

# Special China tax alert

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## Urgent attention on staff matters in China

### » Staff secondment in Beijing banned

Companies may need to adjust their business model or structure due to a new short-noticed measure adopted by Beijing's social security funds (SSFs) authority.

From July 2020, HR agents (e.g. FESCO, CIIC) can no longer file SSFs in Beijing for staff seconded to work in Beijing by employers outside Beijing - commonly known as staff secondment. This might have a domino effect to other HR arrangements in Beijing, e.g. individual income tax (IIT) filings, work permits, child education, etc.

Companies should, with the highest priority, consider options to avoid SSFs discontinuity for Beijing staff. E.g. maintaining a company, a branch or a representative office in Beijing.

### » 20% or more salary cut to expatriates

From 1 January 2022, the current allowances for expatriates (housing rental, child education, meals, and language training) will cease to be IIT exempt – instead they will be replaced by six other deductions which are unfortunately capped at a very low level. This will result in a drastic cut to their take-home pay, as much as 20% in a typical example below on annual terms (four deductions are ignored in 2020, as they are usually irrelevant to expatriates):

	Now	Then (Jan 2022)
Annual salary	1,000,000	1,000,000
Deductions	(averaged assumptions)	(actual cap)
	200,000 (rental)	18,000 (rental)
	200,000 (child education)	24,000 (child education)
	120,000 (meal)	
	120,000 (language)	
IIT cost	43,000	230,000
After-IIT salary	957,000	770,000
% cut salary		- 20%

It is a good time now for employers to review their employment contracts, to address the transition from 2021 to 2022, e.g. how the salary should be adjusted, or how much the cost should be borne by the employer. Some employment contracts of executive-level expatriates will require a six-month or longer notice for any amendments. Early planning and communication can help enhance transparency and avoid disputes.

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