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Provisions of the New Individual Income Tax Law on "Other Income"

On 31st August 2018, the fifth session of the Standing Committee of the 13th National People's Congress ("NPC") approved the seventh amendment to "The Individual Income Tax Law of the People's Republic of China" ("the IIT Law").

The new IIT Law removes "other income" as taxable item. On 13th June 2019, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly issued a circular, Caishui [2019] no. 74, on the taxability of "other income" as follows:

1. Some incomes are incorporated into the tax item "contingent income" which is subject to a 20% tax rate. This section includes:

    (1) Rewards obtained by individuals for providing guarantees for entities or individuals;

    (2) Income of the donee from gratuitously donated houses with exemptions as stipulated in article 1 of Caishui [2009] no. 78 (that is, the donor and recipient are directly related, say, spouse or siblings; or there is a dependency relationship between the donor and the recipient; or the recipient is the legal or testamentary heir of the donor); and

(3) Gifts (including online red envelopes) randomly given to individuals outside the company during various advertising campaigns or annual meetings and other celebrations. Coupons/red envelopes in a nature of price discount or allowance are not included.

2. The pension income of tax-deferred commercial pension insurance received by individuals in accordance with the provisions of Caishui [2018] no. 22 is now included into "Salary income", and the tax burden remains unchanged at 7.5%.

Preferential Tax Policies for Community Family Service Industries

On 28th June, 2019, the MOF, the SAT, the National Development and Reform Commission, the Ministry of Civil Affairs, the Ministry of Commerce and the Commission of Public Health jointly issued a notice, Caishui [2019] no. 76 (“the Notice”) on preferential tax policies for community family service industries such as elderly-care, childcare and housekeeping. The Notice takes effect from 1st June 2019 to 31st December 2025.

For institutions that provide community family services, the income obtained through the above services is exempted from Value-added Tax, and only 90% of these incomes will be taxable under Corporate Income Tax. Moreover, houses and land used in providing these will be exempted from Deed Tax.

Under the Notice, community, including both urban communities and rural communities, is defined as a social life community composed of residents living in a certain area. Elderly-caring service refers to services specially provided for the aged citizens including life care, rehabilitation care, spiritual comfort and other services. Childcare service refers to provision of care for infants aged 3 years and below. Community housekeeping service refers to care and nursing services for the elderly, sick, disabled, pregnant or other special groups in the receipients’ residence or medical institutions, as well as cleaning and cooking services in the receipients’ residence.

Exemption of Value-added Tax regarding housekeeping service has to satisfy the following conditions:

1. Valid housekeeping service agreement between the service company, service personnel and customers;
2. Training and administration are provided by the service company to the service personnel with payment of wages; and
3. A business management system is set up to register and manage housekeeping service personnel.

Tax Incentives for Start-ups and Employments of Special Social Groups

On 27th June 2019, the MOF, the SAT, the Ministry of Human Resources and Social Security, and the Poverty Alleviation Office of the State Council jointly issued a circular, Caishui [2019] no. 22 ("the Circular"), on tax policies to further support and promote start-ups and employments of special social groups.

The special social groups in the Circular include:

1. Underprivileged persons registered in the national poverty alleviation and development information system;
2. People who have been registered as unemployed for more than half a year in Public Employment Service Agencies of Human Resources and Social Security Departments;
3. Registered unemployed people in working age in zero-employment families, families enjoying the minimum living guarantee for urban residents; and
4. College graduates in the graduation year.

If enterprises recruit these individuals and sign labor contract exceeding one year and pay social securities in accordance with regulations, the enterprises can enjoy lump-sum tax allowance (RMB6,000 per person per year in principle, up to 20% increase could be made by provincial governments) to offset against tax payable in stipulated sequence within three years.

If the above individuals are registered as self-employed individuals, an annual allowance of RMB12,000 per family could be enjoyed by the individuals within three years to deduct their taxes payable in stipulated sequence.

The implementation period of this notice is from 1st January 2019 to 31st December 2021.

Service Highlight

Sino-bridge always aims at providing clients with quality service, and your satisfaction is the best incentive to us. In case of need, you can email to rikawong@sinobridge-ge-consulting.com or call at (852) 3579 8745, our Marketing Executive, Ms. Rika Wong, will sincerely at your service.

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