempt in consideration of the value of the houses re-purchased.

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- l. The income tax may be exempt on the removal compensation obtained by individuals by the standards in accordance with the administrative method of the State on cit and town dismantle and removal.
- m. Other income exempt from tax with the approval of the finance department of the State Council.

The following items are provisionally exempt from Individual Income Tax:

- a. Income from the transfer of stock and securities investment funds.
- b. The prizes in form of share rights like shares or investment percentage awarded to individuals by science research institutes and universities for transforming science and technological achievements.
- c. The prize income of less than 10000 yuan won for one time by individuals from buying social welfare lottery tickets and sports lottery tickets.
- d. Income from transfer of the sole house self-used for more than five years by individuals.
- e. The award received by individuals for disclosing and assisting in investigation of various violations and offences.
- f. The commissions received by individuals for withholding taxes.
- g. The wages and salaries earned by the experts and scholars during the extension of retirement limits, who are old enough to retire but remain to work for work need and who enjoy the government special allowances.
- h. The wages and salaries earned by foreign experts which are exempt from tax in accordance with the regulations of the State (such as the workers directly dispatched to China by the World Bank according to the WB loan agreement, the worker directly dispatched by UN to China, the workers dispatched to China by assisting countries for the assistance program, the experts coming to work in China but paid by foreign sources).
- i. The house allowances, meal allowances, removal compensation, laundry allowance obtained for foreigners in non – cash form or in reimbursement, the relative visit allowance, language training allowance and children education allowance and the dividends and bonus obtained from the enterprises with foreign investment.
- j. The income earned by farmers from agricultural specialties, plantation, breeding, feeding and fishery and sales of self-produced agricultural products after abolishment of Agricultural Tax, Animal Husbandry Tax.

In addition, certain tax exemption or reductions may be given on the lump sum settlement payment for the employees of the enterprises announced bankrupt, the lump sum payment of compensation received by individuals for termination of work contract with the employers and the business income and the remuneration from engagement in individual household business by the person with the preferential Certificate of Re-employment (excluding construction, entertainment, sales of immovable property, transfer of land use vight,Ad, house brokers, Sauna, massage, net bars and oxygen bars).

According to the Compensation Law of the State, the compensation received by the victims due to

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infringement of the legal rights and interest of citizens by governmental organs and their employees who mis-use their power shall be exempt from Individual Income Tax.

On the following items, Individual Income Tax may be reduced upon approval, the ranges and time limit of which shall be determined by the People's Government at provincial level:

- a. The income earned by disabled persons, unsupported aged persons and members of martyr's family (limited to wages and salaries, production and business income of individual industrial and commercial households, contracting and leasing income of enterprises and institutions, remuneration for personal services, author's remuneration and royalties).
- b. The taxpayers suffering heavy losses caused by heavy natural disasters.
- c. Other cases in which reduction is approved by the finance departments of the State Council.

The production and business income derived by individual single proprietorship or partnership enterprises invested or participated by the disabled persons may, if meeting the conditions for Individual Income Tax reductions ruled by the People's Government in their jurisdictions at provincial level, be eligible for tax reductions within the scope and range specified by the People's Government of their jurisdictions at provincial level upon approval by the competent tax authorities on their applications for the tax reduction.

Besides, the income from house renting by individuals shall be provisionally taxed at 10%.

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