

Individual Income Tax Taxable items, rates and computation

The taxable items of Individual Income Tax are 11 in total, namely: wages and salaries, income derived by Individual Industrial and Commercial Households from production or business operation, income from contracted or leased operation of enterprises or institutions, remuneration from personal services, author's remuneration, royalties, interest, dividends, bonuses, income from lease of property, income from transfer of property, contingent income, and other income specified as taxable by the finance department of the State Council.

At present, the revenue from Individual Income Tax in China mainly comes from the tax on wages and salaries, income derived by Individual Industrial and Commercial Households from production or business operation and income of interest from saving deposits.

The taxable scope, computation of taxable income, rate and computation of tax payable on the above taxable items are as follows:

1) Wages and salaries

Income from wages and salaries includes wages, salaries, bonuses, year-end extras, profit shares, subsidies, allowances and other income by virtue of an office taking or employment.

The residence, cars and/or computers bought by units for individuals, the rewards offered by the units to the marketing employees in form of free traveling, the discount or allowances given by the employers in subscribing securities like shares (refers to the difference between the subscribing price and the issue price or market price of the same period) and the insurance premiums paid by the units for their employees (excluding the items free from the tax as ruled) should also be accounted into the taxable income of wages and salaries.

For the allowance income obtained for public affair cars and communication due to the public affair car and communication system reform, the income tax is payable on the allowances as wage and salary income after deduction of certain standard of public affair expenses. The allowances paid on monthly basis should be included in the wages, salaries of the current month for computing the tax payable and the allowances paid not on monthly basis should be split up into the wages, salaries of the relevant months for computing the tax payable. The standard of the public affair expense deduction should be decided by the people's government at provincial level in account of the local circumstances.

No income tax shall be levied on the allowances and subsidy difference not included in the total basic wages due to public servant wage system and the allowances for business trips, meals, foodstuff for family members, single child or nursery.

Generally, for wages and salaries, the taxable income shall be the balance of monthly wages or salaries after deducting 1600 yuan as expenses and other specified items (at present including basic

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pension insurance, medical insurance, unemployment insurance, house reserves and the allowances for public affair cars and communication). The Individual Income Tax payable shall be computed according to the 9 grade progressive rates (refer to Schedule 1: Individual Income Tax Rates).

The formula for computing the tax payable is as follows:

Monthly taxable income = Total monthly wages or salaries-1600 yuan – Other deductible items

Monthly income tax payable= Monthly taxable income* Applicable rate- Quick deduction at each grade

Schedule 1: Individual Income Tax Rates

(Applicable to wage, salary income)

Grade	Monthly Taxable Income	Tax Rate (%)	Quick Deduction
1	500 yuan or less	5	0
2	That part of income over 500 but not over 2,000 yuan	10	25
3	That part of income over 2,000 but not over 5,000 yuan	15	125
4	That part of income over 5,000 but not over 20,000 yuan	20	375
5	That part of income over 20,000 but not over 40,000 yuan	25	1,375
6	That part of income over 40,000 but not over 60,000 yuan	30	3,375
7	That part of income over 60,000 but not over 80,000 yuan	35	6,375
8	That part of income over 80,000 but not over 100,000 yuan	40	10,375
9	That part of income over 100,000 yuan	45	15,375

Example:

One clerk has its monthly salary of 2000 yuan , bonus of 700 yuan, other taxable allowances of 300 yuan and the deductible social insurance expenses of 500 yuan. Then the Individual Income Tax payable shall be computed as:

Taxable income of the month=2000+700+300-1600-500 yuan=900yuan

Tax payable for the month=900*10%-25=62 yuan

Where an individual receives wages or salaries from more than one source, the income derived from all sources shall be aggregated in computing and paying the Individual Income Tax. Where the individuals having domicile in China or residing in China though without domicile in China earn income from sources both within China and outside China, the Individual Income Tax should be computed and paid respectively on the income from outside and inside China.

For the taxpayers who have domicile in China but derive wage and salaries from source within China, or who have domicile in China but derive wages and salaries from sources outside China, apart from the standard monthly deduction of 1600 yuan and other specified items, additional deduction for expenses in computing the Individual Income Tax taxable income of the wages and salaries may be allowed in consideration of the average income level, living standard and the The copyright and/or other intellectual property rights of China Business Engine including related text, images, charts, sound, animation, and videos, and their arrangement on the China Business Engine website, are protected by copyright and other protective laws.

changes of exchange rates. The additional deduction for expenses in effect now is 3,200 yuan per month. The formula for computing the taxable income is:

Taxable income= Monthly wages and salaries- 1600 yuan – Additional deduction (3200 yuan) – Other specified items

The scope of such additional deductions for expenses includes:

- a. Foreign experts hired to work in enterprises, institutions, social organizations and government agencies in China.
- b. Foreign experts hired to work in enterprises, institutions, social organizations and government agencies in China.
- c. Individuals who have domicile in China and derive income from wages and salaries by virtue of their tenure of an office or employment outside China.
- d. The crew members for ocean- going shipment.
- e. Other individuals as determined by the Ministry of Finance.

Overseas Chinese and compatriots from Hong Kong, Macao and Taiwan shall be treated by reference to the methods as mentioned above.

Example:

John is an American working for the office of a foreign enterprise in China and earns a salary of 50,000 yuan per month. The deductible social insurance expenses are 5000 yuan. The income tax payable per month is computed as follows:

Monthly taxable income= 50,000 yuan – 1600 yuan – 3,200 yuan – 5000 yuan = 40200yuan

Monthly income tax payable= 40200yuan *30% - 3,375= 8685 yuan

For the one lump- sum payment of bonus to the employees by the enterprises, institutional units, administrative units or other withholding agents according to the economic efficiency of the whole year and the work performance of the employees, the salary increment at year-end and the annual salary and efficiency wage paid under the method of annual salary system and performance and efficiency wages, the income should be taken as one month income of wage and salary for computing and paying the Individual Income Tax and the tax should be withheld by the withholding agents according to the following computation method: the one lump-sum bonus for the whole year obtained in the current month is divided by 12 months and the applicable tax rate and the quick deduction shall be determined in line with the quotient and the Schedule 1: Individual Income Tax Rates. And then, the income tax shall be computed with the above applicable tax rate and the quick deduction on the bonus.

Where the wages, salaries of the month of paying the one lump-sum bonus are lower than the expense deduction by the tax law, the balance should be deducted from the bonus first and then the applicable tax rate and the quick deduction shall be determined on the part of the bonus after the deduction by means of the above method.

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For one taxpayer, the above method can be used only once each tax year.

Examples:

- a. Mr. Jiang earns wage, bonus of 2000 yuan to 3000 yuan each month and has paid the income tax already. At the year end, he obtains one lump-sum bonus of 9600 yuan. The income tax payable is computed as:

$$9600 \text{ yuan} / 12 = 800 \text{ yuan}$$

The applicable tax rate is 10% and the quick deduction is 25 yuan.

$$96000 \text{ yuan} \times 10\% - 25 \text{ yuan} = 935 \text{ yuan}$$

- b. Mr. Lin earns wage and salary of 1500 yuan each month that is lower than the statutory deduction 1600 yuan by 100 yuan. At the year end, he gets one lump-sum bonus of 2500 yuan. His income tax payable is computed as::

$$[2500 \text{ yuan} - (1600 \text{ yuan} - 1500 \text{ yuan})] / 12 = 200 \text{ yuan}$$

The applicable tax rate is 5% and the quick deduction is 0.

$$200 \text{ yuan} \times 5\% = 10 \text{ yuan}$$

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

The economic compensation paid in lump-sum (including the economic compensation, living allowances and other allowances) to individuals due to termination of work 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 be large and that the persons dismissed 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 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, medical insurance, unemployment insurance and house reserve paid according to rules may be deductible.

2) Production and business operation income of individual industrial and commercial households.

The income from production or business operation derived by Individual Industrial and Commercial Households includes the following items:

- a. Income derived by Individual Industrial and Commercial Households from engagement in industry, handicrafts, construction, transportation, commerce, catering industry, services

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- industry, repair industry and production and business in other industries.
- b. Income derived by individuals from engagement, with approval from the relevant governmental department and after having obtained licenses, in the provision of educational, medical, advisory and other service activities for charges.
 - c. Other income derived by individuals from engagement in individual industrial and commercial production and business.
 - d. All taxable income related to production and business of the above Individual Industrial and Commercial Households and individuals.
- Profits derived by Individual Industrial and Commercial Households from joint operation with enterprises shall not be taxed as the production and business operation income but shall be taxed in line with dividends, interests and bonuses.

In computing the Individual Income Tax payable by Individual Industrial and Commercial Households, the taxable income shall be the balance of the gross annual revenue from production and business after deduction of matching costs, expenses and/of losses.

The gross revenue includes sales revenues, business operation revenues, service remuneration, project proceedings, income from leasing or transfer of properties, interest, other business revenue and non-business revenue (all revenue and income are realized on accrual basis). The costs and expenses include various direct expenditures and overhead allocated in costs, sales expenses, administrative expenses and financial expenses. The losses refer to various non-business expenditures. The deductible items and standards should be determined in accordance with the relevant tax law, regulations and rules.

The standards of expense deduction for business owners and the wage deduction for employees shall be determined by the local tax bureaus at provincial level in consideration of the local practical conditions and submitted to the State Administration of Taxation for records. The wages of the owners are not deductible.

The expenses incurred during the period from application for business license to the commencement of production or business operation may be treated as organization expenses and allocated for deduction on average within minimum of five years starting from the date of commencement of production or business operation.

The part of interest payment on borrowings in course of production and business operation not exceeding the interest computed by the rate prescribed by the People's Bank of China for loans of the same type and same time period may be deductible.

The expenditures on consumable articles with low value should be in principle deducted at once. In case of large value at one purchase, however, the expenditures should be amortized. The period and standards shall be up to the local tax bureaus at provincial level for decision.

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The expenses on property insurance and transportation insurance related to production and business operation and the expenses on pension insurance and medical insurance for employees shall be deducted according to the relevant rules of the State.

The repairing expenses related to production and business operation may be deductible large should be amortized. The time period and standards shall be determined by the local tax bureaus at provincial level.

The reception expenses related to production and business operation may be deducted by 5% of the gross revenue after examination by the competent tax department on the lawful vouchers provided as required.

The expenses incurred by taxpayers on research and development of new products, new technology and new craft and the expenses on acquisition of measurement equipment and test installations of a value under 50000 yuan for the research and development of new products and new technology may be deducted on actual basis.

Where the expenses for production and business operation are mixed up with expenses on family life, the competent tax department shall assess the allocation ratio, on the basis of which the expense for production and business operation shall be computed for allowable deduction.

The Consumption Tax, Business Tax, Resource Tax, City and Township Land Use Tax, City Maintenance and Construction Tax, Farmland Occupation Tax, Land Appreciation Tax, House Property Tax, Vehicle and Vessel Usage Tax, Stamp Tax, Educational Surcharge, industrial and commercial administrative fees, dues to society of individual householders and charges for vendor's stand that are paid by rules may be deductible by the actual amount. The deductible items and standards of other fees paid shall be determined by the local tax bureaus at provincial level in consideration of the local conditions.

The unrecoverable receivables related to production and business operation may be deductible upon examination by the competent tax department on the valid documents provided by the taxpayers (Those recovered in later years should be included in the income).

The net damages and loss of inventory making of fixed assets and current assets in course of production or business operation may be deducted in the current period after examination by the competent tax department on the inventory making materials.

The difference due to the change of exchange rate at the time of converting into RMB the foreign currency for the settlement in course of production and business operation shall be treated as loss or gains of exchange, which is either deducted from or included in the income of the current period.

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The follow expenses are not deductible for Individual Industrial and Commercial Households:

- a. Capital expenses.
- b. Properties confiscated and fines paid.
- c. Individual Income Tax, interests and fines on late payment of taxes.
- d. Expenses of financial support (unless otherwise stipulated by the State.)
- e. The compensated part of losses resulted from natural disasters or accidents.
- f. The dividends distributed to investors.
- g. Private and family expenses.
- h. Other expenses having nothing to do with production and business operation.
- i. Other expenses not deductible as ruled by the State Administration of Taxation.

The houses, buildings, machinery, equipment, transportation tools and other production-related or business-related equipment, tools and appliances with unit value over 1000 yuan and used for more than one year in production or business operation shall be defined as the fixed assets.

Depreciation may be allowed for houses and buildings, machinery and equipment in use, apparatus and meters. Tools an appliances, the equipment suspended for use due to seasonal reason or repair, and the fixed assets leased out in form of business operation and rented in form of financial leasing.

No depreciation shall be allowed for the fixed assets not in use or not needed (excluding houses and buildings), the fixed assets rented in form of business operation (the rentals may be deductible) and the fixed assets still in use after fully depreciated.

The valuation methods for fixed assets are: the fixed assets purchased should be valued on the basis of purchasing price, package charges, freight and installation charges actual paid; the fixed assets self-constructed should be valued by the total expenses incurred during the construction; the fixed assets as investment should be valued in line with the appraised value or the value agreed in the contracts(agreements); the fixed assets re-constructed or expanded should be valued by the original book value of the assets minus the price change during the re-construction or expansion plus the expenses increased due to the re-construction or expansion; the fixed assets with inventory gains should be valued according to the complete appraised value of similar assets; the fixed assets rented by financial lease should be valued in accordance with the sum of rentals, freight, insurance and installation and test charges as determined in the leasing agreements or contracts.

Before computing depreciation for fixed assets, the salvage value should be estimated and deducted from the original value of the fixed assets. The salvage value is determined at 5% of the original price of the fixed assets.

After examination by the competent tax department, the useful life for depreciation of fixed assets

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should not be less than the following period: 20 years for houses and buildings, 10 years for steamships, machinery, apparatus and other production equipment, and 5 years for electric equipment, transportation tolls(excluding steamships) and production-related or business-related tolls, appliances and furniture. In case of need to shorten the useful life for depreciation, the taxpayers may apply to the local tax bureaus at provincial level of their location for approval.

The depreciation of fixed assets shall be computed by straight-line method or by units-of-output method. The specific method is the same as that of the Income Tax on Enterprises with Foreign Investment and Foreign Enterprises (referring to VII. INCOME TAX ON ENTERPRISES WITH FOREIGN INVESTMENT AND FOREIGN ENTERPRISES 2. Computation method of this book.)

The intangible assets used in course of production or business operation may be amortized on average for deduction within the useful life starting from the use of the intangible assets. The intangible assets as investment or received by transfer may be amortized within the useful life specified on law or in contracts(agreements). Those without such useful life or the intangible assets self- developed should be amortize for deduction within minimum of 10 years.

The valuation methods for intangible assets are: the intangible assets as investment should be valued by the reasonable price agreed in the contracts (agreements); the intangible assets purchased should be valued in line with the actual payment; the intangible assets received as gifts should be valued according to the price in the receipt or in reference to the market price of similar intangible assets. The value of non-patent technology and goodwill should be determined after appraisal by the authorized appraising organizations.

The losses incurred by taxpayers may, upon examination of the competent tax department, be carried forward to offset against the business income of the following year. In case of the business income of the following year is not enough to offset the losses, the losses may be carried forward to the subsequent years with maximum period of five years. The specific method is the same as that of the Income Tax on Enterprises with Foreign Investment and Foreign Enterprises (referring to VII. INCOME TAX ON ENTERPRISES WITH FOREIGN INVESTMENT AND FOREIGN ENTERPRISES 2. Computation method of this book.).

The income tax on income derived by Individual Industrial and Commercial Households from production or business operation shall be based on the taxable income and subject to 5 progressive rates. The rate table is the following:

The formula for computing the annual income tax payable is as follows:

Taxable income = Annual gross revenue from production and operation – Cost, expenses and losses

Income tax payable= Taxable income * Applicable rate- Quick deduction

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Example:

One Individual Industrial and Commercial Household has revenue of 600,000 yuan from business operation for the tax year. The cost and expenses are 500,000 yuan. The income tax payable shall be computed as follows:

$$\text{Taxable income} = 600,000 - 500,000 = 100,000 \text{ yuan}$$

$$\text{Individual Income Tax payable} = 100,000 * 35\% - 6,750 = 28,250 \text{ yuan}$$

The Individual Industrial and Commercial Households obtaining production and business income from more than one source should aggregate their income for computation and payment of Individual Income Tax.

Schedule 2: Individual Income Tax Rates

(Applicable to income of individual households and the income of enterprise and unit from contracted business operation, leasing operation)

Grade	Annual Taxable Income	Tax Rate (%)	Quick Deduction
1	Income of 5,000 yuan or less	5	0
2	That part of income over 5,000 but not over 10,000 yuan	10	250
3	That part of income over 10,000 but not over 30,000 yuan	20	1,250
4	That part of income over 30,000 but not over 50,000 yuan	25	4,250
5	That part of income over 50,000 yuan	35	6,750

Where taxpayers are unable to provide complete and accurate tax payment materials and to correctly compute the taxable income, the competent tax department may assess the taxable income for them.

3) Production and business income of the single proprietorship and partnership investors

The income from production and business operation earned by the investors of single proprietorship and partnership enterprises shall be subject to Individual Income Tax in reference to the income from production and business operation of individual industrial and commercial household enterprises.

The production and business income of the single proprietorship and partnership enterprises (hereinafter referred to as enterprises for short) refers to the balance of the annual total revenue deducted the matching costs, expenses and losses of the enterprises.

The gross income above refers to the income derived by the enterprises from production and business operation or the activities related to production and business operation, including the sales revenue of commodities (products), transportation charges, service income, project income, income from leasing or transferring property, interest income, other business income and income beyond business.

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Where the individual single proprietorship enterprises, partnerships and individual investors use the funds of the enterprises to buy the cars, houses and other consumption spending not related to production, business operation for themselves, their family members and relevant persons, the spending shall be deemed as the profit distribution to the individual investors and should be included in the income of production, business operation of the investors for computing and paying the Individual Income Tax.

The taxpayers are the investors of the individual single proprietorship enterprises and the taxable income is the total production and business operation income of the enterprises.

The taxpayers of partnerships are the partners, and the taxable income is determined on the basis of the total production and business income of the enterprises and according to the sharing proportions agreed in the partnership contracts. Where there is no such sharing proportion in the contracts, the taxable income for each partner shall be reached by averaging the total production and business income by the number of partners.

Examples:

a. A citizen Mr. Du registered a single proprietorship and earned profit of 300000 yuan in the first year. His taxable income was 300000 yuan and his tax payable is computed as:

$$\text{Total tax payable for the year} = 300000\text{yuan} * 35\% - 6750 \text{ yuan} = 98250 \text{ yuan}$$

b. Citizens Mr. Zhang, Mr. Wang and Mr. Li jointly invested to register a partnership. The balance of the revenue after deduction of cost, expense and losses was 600000yuan. According to the contract, the profit should be divided between them according to the investment proportions 3:2:1. Thus, Mr. Zhang, Mr. Wang and Mr. Li respectively got profit of 300000 yuan, 200000 yuan and 100000 yuan which were the taxable income for computing the tax payable.

If they had no contract for the distribution of the profits, the profits would split averagely between them and each one got 200000 yuan ($600000 \text{ yuan} / 3 = 200000 \text{ yuan}$) on which the tax payable should be computed.

The production and business income of individual single proprietorships and partnerships subject to the tax collection by self-reports shall be determined in reference to the income tax computation method for individual industrial and commercial households except the following items:

a. The deduction standards for the investors shall be determined by the local tax bureaus at provincial level in reference to the expense deduction for wages and salaries income as stipulated in the Individual Income Tax Law. The wages and salaries of the investors are not allowed for deductions before tax.

Where the investors operate two or more enterprises, the investors should choose of the enterprises and deduct the individual expenses allowable for deductions according to tax

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laws from the production and business income of the enterprises chosen.

b. The expenses of wages and salaries of the employees of the enterprises may be deducted according to rules that shall be determined by the local tax bureaus at provincial level in reference to the deductible wages and salaries stipulated in the enterprise income tax.

c. The life expenses incurred by the investors and their families are not allowed for deduction. Where it is hard to separate the life expenses of the investors and their families from the production and business operation, all expenses shall be deemed as the life expenses and shall not be allowed for deduction.

d. Where it is hard to divide the fixed assets commonly used for the production and business operation of the enterprises and for the investors and their families, the competent tax authorities shall assess the amount or percentage of the depreciation allowable for deduction in consideration of the type and the size of the production and business operation of the enterprises.

e. The expenses of worker's union allocated by the enterprises at 2% of the total wages each month may be deductible before tax. The employees' welfare and employees' education can be deducted on actual basis but with the limit respectively of 14% and 1.5%.

f. For the advertisement and propaganda expenses incurred by the enterprises within one tax year, the part within 2% of the total sales (business) revenue may be deducted on actual basis, and the excessive part may be carried forward without any time limit.

g. The business reception expenses incurred directly in relation to the production and business operation of the enterprises may be deducted within the following limits: 0.5% of the net sales (business) revenue if the total annual net revenue is not over 15 million yuan; 0.3% of the net sales (business) revenue if the total annual net revenue is over 15 million yuan.

h. The various provisions drawn by the enterprises are not allowed for deduction.

The tax authorities may impose administrative assessment method and levy Individual Income Tax on the individual single proprietorship and partnership enterprises with one of the following circumstances:

a. The enterprises should set up accounting records but not according to relevant rules of the State;

b. Though the enterprises have set up accounting records, but the accounting records, but the accounting records are confusing or the materials of costs, revenue and/or expenses are so incomplete that it is hard to conduct audit on them; or

c. The taxpayers liable to tax fail to complete tax reports within the statutory time limit and fail again to file tax returns after the tax authorities order them to report within certain time limit.

The administrative assessment mode includes collection of tax by fixed amount, collection of tax by assessing the taxable income rate and other reasonable methods.

The formula for computing the income tax payable by the method of assessing the taxable income

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rate is:

$$\text{Tax payable} = \text{Taxable income} \times \text{Applicable tax rate} - \text{Quick deduction}$$

$$\text{Taxable income} = \text{Total revenue} \times \text{Taxable income rate}$$

Or

$$\text{Taxable income} = \text{Costs and expenses} / (1 - \text{Taxable income rate}) \times \text{Table income rate}$$

The rules for taxable income rate are: 5% - 20% for industry, commerce, transportation and traffic; 7% - 20% for construction and realty development; 7%-25% for catering services; 20%-40% for entertainment; and 10%-30% for other sectors (out of which the rate should not be lower than 25% for lawyers firms, accounting firms, auditors firms and other intermediary institutions).

Where the enterprises are engaged in multi-sectors, the taxable income rate shall be determined on the basis of the key sector regardless of whether there is separate accounting for different sectors.

Examples:

a. One single proprietorship enterprise has one million income in the current year. The taxable income rate assessed by the local tax authorities is 10%. The Enterprise Income Tax payable by the enterprise is computed as:

$$\text{Taxable income} = 1 \text{ million yuan} \times 10\% = 100000 \text{ yuan}$$

$$\text{Tax payable} = 10000 \text{ yuan} \times 35\% - 6750 \text{ yuan} = 28250 \text{ yuan}$$

b. One single proprietorship enterprise has costs and expenses of 170000 yuan in the current year. The taxable income rate assessed by the local tax authorities is 15%. The tax payable is computed as:

$$\text{Taxable income} = 170000 \text{ yuan} / (1 - 15\%) \times 15\% = 30000 \text{ yuan}$$

$$\text{Tax payable} = 30000 \text{ yuan} \times 20\% - 1250 \text{ yuan} = 4750 \text{ yuan}$$

The investors under administrative assessment shall not be eligible for the preferential policy of Individual Income Tax.

For the transactions with the associated enterprises, the enterprises should charge or pay the prices or expenses as those with the independent enterprises. Where any prices or expenses charged or paid are not in line with those with independent enterprises and thus reducing the taxable income, the competent tax authorities shall have the power to make reasonable adjustments.

Where the investors run two or more enterprises(including participation in management of the enterprises, hereinafter the same), at the end of the year, the investors should consolidate the taxable income from all enterprises on the basis of which the applicable tax rate is determined and the income tax payable computed.

The losses of the enterprises this tax year may be offset against the income of production and business operation of the next year. Where the income of the next year is not sufficient to offset the losses, the excessive part may be carried forward for five years at most. The specific computation is the same as the Income Tax on Enterprises with Foreign Investment and Foreign

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Enterprises (referring to VII. INCOME TAX ON ENTERPRISES WITH FOREIGN INVESTMENT AND FOREIGN ENTERPRISES 2. Computation method of this book).

Where the individual single proprietorships and partnerships change the tax payment method from self – report to administrative assessment, the remained part of the losses verified under taxpayers’ self – report shall not be allowed for further offsetting.

Where the investors run two of more enterprises, the annual losses incurred by the enterprises are not allowed to offset across enterprises.

In liquidation, the investors should clear up the tax matters with the tax authorities before de-registration with the industrial and commercial administration department. The proceeds from liquidation (refers to the excessive part of the balance of the public value of all fixed assets or property minus liquidation expenses, losses, debts and the retained profits in previous year over the paid – in capitals) should be regarded as the production and business operation income of the year on which the investors should pay the Individual Income Tax according to laws.

In case of the business time in the tax year is less than 12 months because the enterprises start business in middle of the year or due to merging, shutdown, the actual business time shall be regarded as on tax year.

The interest, dividends or bonus income earned by individual single proprietorship or partnership enterprise from outward investment should not be included in the income of the enterprises, but instead they should be separately regarded as the individual income of the investors and be subject to the payment of Individual Income Tax. The interest, dividends or bonus income earned from outward investment made in name of partnership enterprises should be divided between the investors in line with the rules on computing the taxable income of partnerships and be subject to Individual Income Tax respectively .

4) Income from contracted or leased operation of enterprises or institutions

The income from contracted or leased operation of enterprises or institutions refers to the income derived by individuals from contracted or leased operations and from sub-contracts of sub- leases, including income of profits shard according to the business contracts and income of wage or salary nature.

Where the contractors or lessees own all achievements from business operation by simple paying some charges to the principals or lessons according to the contracts (agreements), the Individual Income Tax shall be paid on the basis of the achievements. Where the contractors or lessees only receive a certain income rather than owning the achievements of the business operation according to the contracts (agreements), the Individual Income Tax shall be paid on wages and salaries.

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When computing the income tax payable, the balance of the total income of the tax year after deducting necessary expenses (the allowable amount is 800 yuan every month at the present) shall be the taxable income. The tax payable shall be computed in accordance with “ Schedke 2: Individual Income Tax Rates”.

Example:

One contractor has derived 100,000 yuan from contracted operation. The deductible expenses allowed are 19,200 yuan (1600 yuan * 12 = 19,200 yuan). The income tax payable shall be computed as follows:

$$\begin{aligned}\text{Annual taxable income} &= 100,000 - 19,200 = 80,800 \text{ yuan} \\ \text{Annual income tax payable} &= 80,800 * 35\% - 750 = 21,530 \text{ yuan}\end{aligned}$$

The individuals receiving income from contracted operation from more than one place should aggregate the income derived from all sources for computation and payment of Individual Income Tax.

5) Remuneration income, labor services income, royalties and the property leasing income

The remuneration income, labor service income, royalties and the property leasing income are taxed under Individual Income Tax on basis of the income received by taxpayers each time. Where the income each time is less than 4,000 yuan, the deduction is 800 yuan . where the income is over 4,000 yuan, the deduction shall be 20% of the income and balance shall be the taxable income. The tax should be computed at 20% rate.

The formulas are:

$$\begin{aligned}\text{Taxable income} &= \text{Taxable items} - 800 \text{ yuan (or taxable items * 20\%)} \\ \text{Tax payable} &= \text{Taxable income} * 20\%\end{aligned}$$

a. The income from remuneration for personal services includes income derived by individuals from designing, decoration installation, drafting, laboratory testing, other testing, medical treatment, legal service, accounting service, advisory service, lecturing, news, broadcasting, translation, proof-reading, painting and calligraphy, carving, moving picture and television, sound recording, video recording, show, performance, advertising, exhibition and technical services, introduction services, brokerage services, agency services and other personal services. The reward offered by the units to the non-employee marketing staff in form of free traveling and the director fees obtained due to holding the position of free traveling and the director fees obtained due to holding the position of director are also treated as income of this kind for computing and paying the Individual Income Tax.

In the case of income for solely one payment, the payment shall be one income. In case of several payment made for one project, the monthly payment shall be one income.

When computing the taxable income of the service remuneration, in addition to the expenses allowed for deduction under tax laws, the intermediary charges paid by taxpayers

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when providing personal services may be deducted from the income so long as valid certification of documentation can be provided.

Examples:

i) One engineer has received the payment of 20,000 yuan from Company A for designing and at the same time received a payment of 2,000 yuan for advisory services from company B. The Individual Income Tax payable is computed as follows:

The income tax payable for the payment of designing services:

$$\text{Taxable income} = 20,000 - 20,000 * 20\% = 16,000 \text{ yuan}$$

$$\text{Income tax payable} = 16,000 * 20\% = 3,200 \text{ yuan}$$

The income tax payable for the payment of advisory services:

$$\text{Taxable income} = 2,000 - 800 = 1,200 \text{ yuan}$$

$$\text{Income tax payable} = 1,200 * 20\% = 240 \text{ yuan}$$

$$\text{The total income tax payable} : 3,200 + 240 = 3,440 \text{ yuan}$$

ii) One worker of enterprise A, Mr. Gong provided installation services for enterprise B and received 3,000 yuan. The income tax payable is computed as follows:

$$\text{Taxable income} = 3,000 - 800 = 2,200 \text{ yuan}$$

$$\text{Income tax payable} = 2,200 * 20\% = 440 \text{ yuan}$$

According to tax law, additional Individual Income Tax may be levied on the income from remuneration for personal service that is excessively high in one payment. The specific rules are: the part of income between 20000 yuan and 50000 yuan shall, in addition to the Individual Income Tax according to tax law, be subject to tax equal to 50% of the tax payable on the same part of income. The part of income over 50000 yuan shall be additionally subject to tax equal to 100% of the tax payable on the same part of income.

Example :

One actor receives 60,000 yuan for one performance. The income tax payable is calculated as follows:

$$\text{Taxable income} = 60,000 - 60,000 * 20\% = 48,000 \text{ yuan}$$

$$\text{Regular income tax payable} = 48,000 * 20\% = 9,600 \text{ yuan}$$

$$\text{Additional tax payable} = (48,000 - 20,000) * 20\% * 50\% = 2,800 \text{ yuan}$$

$$\text{Total income tax payable} = 9,600 + 2,800 = 12,400 \text{ yuan}$$

According to the above rules for additional income tax, the Individual Income Tax may be computed on basis of the taxable income and at the three-grade progressive rates (referring to Schedule 3 Individual Income Tax Rate for details).

Schedule 3 Individual Income Tax Rate
(Applicable to service remuneration income)

Grade	Taxable income	Tax rate (%)	Quick deduction (yuan)
1	Part not over 20000 yuan	20	0
2	Part between 20000 yuan and 50000 yuan	30	2000
3	Part over 50000 yuan	40	7000

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Taking the above example of the actor:

$$\begin{aligned}\text{Tax payable} &= \text{Taxable income of the year} * \text{Applicable rate} - \text{Quick deduction} \\ &= 48000 \text{ yuan} * 30\% - 2000 \text{ yuan} \\ &= 12400 \text{ yuan}\end{aligned}$$

b. The income from author's remuneration includes all income derived by individuals by virtue of the publication of their works (including written works, painting and calligraphy works, photographic works and other works) in books, newspapers and periodicals, and shall be subject to income tax on each time when his works is published. Each time when an author publishes the same works, no matter the publishing units are prepaying the remuneration or pay in several portions or pay the remuneration after reprinting , all the income from the remuneration concerning the author's works shall be treated as one payment for income tax assessment purpose. Where the author publishes his works in several publishing places or re-publishes his works, the income derived from each place of publication may be treated as separate payments of remuneration for income tax assessment purpose.

According to tax law, the individual income tax actually payable may be reduced by 30% of the tax on the taxable income from author's remuneration.

Example:

One author receives one payment for remuneration of 30,000 yuan on his works. The income tax is computed as follows:

$$\text{Taxable income} = 30,000 \text{ yuan} - 30,000 \text{ yuan} * 20\% = 24,000 \text{ yuan}$$

$$\text{The statutory income tax payable} = 24,000 \text{ yuan} * 20\% = 4,800 \text{ yuan}$$

$$\text{The statutory tax reduction amount} = 4,800 \text{ yuan} * 30\% = 1440 \text{ yuan}$$

$$\text{The actual Individual Income Tax payable} = 4,800 \text{ yuan} - 1440 \text{ yuan} = 3,360 \text{ yuan}$$

The remuneration for deceased authors shall be included in the taxable income of the individuals receiving the remuneration for Individual Income Tax.

The income derived by the reporters, editors and other professionals taking position in or hired by newspaper or magazine units from publishing works in the newspaper or magazines of their units should be included in the wages of the month of the publishing for computing and paying the Individual Income Tax under the intems of wages and salaries.

The income from auctions of author's written works shall not be taxed under author's remuneration income for Individual Income Tax but taxed under rounalth income.

c. The income from royalties includes income derived by individuals from provision of the use right of patent rights, and shall be subject to Individual Income Tax on each payment. Once permission to the use of one right shall be treated as one time of payment.

When computing the taxable income for the realties income, in addition to the deductions allowed by tax laws, the intermediary commissions or charges paid by taxpayers when transferring technology may be deducted from the income so long as valid certification or

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documentation can be provided.

Example:

One Professor provides the use right of his patent to one company and receives one payment of 50,000 yuan. The income tax payable is calculated as follows:

$$\text{Taxable income} = 50,000 \text{ yuan} - 50,000 \text{ yuan} * 20\% = 40,000 \text{ yuan}$$

$$\text{Individual Income Tax payable} = 40,000 \text{ yuan} * 20\% = 8,000 \text{ yuan}$$

d. The income from lease of property includes income derived by individuals from the lease of buildings, land use rights, machinery, equipment, vehicles and vessels and other property. The income tax shall be computed and paid on the total amount of income derived from the lease of property within one month.

In computing the taxable income from leasing of property, in addition to the deductions allowed by tax laws, the various taxes and education Surtax during the process of leasing the property may, upon provision of tax completion (payment) receipts, be deducted from the total income from leasing. Furthermore, the maintenance and repairs expenses borne by the taxpayers may, upon provision of valid certifications, also be deducted with deductible amount limited to 800 yuan for each time. The excess, if any, may be carried forward to next time.

Example:

One citizen leases his own house to other person for business and receives rental income of 6,500 yuan for the current month. The expenses of taxes, Educational Surcharge and repairing expenses are 1,500 yuan. The amount of Individual Income Tax payable is computed as:

$$\text{Taxable income} = (6,500 \text{ yuan} - 1,500 \text{ yuan}) * (1 - 20\%) = 4,000 \text{ yuan}$$

$$\text{Amount of tax payable} = 4,000 \text{ yuan} * 20\% = 800 \text{ yuan}$$

6) Income from transfer of property

The income from transfer of property includes the income derived by individuals from the transfer of negotiable securities, share rights, buildings, land use rights, machinery, equipment, vehicles and vessels and other properties. When computing the income tax payable, the taxable income shall be the balance of the gross proceeds from transfer after deducting the original value of the property and reasonable expenses. The Individual Income Tax payable shall be computed at tax rate of 20%

The formula for computing the income tax payable is as follows:

Taxable income = Gross proceeds from transfer of property – Original value of the property – reasonable expense

Income tax payable = Taxable income * 20%

The methods for determining the original value of the properties are :

- a. The subscription price plus fees paid according to rules for negotiable securities.
- b. The construction costs or acquisition price plus other relevant expenses for buildings.

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- c. The payment for obtaining the land use right, land development expenses and other relevant expenses for land use rights.
- d. The purchase price plus freight, installation charges and other relevant expenses for machinery, equipment, vehicles and vessels.
- e. Other properties shall be valued in reference to the above methods.

Where taxpayers are unable to provide the complete and accurate documents for the original value of their properties or unable to compute the original value correctly, the competent tax department shall assess the original value for them.

Example:

One person sells a house with the original value of 200,000 yuan and deceives 400,000 yuan for the sale. The tax paid related to the sale and the expenses are 80,000 yuan. The income tax payable is computed as follows:

$$\text{Taxable income} = 400,000\text{yuan} - 200,000\text{yuan} - 80,000\text{yuan} = 120,000\text{yuan}$$

$$\text{Income tax payable} = 120,000 \text{ yuan} * 20\% = 24,000 \text{ yuan}$$

The income earned from auctions of paintings and calligraphy and antiques by individuals should be taxed as income from transfer of properties for Individual Income Tax

7) Interest, dividends, bonuses, contingent income and/or other income

The income of interest (including interest on saving deposits, loans and bonds), dividends and bonuses refers to the interest, dividends and bonuses derived due to ownership of credits and share rights.

The dividends, bonus income derived from the listed companies by individuals are temporarily included in the taxable income of the individuals by 50%.

Where the investors of the enterprises other than the single proprietorships and partnerships use the funds of the enterprises to pay the expenses not related to the production, business operation and buying cars, houses for themselves, their family members and other relevant persons, the spending shall be deemed as the profit distribution to the investors and shall be taxed under Individual Income Tax as dividend income.

Where the enterprises buy vehicles and register the vehicles under the names of the shareholders, the nature of which is the distribution of dividend in kind, it should be taxed under Individual Income Tax as dividend income. In consideration that the vehicles may be used for business of the enterprises, part of the income may be deducted. The specific deduction shall be decided by the tax department on basis of the actual use of the vehicles.

Where the investors borrow money from their enterprises (other than the single proprietorships and partnerships) within the tax year and fail to return the borrowing or use it to the production, business operation at the end of the year, the borrowing not paid back shall be deemed as the profit distribution to the investors for paying the Individual Income Tax.

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Contingent income refers to prizes awarded to individuals, prizes won by individuals, lotteries won by individuals and other income obtained by accident (such as the once award received from the people's government below province and their departments due to outstanding contribution).

Other income refers to the income specified by the financial department of the State Council as taxable other than those listed as taxable in the Individual Income Tax Law.

For example, the State Administration of Taxation rules that the income earned by individuals from the payment in cash, in kind and/or in securities made by some units due to year-end work report, various celebrations, business exchange and other activities should be taken as other income and subject to Individual Income Tax, and the tax shall be withheld by the paying units. The awarded income received by individuals for whom their employers have paid the insurance premium and to whom no indemnity has ever paid, the discount income and commission rebate income received from security companies and the payment received by individuals from providing guaranty for units or other people shall also be subject to Individual Income Tax as other income.

For interest, dividends, bonuses, contingent income and other income specified as taxable by the financial department of the State Council, the taxable income may be the full amount received in each payment and the tax payable shall be computed by the tax rate of 20%.

The formula for computing the income tax payable is the following:

$$\text{Income tax payable} = \text{Full amount in each payment} * 20\%$$

Example 1:

One citizen Mr. Zhang obtained saving interest of 1000 yuan from bank. The Individual Income Tax payable is computed as:

$$\text{Tax payable} = 1000 \text{ yuan} * 20\% = 200 \text{ yuan}$$

Example 2:

One citizen Mr. Li receives dividends of 6,000 yuan from the listed company in one payment. The income tax payable is calculated as follows:

$$\text{Income tax payable} = 6,000 \text{ yuan} * 50\% * 20\% = 600 \text{ yuan}$$

Example 3:

One citizen Mr. Wang won 200,000 yuan from social welfare lottery. The income tax payable by him is:

$$\text{Tax payable} = 200,000 \text{ yuan} * 20\% = 40,000 \text{ yuan}$$

Example 4:

The accountant of a company was evaluated as model for tax payment matters by tax department at year-end and received 3,000 yuan as prize. His income tax payable is:

$$\text{Tax payable} = 3,000 \text{ yuan} * 20\% = 600 \text{ yuan}$$

In case of payment of dividends by the joint equity enterprises in shares, the face value of the shares should be used in computing the Individual Income Tax.

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Whether to levy Individual Income Tax on the interest from the grass – root supply houses, countryside credit enterprises (excluding the interest on saving deposits in the countryside credit enterprises), dividends and bonus earned by individuals shall be decided by the People’s Government at provincial level in consideration of the local conditions.

8) Donation deductions

For donations made by individuals of their income through social organizations or government agencies in China to the public welfare undertakings and to disaster – hit areas or poverty areas, that part of the amount of donations under 30% of the taxable income declared by the taxpayer may be deducted from the taxable income. The donations made to education cause, the red cross, public places for teen – agers, the welfare and non – profit aged service institutions, the Song Qingling Fund, China Poverty Support Fund, the China Handicapped Welfare Fund, China Law Assistance Fund, China Mining Lung Disease Fund, China Hero Fund, China Health Express Fund, China Environment Protection Fund, Sun Yefang Economic and Science Fund, China Welfare Association and China Charity Association may be totally deducted from the taxable income.

Example:

one painter has donated through some State organ to poverty – suffering areas as welfare assistance 100,000 yuan derived from the sale of his paintings. The income tax payable is calculated as follows:

The statutory taxable income = 100,000 yuan – 100,000 yuan*20% = 80,000 yuan

The statutory deductible amount of donations = 80,000yuan * 30% = 24,000 yuan

The actual taxable income = 80,000 yuan – 24,000 yuan = 56,000 yuan

The actual income tax payable = 56,000 yuan * 20% = 11,200 yuan

The expenses incurred by individuals for granting financial assistance through non-profit organizations in China or governmental organs of China to non-associated science research institutions and universities to research and develop new products, new technology and/or new crafts may, upon examination by the competent tax department, be entirely deducted from the taxable income of next month (if wages and salaries), next time (if the tax is computed on each payment) or the current year (if the tax is computed on annual basis).

9) Foreign tax credit

Individual who are domiciled in China, or who have no domicile in China but have resided in China for one year or longer, shall calculate separately the amounts of income tax payable for income derived from sources within and outside China.

The Individual Income Tax (excluding the case of any compensation made to taxpayers after payment of tax and the tax borne by others) paid abroad to foreign tax department by the taxpayers on income derived from sources outside China shall be allowed for credit against

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the income tax payable with a limit to the tax payable (The limit should be computed for different countries, different regions and different items. The sum of the tax payable on different items from the same country or region shall be the credit limit for that country or region.) computed under the Individual Income Tax Law of the People's Republic of China on the same income from the sources outside China.

Where the actual amount of Individual Income Tax paid by a taxpayer in a country or region outside China is less than the credit limit for that country or region computed in accordance with Chinese tax law, the balance should be paid in China. In case of the tax paid abroad exceeding the credit limit for that country or region, the excessive portion may be carried forward to offset against the balance of the credit limit of the same country under the same items in the subsequent years with maximum period of five years although it can not be credited in the current tax year.

Example:

A Chinese Mr. Guo earned wage of 600,000 yuan and royalties of 100,000 yuan from January to December of 2005 from country A and earned interest income of 10,000 yuan from country B. He had paid respectively 130,000 yuan and 2500 yuan individual income tax to these two countries according to tax law. The foreign tax credit limit for Mr. Guo is computed as follows:

a. The credit for country A

* The tax payable on wages according to Chinese tax law:

$$[(600,000\text{yuan} / 12 - 1600\text{ yuan} - 3200\text{ yuan}) * 30\% - 1375] * 12 = 122220\text{ yuan}$$

* The tax payable on royalties according to Chinese tax law:

$$(100000\text{ yuan} - 100000\text{ yuan} * 20\%) * 20\% = 16000\text{yuan}$$

* The tax credit limit for country A:

$$122220\text{yuan} + 16000\text{yuan} = 1380220\text{ yuan}$$

* The income tax to be made up in China:

$$138220\text{ yuan} - 130000\text{ yuan} = 8220\text{ yuan}$$

b. The credit for country B

* The tax on interest according to Chinese tax law, i.e., the credit limit for country

B:

$$1000\text{yuan} * 20\% = 2000\text{yuan}$$

* The 2500 yuan tax paid by Mr. Guo in country B may be credited by 2000 yuan in fine with the limit above. The balance of 500 yuan may be carried forward to offset the balance of the credit limit for country B within subsequent five years.

10) Other rules

a. In case of having difficulty to draw lines between taxable items for the income earned by individuals, the competent tax department shall make decisions for that.

b. Where taxpayers obtain after-tax income and the employers or other individuals bear the

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Individual Income Tax for taxpayers, the after-tax income should be converted into taxable income on which the tax payable shall be computed.

The formula for converting into taxable income:

*For wages and salaries, production and business income of individual industrial and commercial households, and contracting and leasing income of enterprises and institutions:

$$\text{Taxable income} = (\text{After-tax income} - \text{Standard deduction} - \text{Quick deduction}) / (1 - \text{Tax rate})$$

* For remuneration from labor services:

For after – tax income not over 3360 yuan : Taxable income = (After – tax income -800) / 0.8

For after – tax income over 3360 yuan: Taxable income = (After – tax income – Quick deduction) * 0.8 / (1-Tax rate *0.8)

The tax rate in above formals refers to the tax rate corresponding to the after – tax income.

The specific rates are listed in the following tables:

Schedule 4 Individual Income Tax

(Wages and salaries)

Grade	Bracket with no tax	Tax rate (%)	Quick deduction
1	The part not over 475 yuan	5	0
2	The part between 475 yuan and 1825 yuan	10	25
3	The part between 1825 yuan and 4735 yuan	15	125
4	The part between 4735 yuan and 16375 yuan	20	375
5	The part between 16375 yuan and 31375 yuan	25	1375
6	The part between 31375 yuan and 45375 yuan	30	3375
7	The part between 45375 yuan and 58375 yuan	35	6375
8	The part between 58375 yuan and 70375 yuan	40	10375
9	The part over 70375 yuan	45	15375

Schedule 5 Individual Income Tax

(Production and business income of individual industrial and commercial households, and contracting and leasing income of enterprises and institutions)

Grade	Bracket with no tax	Tax rate (%)	Quick deduction
1	The part not over 4750 yuan	5	0
2	The part between 4750 yuan and 9250 yuan	10	250
3	The part between 9250 yuan and 25250 yuan	20	1250
4	The part between 25250 yuan and 39250 yuan	30	4250
5	The part over 3250 yuan	35	6750

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Schedule 6 Individual Income Tax
(Remuneration from labor services)

Grade	Bracket with no tax	Tax rate (%)	Quick deduction
1	The part not over 21000 yuan	20	0
2	The part between 21000 yuan and 49500 yuan	30	2000
3	The part over 49500 yuan	40	7000

Examples:

i) Clerk Mr. Zhang got wage income of 3000 yuan for this month. His employer born Individual Income Tax of 115 yuan for him. The taxable income is converted as follows:

$$\text{Taxable income} = (3000\text{yuan} - 1600\text{yuan} - 125\text{yuan}) / (1 - 15\%) = 1500\text{yuan}$$

$$\text{Tax payable} = 1500\text{yuan} * 10\% - 25\text{yuan} = 125\text{yuan}$$

ii) Professor Li got 3000 yuan for one lecturing. The university borne Individual Income Tax of 440 yuan for him. The taxable income is converted as:

$$\text{Taxable income} = (3000\text{yuan} - 800\text{yuan}) / 0.8 = 2750\text{yuan}$$

$$\text{Tax payable} = 2750\text{yuan} * 20\% = 550\text{yuan}$$

iii) Actor Zhao got remuneration of 60000 yuan for one performance. The performing company borne Individual Income Tax of 12400 yuan for him. The taxable income is converted as follows:

$$\text{Taxable income} = (60000\text{yuan} - 7000\text{yuan}) * 0.8 / (1 - 40\% * 0.8) = 62352.94\text{yuan}$$

$$\text{Tax payable} = 62352.94\text{yuan} * 40\% - 7000 = 17941.18\text{yuan}$$

c. If the same income is derived by two or more individuals, the income tax thereon shall be calculated and paid separately on the income derived by each individual after the deduction of expenses respectively in accordance with tax law.

Example:

Mr. Zhao and Mr. Qian write in collaboration one novel and receive the total amount of remuneration of 60,000 yuan. Zhao and Qian get respectively 40,000 yuan and 20,000yuan. When computing the income tax, Zhao and Qian may each deduct expenses from their own part of remuneration and then calculate the statutory income tax payable, statutory income tax reduction and the actual income tax payable:

a. Zhao's income tax payable:

$$\text{Taxable income} = 40,000\text{yuan} - 40,000\text{yuan} * 20\% = 32,000\text{yuan}$$

$$\text{The statutory income tax payable} = 32,000\text{yuan} * 20\% = 6,400\text{yuan}$$

$$\text{The statutory income tax reduction} = 6,400\text{yuan} * 30\% = 1920\text{yuan}$$

$$\text{The actual Individual Income Tax payable} = 6,400\text{yuan} - 1920\text{yuan} = 4,480\text{yuan}$$

b. Qian's income tax payable:

$$\text{Taxable income} = 20,000\text{yuan} - 20,000\text{yuan} * 20\% = 16,000\text{yuan}$$

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The statutory income tax payable = 16,000yuan * 20% = 3,200yuan

The statutory income tax reduction = 3,200 yuan * 30% = 960 yuan

The actual Individual Income Tax payable = 3,200 yuan – 960 yuan = 2,240 yuan

d. In computing the taxable income for Individual Income Tax, all income shall be computed in terms of Renminbi(RMB).

The personal income in foreign currency should be converted into Renminbi for the computation of the amount of taxable income at the exchange rate quoted by the People's Bank of China on the last day of the last day of the month preceding that in which the tax payment receipt is issued (or the rate worked out according to relevant rules) and then the tax is paid. In the final settlement at the end of the year in accordance with tax law, the part of foreign currency income on which tax has been prepaid on a monthly basis or on each payment of income shall not be converted again. The balance of the income on which tax shall be made up should be converted into Renminbi according to the exchange rate on the last day of the preceding tax year.

When taxing on the interest from saving deposits, the tax withheld in foreign currency should be converted into Renminbi at the basic exchange rate quoted by the People's Bank of China on the last day of the month preceding the month of payment and then tax shall be paid to the treasury in Renminbi.

For the income in kind, the taxable income should be computed according to the price listed in the documents for obtaining the income. In case of income in kind without vouchers or with an obviously low price, the competent tax department shall assess the taxable income in reference to the local market price.

In case of income in securities, the competent tax department shall assess the taxable income according to the face value and market price.

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