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RSM Tax Advisory (Hong Kong) Limited

羅申美稅務諮詢有限公司

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SIMPLIFICATION OF IIT WITHHOLDING ON CERTAIN TAXPAYERS

On 4 December 2020, the State Taxation Administration (“STA”) issued the Announcement [2020] No. 19 – “Announcement of the State Taxation Administration on Further Simplifying and Optimizing the Individual Income Tax Withholding and Prepayment on Certain Taxpayers” (“Announcement 19”). The Announcement covers relevant matters concerning the simplification and optimization of Individual Income Tax (“IIT”) withholding and prepayment on two types of taxpayers.

In this Tax Flash, we will provide you the salient points of Announcement 19.

1. BACKGROUND

The STA issued Announcement 19 allowing withholding agents to temporarily not withhold and prepay IIT for two types of resident taxpayers. It is set out to further support stable and secure employment, stimulate consumption and facilitate the building of a new development pattern. The Announcement also aims to enable most taxpayers to accurately prepay taxes in the pre-withholding process and effectively reduce the tax burden.

Announcement 19 shall take effect from 1 January 2021.

2. Types of Eligible Resident Taxpayers

Announcement 19 will be applicable to resident taxpayers who meet the following conditions:

Type 1	Type 2
✓ withheld IIT on wages and salaries by the same employer on monthly basis during the last full tax year	✓ withheld IIT in accordance with the accumulative withholding method on remuneration for personal services by the same unit on monthly basis during the last full tax year
✓ annual wages and salaries (including annual one-off bonus, before deducting any expenses and exempted income) do not exceed RMB60,000	✓ accumulated remuneration for personal services (before deducting any expenses and exempted income) do not exceed RMB60,000
✓ continue to be employed by the same employer in current tax year since January	✓ continue to receive remuneration from the same unit in current tax year since January

3. Simplified Withholding and Prepayment Method

According to Announcement 19, eligible taxpayers will not have to withhold and prepay IIT on months when their current year accumulative income does not exceed RMB60,000. From the month when their accumulative income exceeds RMB60,000, they should start withholding and paying the IIT.

The withholding agent shall continue to handle the withholding and declaration of IIT for all employees and in full amount in accordance with the regulations. At the same time, the withholding agent should indicate in the remarks column of the relevant taxpayer on the “Individual Income Tax Withholding Declaration Form” 《个人所得税扣缴申报表》 that “declaration has been made for each month in the previous year and the an annual income does not exceed RMB60,000” “上年各月均有申报且全年收入不超过6万元”.

Example:

Mr. Chan is the employee of Alpha Limited in 2020 (January to December) and received annual wages and salaries of RMB50,000. The withholding agent withheld and declared IIT for all employees and in full amount for 2020 (January to December). In 2021, Alpha Limited pays Mr. Chan RMB8,000 per month.

Withholding and prepayment method could be as follows:

Period	IIT to be withheld under current regulations	IIT to be withheld under Announcement 19
January	$(8,000 - 5,000) \times 3\% = \text{RMB}90$	Accumulative income not exceeding RMB60,000; no withholding
February	$(8,000 \times 2 - 10,000) \times 3\% - 90 = \text{RMB}90$	Same as above
March	$(8,000 \times 3 - 15,000) \times 3\% - 180 = \text{RMB}90$	Same as above
April	$(8,000 \times 4 - 20,000) \times 3\% - 270 = \text{RMB}90$	Same as above
May	$(8,000 \times 5 - 25,000) \times 3\% - 360 = \text{RMB}90$	Same as above
June	$(8,000 \times 6 - 30,000) \times 3\% - 450 = \text{RMB}90$	Same as above

Period	IIT to be withheld under current regulations	IIT to be withheld under Announcement 19
July	$(8,000 \times 7 - 35,000) \times 3\% - 540 = \text{RMB}90$	Same as above
August	$(8,000 \times 8 - 40,000) \times 3\% - 630 = \text{RMB}90$	$(8,000 \times 8 - 60,000) \times 3\% - 0 = \text{RMB}120$
September	$(8,000 \times 9 - 45,000) \times 3\% - 720 = \text{RMB}90$	$(8,000 \times 9 - 60,000) \times 3\% - 120 = \text{RMB}240$
October	$(8,000 \times 10 - 50,000) \times 3\% - 810 = \text{RMB}90$	$(8,000 \times 10 - 60,000) \times 3\% - 360 = \text{RMB}240$
November	$(8,000 \times 11 - 55,000) \times 3\% - 900 = \text{RMB}90$	$(8,000 \times 11 - 60,000) \times 3\% - 600 = \text{RMB}240$
December	$(8,000 \times 12 - 60,000) \times 3\% - 990 = \text{RMB}90$	$(8,000 \times 12 - 60,000) \times 3\% - 840 = \text{RMB}240$
Total IIT Withhold	RMB1,080	RMB1,080

POINTS TO NOTE

Under Announcement 19, both individual taxpayer and employer (withholding agent of employee) should consider the following:

Period	Taxpayer	Employer
Before 1 January 2021	<ul style="list-style-type: none"> - access whether the conditions set out in Announcement 19 are met - inform withholding agent if qualified and provide the relevant information/document for reference 	<ul style="list-style-type: none"> - review the 2020 withholding and declaration status of the employees and service providers, together with the 2021 projection of employment/services status in order to come up with a list of qualified taxpayers - update the IIT calculation and withholding procedure accordingly
1 January 2021 onwards	<ul style="list-style-type: none"> - confirm with withholding agent if the withholding under current regulations is preferred before the IIT withholding and declaration in January mechanism - update employer/service unit if Announcement 19 is no longer applicable 	<ul style="list-style-type: none"> - confirm with employees and service providers whether the withholding before the IIT withholding and declaration in January mechanism under current regulations is preferred - keep track of accumulated annual income for the relevant individuals to ensure that IIT withholding will initiate when it exceeds RMB60,000 - re-confirm the list of qualified taxpayers at the end of year

For further information on the above subject and to discuss the potential impact on your company and employees, please feel free to contact us.

RSM Tax Advisory (Hong Kong) Limited

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- Assist clients to discuss and clarify matters with tax officials, including transfer pricing and advance rulings
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Mr. Eric Chen
T +852 2583 1259
E ericchen@rsmhk.com

Mr. Samuel Chan
T +852 2583 1242
E samuelchan@rsmhk.com

Ms. Lilian Poon
T +852 2583 1241
E lilianpoon@rsmhk.com

Mr. Patrick Ho
T +852 2583 1258
E patrickho@rsmhk.com

Mr. Caesar Wong
T +852 2508 2851
E caesarwong@rsmhk.com

Ms. Catherine Tsang
T +852 2583 1256
E catherinetsang@rsmhk.com

Ms. Joanna Lee
T +852 2583 1317
E joannalee@rsmhk.com

Mr. Alan Chow
T +852 2583 1378
E alanchow@rsmhk.com

Ms. Catherine Wong
T +852 2583 1396
E catherinewong@rsmhk.com

RSM Tax Advisory (Hong Kong) Limited

29th Floor, Lee Garden Two
28 Yun Ping Road
Causeway Bay, Hong Kong

T +852 2598 5123
F +852 2598 7230
E tax@rsmhk.com

www.rsmhk.com

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