

## China IIT reform (special additional deductions)

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#### In brief

- » The new Individual Income Tax (“IIT”) laws have introduced six new deduction items for Chinese tax resident, called special additional deductions (SADs).
  
- » The six SADs are:
  - Children education
  - Continuation education
  - Serious illness medical expense
  - Housing loan interest
  - Rental
  - Elderly care

Feedback

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In Detail

In addition to our last issue on IIT reform’s impact on non-domiciled individuals, this issue focuses on elaboration on the SADs introduced by the new IIT laws.

1. Details of SADs

» Six types of new SADs are provided by the new IIT laws. In principle, they are applicable only to Chinese tax residents (irrespective of their nationality). Their details are summarized below:

Items	Standard (RMB)	Applicable scope	Applicable period	Support document	Applicable person	Reporting method
Children education	1,000 / month / child	Pre-school education	3 years old to the last month before primary school	Letter of admission and overseas study visa	50% / parent or 100% by one parent	Monthly withholding or annual reconciliation
		Diploma education	Starting month to ending month			
Continuation education	400 / month	Diploma education	Starting month to ending month (max. 48 months / diploma)	N/A	Taxpayer or parents (if bachelor degree or below)	Monthly withholding or annual reconciliation
	3,600 / year	Skill or professional education	The year when obtaining the certificate	Certificates	Taxpayer	Monthly withholding or annual reconciliation
Serious illness medical expense	Portion above 15,000 but capped at 80,000 / year	Qualified medical expenses borne by individual	The year when the expenses are incurred	Original or copies of receipts	Taxpayer or spouse	Annual reconciliation
Housing loan interest (Note 1)	1,000 / month	First-house loan interest	Starting month to ending month of repayment, (max. 240 months)	Loan agreement and payment receipts	Taxpayer and / or spouse	Monthly withholding or annual reconciliation
Rental (Note 1)	1,500, 1,100 or 800 depending on city	Taxpayer or spouse has no property	Starting month to ending month of rental agreement	Lease agreement	Lessee of the rental agreement (Note 2)	Monthly withholding or annual reconciliation
Elderly care	Single child: 2,000/ month	Parents aging 60 or above or other legally designated person	First month the dependent reaches 60 in age to the year end of support termination	N/A	Taxpayer	Monthly withholding or annual reconciliation
	Non-single child: max. 1,000 / month			Allocation agreement	Split among taxpayer and siblings	

Note:

- 1) Housing loan interest deduction and rental deduction cannot be enjoyed at the same time.
- 2) Each spouse of a couple can enjoy the deductions separately if working cities are different.

**2. Reporting for SADs**

- » Employees can select to claim the deductions in their monthly filing handled by their employers or in an annual reconciliation. If an employee decides to claim in his / her monthly filing, the employers should accept the decision and process the monthly IIT filing with the deductions included.
- » The new IIT laws require employees and employers to cooperate with each other on IIT filings (e.g. reporting method, and submission of information, etc.).
- » It is required that the filing information and supporting documents related to SADs should be kept at least five years.

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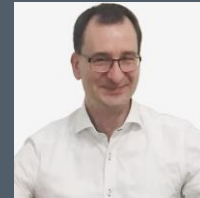
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