



China extends multiple personal tax benefits to 2027

In brief

- » Ministry of Finance (MoF) and State Taxation Administration (STA) have won praise from individuals at work, foreign and Chinese, by announcing in one breathe a four-year extension to three set of soon-expiring employee-favored individual income tax (IIT) policies, postponing their expiry date to the end of 2027.

Feedback

WTS tax news on Wechat



2023 (No. 04 issue)

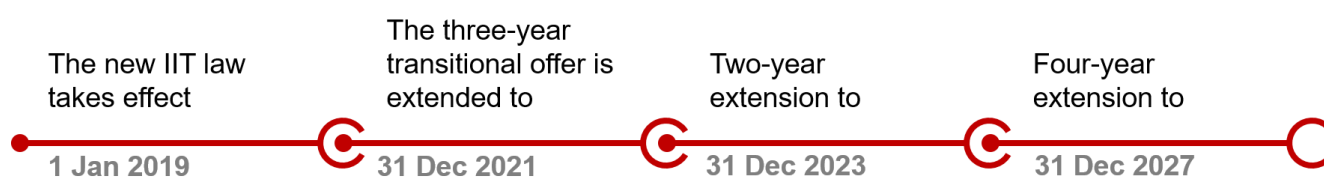
September 2023

In detail

The tax incentives revitalized again are those concerning employee stock ownership plan (ESOP) and annual bonuses for employees of all nationality, and living subsidies for expatriate staff in particular, as outlined below.

Income with IIT incentive	Tax Notice	Expiry date	New expiry date
A. ESOP	No. 25 of 2023	31 Dec 2023	31 Dec 2027
B. Annual bonus	No. 30 of 2023	31 Dec 2023	31 Dec 2027
C. Living subsidies	No. 29 of 2023	31 Dec 2023	31 Dec 2027

These IIT incentive policies have been renewed several times, for two or three years each time, depending on the ebb and flow of the economy. A straight four-year extension is considered unusual but is warmly welcomed by individual taxpayers.

**A. ESOP's tax incentive**

Employees, no matter what nationality, if categorized as Chinese tax residents in IIT filing, can continue to treat their ESOP income as a separate income, instead of as part of the comprehensive income. The rules of the policy remain unchanged as follows:

- ESOP covers stock options, stock appreciation rights, restricted stocks and equity rewards, etc.;
- ESOP income received more than once within a year should be aggregated and taxed together.

B. Annual bonus's tax incentive

All employees' annual bonus received within a calendar year can continue to adopt a preferential IIT filing method, i.e. the bonus can be taxed as a standalone income, separate from the monthly salaries - there is a chance that it may hit a lower IIT rate resulting in a lower tax liability. As it has always been, this benefit can only be used once per year even though an employee may receive several bonuses within a year.

C. Living subsidies' tax incentive



The living overheads of expatriate employees, when covered by their employers, can continue to be exempted from China IIT, which include the following:

- Relocation allowance due to employment adjustment;
- Housing allowance;
- Home leave allowance (two trips a year between China and an overseas hometown);
- Child education allowance;
- Language training allowance for an employee himself or herself; and
- Meals and laundry allowance.

WTS China observation


The government's above generous act conveys a message that talent recruitment and equity investment will continue to be a core part of the economy stimulation strategy. Yet it remains to be seen how the said policies will be dealt with beyond 2027 – the agenda keeps getting on employees' nerves whenever they are due to expire.

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