



Approaching Chinese IIT Law Reform of 2018: Challenges and Opportunities

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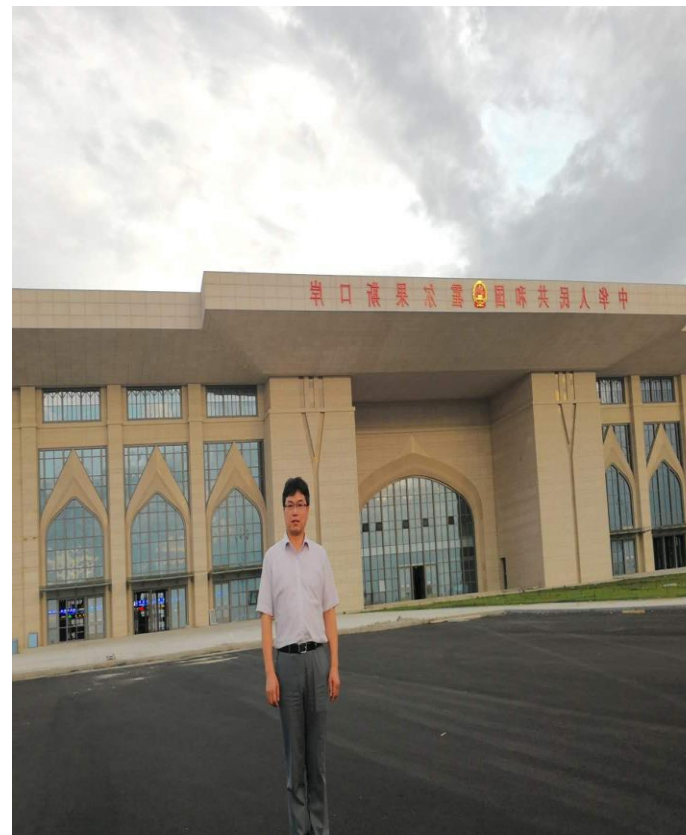
Related materials for the presentation:



Where is Horgos ?

What is special for it?

Any relation with the topic?





WUHAN
UNIVERSITY

Hotspot in social media and its' tax influence



PK





Related questions on tax matters:

Do rich people pay IIT properly? If not, how?

Who is responsible for IIT collection?

Why so many reductions of IIT for rich people?

What are the problems of IIT Law?



The framework of current IIT Law in China

Enacted in 1980, revised 6 times, 15 articles, 3000 words.

Scheduled taxation with 11 categories of income

Progressive rates for salaries and business income

Standard deductions for most of incomes



The framework of current IIT Law in China

Listed categories of income with administrative discretion.

Capital gains enjoy more benefits than labor income.

MOF and SAT decide tax exemption and interpretation.

Tax withholding system widely applied.



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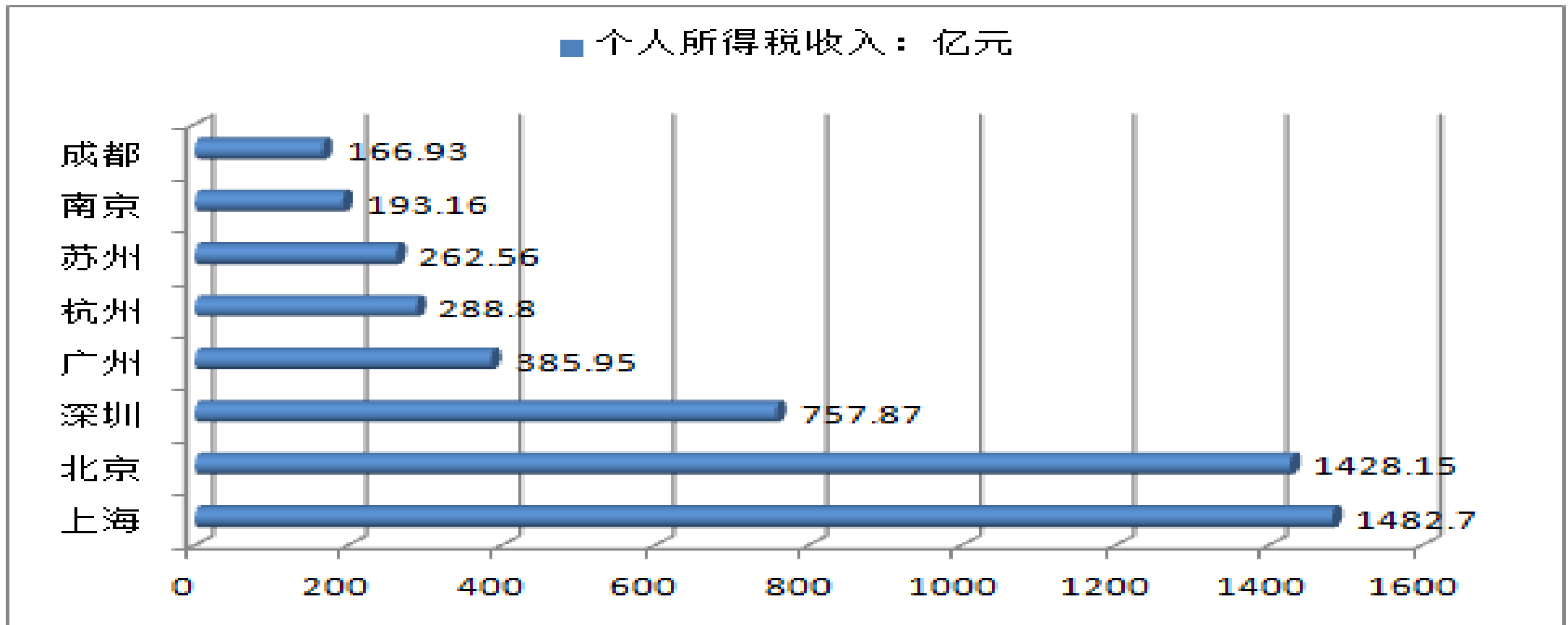


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IIT revenue structure of different cities in 2016



Data analysis:

IIT increased steadily since 2000, more than 10% annually after 2012.

Most of them came from big cities or developed areas.

Salary earners contributed to about 65% of the revenue.

Ranked third since 2017, only behind VAT and EIT



The controversies over IIT in China

Tax burden issues:

45% of marginal rate be too high for talented persons.

RMB 3500 of deduction be too low for city citizens.

Why family support elements be ignored?



The controversies over IIT in China

Tax equality issues:

Why marginal rate of labor income higher than capital income?

Why so many tax reductions for capital incomes?

Why foreigners enjoy special treatments in deductions ?

Why standard deductions are unified nationwide?



The controversies over IIT in China

Tax administration issues:

Tax information could not be exchanged nationally.

Popular presumptive levy with too much discretion

Filing system for higher income earners fails.

Tax evades and avoidances widely exist .



The controversies over IIT in China

Tax policy issues:

Which value prevails, equality or efficiency?

What is the main purpose, revenue-raising or income re-distribution?

Should local differences be taken into account?

How to keep advantages against international competition?



The social challenges China faces related to IIT reform

Economic reform encountered with great difficulties.

Income disparity widened, social contradictions intensified.

People demands more on justice, equality, freedom, fairness

Government' s capability needs to be improved.



The political supports for IIT Law reform

1. *3rd Session of 18th Plenary of CPPCC*: improve tax system, establish an inclusive regime of consolidated and scheduled IIT, implementing the doctrine of taxation by law

2. *The Report of 19th CPC Congress*. Deepen the reform of taxation;

3. *The Blueprint of Deepening Reform of Fiscal and Tax Regime*, by CPPCC, Establish the tax system which is beneficial to scientific development, social justice and market unification.



The ongoing process of IIT Law amendment in 2018

The State Council proposed revision of IIT Law to the Standing Committee of CPC.

June 19, first review by the Standing Committee

June 29, the draft IIT Law was publicized online for discussion.

Aug. 29, second review by the Standing Committee

Aug.31, amendment was approved with 157 votes in favor, 2 against, 11 abstentions, effective as of Jan.1, 2019.



Main changes of the publicized version of IIT Law

1. Raise the exemption for salary from 3500 per month to 5000.
2. Combine salary, service income, royalties and copyright remuneration as a single category, calculated and reported annually.
3. Apply progressive rates of 3-45% on general income, 3-35% on business income.
4. Other income subject to 20% rate and withholding system.
5. Include itemized deductions and additional itemized deductions.
6. Add GAAR clause to prevent IIT abuse.
7. Further clarify the standard of non-residents and their tax obligations.
8. Ask relevant authorities to provide tax information to tax authority.



The main suggestions by public discussion

1. 45% rate was the hot point for discussion.
2. RMB 5000 of salary deduction faced fierce criticism.
3. Deduction for service income, royalties and copyright remuneration were widely demanded.
4. Capital gains be included into comprehensive category and be equally taxed with labor incomes.
5. The support expenses for elders should be taken into consideration.
6. Each shall share same opportunity to reduce liabilities from this revision.



Main changes of the 2nd reviewed version

1. The category of *Other income* was deleted.
2. Admit 20% of deduction for service income, royalties and copyright remuneration.
3. Additional itemized deduction will be determined by State Council.
4. Tax exemption or reduction shall be decided by State Council and report to the Standing Committee for record and review.
5. Deduction of supporting expenses for elders was recognized .



Why 5000 is appropriate as minimum standard of deduction?

Ministry of Finance:

1. Average consumption spending in urban areas is RMB 4200 in 2018 based on Statistics.
2. Additional itemized deduction will bring more benefits to taxpayers.
3. Only 15% of urban citizens are expected to be caught by the new rule, compared with 44% under current regulation.
4. 2 new deductions are added, i.e. itemized deduction for elder support and 20% deduction for service income, royalties, copyright remuneration.



Comments on the 2018 revision of Chinese IIT Law

A good compromise among different groups.

Stick to structural adjustment, 增底、扩中、调高.

Keep balance between equality and efficiency.

Rules are not very complicated , easy for use.

Room left for improving tax administration



Outlook for further adjustment

1. Reduce marginal rate of 45% to 35% for comprehensive income.
2. Improve application taxation of business income to partnerships.
3. Set quota for additional itemized deductions, not based on fact report.
4. Clear up tax preferential policies for capital incomes.
5. Advance database interconnection to reduce filing burden.
6. Clarify definition for terms and terminologies.
7. Let local governments have saying on deduction standard.
8. Strengthen countermeasures to prevent evades and avoidances.

Thanks for your attention!

