

China Business Advisory

2018 Issue 9

September 2018



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Release of the Transitional Policy of Individual Income Tax

Upon the release of the amendment to Individual Income Tax (“IIT”) Law on 31st August 2018 by the National

People's Congress (“NPC”) of the People’s Republic of China (“PRC”), the Ministry of Finance (“MOF”) issued Caishui [2018] No.98 to set up the transitional policy so that taxpayers are clear about the specific details of implementation. The main contents are listed below.

1. Clarification of the new tax threshold and 7-level progressive tax rates regarding wages and salaries
 - The transitional period of Individual Income Tax Law is from 1st Oct 2018 to 31st Dec 2018
 - For wages and salaries received by taxpayers after 1st Oct 2018, the tax payers will enjoy the new tax threshold (RMB5,000 per month) and tax rates. Otherwise, the existing tax threshold (RMB3,500 per month) and tax rates will apply. Further details regarding the new tax threshold and tax rates are listed below,

Level	Monthly Taxable Income (in excess of the tax threshold)	Tax Rate	Quick Deduction
1	No more than RMB3,000 (inclusive)	3%	0
2	More than RMB3,000 but less than RMB12,000 (inclusive)	10%	210
3	More than RMB12,000 but less than RMB25,000 (inclusive)	20%	1,410
4	More than RMB25,000 but less than RMB35,000.00 (inclusive)	25%	2,660
5	More than RMB35,000 but less than RMB55,000.00 (inclusive)	30%	4,410
6	More than RMB55,000 but less than RMB 80,000.00 (inclusive)	35%	7,160
7	More than RMB80,000	45%	15,160

2. Clarification of the IIT calculation method on incomes from the production and operation of individual business owners, individual proprietorship enterprises, natural person investors of partnership enterprises, individuals contracting with or renting enterprises and institutions.

The new tax threshold (RMB5,000 per month) and tax rates below will be applicable to income received in the last quarter of 2018. Moreover, certain specific formulas have also been specified for the advance tax payment of the last quarter and annual settlement of 2018.

Level	Annual Taxable Income (in excess of the tax threshold)	Tax Rate	Quick Deduction
1	Less than RMB30,000 (inclusive)	5%	0
2	More than RMB30,000, but less than RMB90,000 (inclusive)	10%	1,500
3	More than RMB90,000, but less than RMB300,000 (inclusive)	20%	10,500
4	More than RMB300,000, but less than RMB500,000 (inclusive)	30%	40,500
5	More than RMB500,000	35%	65,500

The amended IIT Law will formally come into force on 1st January 2019. During the transitional period in the fourth quarter of 2018, both enterprises and individuals should ensure they are in compliance of the new IIT Law.

Further Support for Small Businesses

The MOF announced Caishui [2018] No.77 on tax incentives of Corporate Income Tax (“CIT”) for small-scale-tiny-profit enterprises, effective between 1st January 2018 and 31st December 2020, which further encourages the development of small-scale enterprises and reduces their tax burden. Compared with the cancelled Caishui [2017] No.43, the main changes are listed below.

- ✧ Enterprises meeting the following criteria will qualify as small-scale-tiny-profit enterprises.

Criteria	Industrial Enterprises	Other Enterprises
Taxable income	Less than RMB 1 million	Less than RMB 1 million
No. of employees	Less than 100	Less than 80
Assets	Less than RMB 30 million	Less than RMB 10 Million

- ✧ Qualified small-scale-tiny-profit enterprises can enjoy an effective preferential CIT rate of 10%.

The relaxation of taxable revenue criterion from RMB500,000 to RMB1 million aims to benefit more small businesses. Enterprises are recommended to review their status and eligibility to ensure they can take full advantage of the tax benefits during CIT filing for the last quarter and the annual return of 2018.

Cancellation of Work Permit of Individuals from Hong Kong, Macao and Taiwan

The Ministry of Human Resources and Social Security (“MHRSS”) promulgated the “Decision on Abolition of Regulations on the Employment of Residents of Taiwan, Hong Kong and Macao” (MHRSS Decree No. 37), which was effective from 23rd August 2018, to abolish the requirement of work permit of individuals from Hong Kong, Macao and Taiwan working in Mainland China.

The existing Work Permit will be replaced with ID certificates and residence permits from 1st January 2019 onward. Business licenses, labour contracts, wage payment vouchers and social insurance payment records will act proof of the employment in mainland China.

Local authorities will include individuals from Hong Kong, Macao and Taiwan in the local employment and entrepreneurship administrative service systems where their employment and unemployment will be registered and monitored. Relevant supportive services will become available to these individuals which includes policy consultation, career introduction, opening guidance, business incubation, job seeking and recruitment services.

This move from the government will facilitate the attraction of talents from Hong Kong, Macao and Taiwan and further promote the economic development.

Service Highlight

It is evident that the Chinese government is putting continuous effort to create a business environment that is more open and relaxed. Domestic regulations and administrative processes have both been simplified to reduce the compliance burden for foreign investors.

We are committed to providing clients with advice on how to leverage on the changes in the business environment of China. Our Marketing Executive, Ms. Kimme Chan, would like to hear from you at (852) 3579 8745 or kimmechan@sinobridge-consulting.com to learn of how we could assist you with your business.

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