2021 (No. 14 issue)
September 2021

Double dip to China's expatriates' wages

Contacts

China

Martin Ng
Managing Partner
martin.ng@wts.cn
+ 86 21 5047 8665 ext.202

Ened Du
Associate Partner
ened.du@wts.cn
+ 86 21 5047 8665 ext.215

Elena Chen
Senior Consultant
elena.chen@wts.cn
+ 86 21 5047 8665 ext.230

In brief

» Expatriates working in China will face a double-dip hit to their wages due to the changes to Chinese individual income tax (IIT) and social security (SS) policies.

» New changes will result in an extra cost to both parties, employers and employees (expatriates).

In detail

» Taxation changes

Expatriates in China will soon face a challenge to their current individual income tax (IIT) position. Their tax privilege in a transitional practice for years is expiring on 31 December 2021. Unless a renewal is granted, they should be prepared to bid farewell to their current tax benefits.

Ending tax break for three allowances

To expatriates, the current tax-free treatment to three types of perks will go away on 31 December 2021. Housing rental, child education and language training costs will no longer be fully deductible.

Caution: They will be replaced by six types of limited and itemized deductions capped at a very low level (*see table below*). What's more, the new deductions are available to only those technically categorized as China tax residents (it refers to those having stayed in China for 183 days or more in a calendar year). Non-tax residents cannot claim such deductions.

Before (till 31 December 2021)		**After** (from 1 January 2022)	
Personal expenses	Tax-free amounts	Items	Deductible amounts (CNY)
1. Housing rental		1. Housing rental	1,500 / month (e.g. Shanghai)
2. Children education		2. Children education	1,000 / child / month
3. Language training		3. Continuing education	400 / month
4. Home country visit		4. House loan interest	1,000 / month
5. Relocation	Actual expenditure	5. Elderly support	2,000 / month in a one-child family; otherwise, ≤1,000 / month
6. Meal		6. Medical treatment for major illness	≤80,000/year
7. Laundry			
8. Travel			

Ending tax relief for bonus

The current tax-relieved practice to a bonus will also go away on 31 December 2021 – which for the time being allows a taxpayer to treat a bonus separately from the consolidated income in IIT calculation. The effect is that it will hit a lower monthly IIT rate by spreading it over twelve months.

Caution: From 1 January 2022, such relief will be removed. The bonus must be included in the consolidated income for IIT calculation, resulting in a higher IIT rate, and thus a heavier tax burden.

» Social security policy change

Social security scheme (SS) exemption for expatriates will go away. For some years, it never seemed mandatory for expatriates to join the Chinese SS schemes. The "Interim Measures" (Decree No. 16, issued in 2011 by the Ministry of Human Resources & Social Security) has been requiring SS participation, but Shanghai's local rule suggests that expatriates "may" contribute to the basic pension, medical and occupational injury insurance. Thus, in practice, many have taken a voluntary approach and chosen not to join.

Caution: Shanghai's local rule expired on 15 August 2021. There is no sign of its extension. It is understood as an effort to harmonize with the national practice, making now the SS scheme mandatory for all expatriates working in Shanghai.

Same as the national structure, Shanghai's SS scheme consists of contributions from employees and employers. The scheme's contribution base and rates are the same as those for Chinese nationals, usually subject to annual adjustments.

Below is an example of Shanghai's base cap and rates (valid from 1 July 2021 to 30 June 2022). An expatriate in Shanghai will have to contribute CNY 3,256.47 / month in total, and an employer to contribute over CNY 8,000 / month, using the base cap as an example. In most cases, an expatriate's salary would exceed the base cap, and thus the base cap should apply.

Shanghai SS scheme					
Items	Base cap	Employee		Employer	
		Rate	Monthly pay (CNY)	Rate	Monthly pay (CNY)
Pension	31,014	8%	2,481	16%	4,962
Medical		2%	620	10.5%	3,257
Unemployment		0.5%	155	0.5%	155
Occupational injury		n/a		0.16% -1.52%	50 - 471
Total		10.5%	3,256	27.16%-28,52%	8,423 - 8,845

Notes:

1) *Decimal values are rounded up;*
2) *Maternity: No employee's portion; employer's portion has been included into medical insurance.*

WTS China's observation

In effect, the said policy changes will mean a drastic cut to an expatriate's take-home pay and a surge in an employer's payroll cost.

In the few months leading to 1 January 2022, preparation should be considered to cope with the changes, including option simulations, optimization, backup plans, employee-employer communication, contract adjustments, and company policies amendments, etc.

Attention should also be paid to local policy updates. Some cities may grant local subsidies to offset the negative effects caused by the changes.

2021 (No. 14 issue)

September 2021

WTS

China Contact

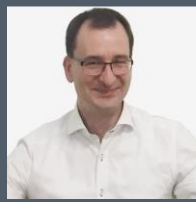
Martin Ng
Managing Partner
martin.ng@wts.cn
+ 86 21 5047 8665 ext.202

Ened Du
Associate Partner
ened.du@wts.cn
+ 86 21 5047 8665 ext.215

Elena Chen
Senior Consultant
elena.chen@wts.cn
+ 86 21 5047 8665 ext.230

Germany Contact

Ralf Dietzel
Partner
ralf.dietzel@wts.de
+49 (0) 89 28646 1745



Xiaolun Heijenga
Partner
xiaolun.heijenga@wts.de
+ 49-69-1338 456 320

WTS China Co., Ltd.
Unit 06-07, 9th Floor, Tower A, Financial Street Hailun Center,
No.440 Hailun Road, Hongkou District,
Shanghai, China 200080
T：+86 21 5047 8665
F：+86 21 3882 1211
www.wts.cn
info@wts.cn

WTS tax news on WeChat