

**Briefing on Amended China Individual Income Tax Law**  
**(effective on 1 Sep. 2011)**

The amendment of Individual Income Tax (IIT) Law was approved by the National People's Congress in June and will soon take effect on September 1st 2011.

**Major Amendments**

The new law raises the monthly tax exemption threshold from 2,000 yuan (307.7 U.S. dollars) to 3,500 yuan and reduces the previous nine-bracket system to a smaller seven-bracket system, eliminating brackets corresponding to tax rates of 15 and 40 percent. It also reduces the minimum tax rate from 5 percent to 3 percent for people whose monthly incomes are between 3,500 and 4,500 yuan.

This is the third time the tax threshold raises after the implementation of Personal Income Tax Law in 1994. The tax threshold raised from 800 yuan to 1600 yuan in 2006 and raised from 1600 yuan to 2000 yuan in 2008. The amount of tax reduction is the biggest in the history.

As a result of this change, the taxpayers' count reduced from 84 million to 24 million, that's mean about 60 million taxpayers don't need to pay personal tax any more, only 24 million taxpayers remain. This could substantially reduce the burden on low-income taxpayers. On the other hand, high-income people will pay more taxes due to the cascading tax rate level, so the total amount of personal income tax will not reduce too much.

Furthermore, the tax rate of small business (annual income less than 60,000 yuan) reduced 40% in average, in a maximum of 57%, help the small business to reduce costs, improve the business environment and weather the storm.

**Calculate Details**

- 1、 Monthly Income (A)
- 2、 tax exemption ( B )

B=RMB 3500 per month

### 3、 Social and housing insurance ( C )

### 4、 New Tax Rates

Grade	Monthly Taxable Income	Rate(D)	Instant Deduct ( E )
1	≤1500	3%	0
2	1500≤4500	10%	105
3	4500≤9000	20%	555
4	9000≤35000	25%	1005
5	35000≤55000	30%	2755
6	55000≤80000	35%	5505
7	>80000	45%	13505

### 5、 Existing Tax Rates

Grade	Monthly Taxable Income	Rate(D)	Instant Deduct ( E )
1	≤500	5%	0
2	500≤2,000	10%	25
3	2,000≤5,000	15%	125
4	5,000≤20,000	20%	375
5	20,000≤40,000	25%	1,375
6	40,000≤60,000	30%	3,375
7	60,000≤80,000	35%	6,375
8	80,000≤100,000	40%	10,375
9	>100,000	45%	15,375

## **Income Tax= ( A-B-C ) ×D-E**

### 6、 Monthly deduction for expatriates

The existing monthly deduction for expatriates (foreigners, residents of Hongkong, Macau and Taiwan) is RMB 4,800, remaining unchanged.

## **Conclusion**

It is clear the IIT amendments will give tax relief to low and medium income earners while subjecting high income earners (which most foreign expatriates living in China qualify as) to a greater tax burden. This reform can be viewed as part of a national strategy to address income disparity and redistribution. In

order to ensure a smooth transition, companies will have to work with their HR, finance, tax and other administration departments to update their IIT compliance process.