

Tax update

-Non-taxable Benefit Arrangement for Foreign Nationals

16 March 2021

Agenda

- ▶ Recap on non-taxable benefit arrangement
- ▶ Regulation changes on non-taxable benefit arrangement after China IIT reform



Team Member Introduction



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Recap on non-taxable benefit arrangement

Introduction of non-taxable benefit arrangement

Basic principle

- Widely adopted by companies with foreign national employees working in China as tax planning opportunity
- Arrange applicable benefits in-kind in form of actual reimbursements or paid directly by the company to third party so as to be tax exempt, provided that certain conditions are met

Conditions TEP (*"Tax Efficiency Program"*) arrangement:

The employee is a foreign passport holder

Expenses paid directly to vendor OR paid on reimbursement basis

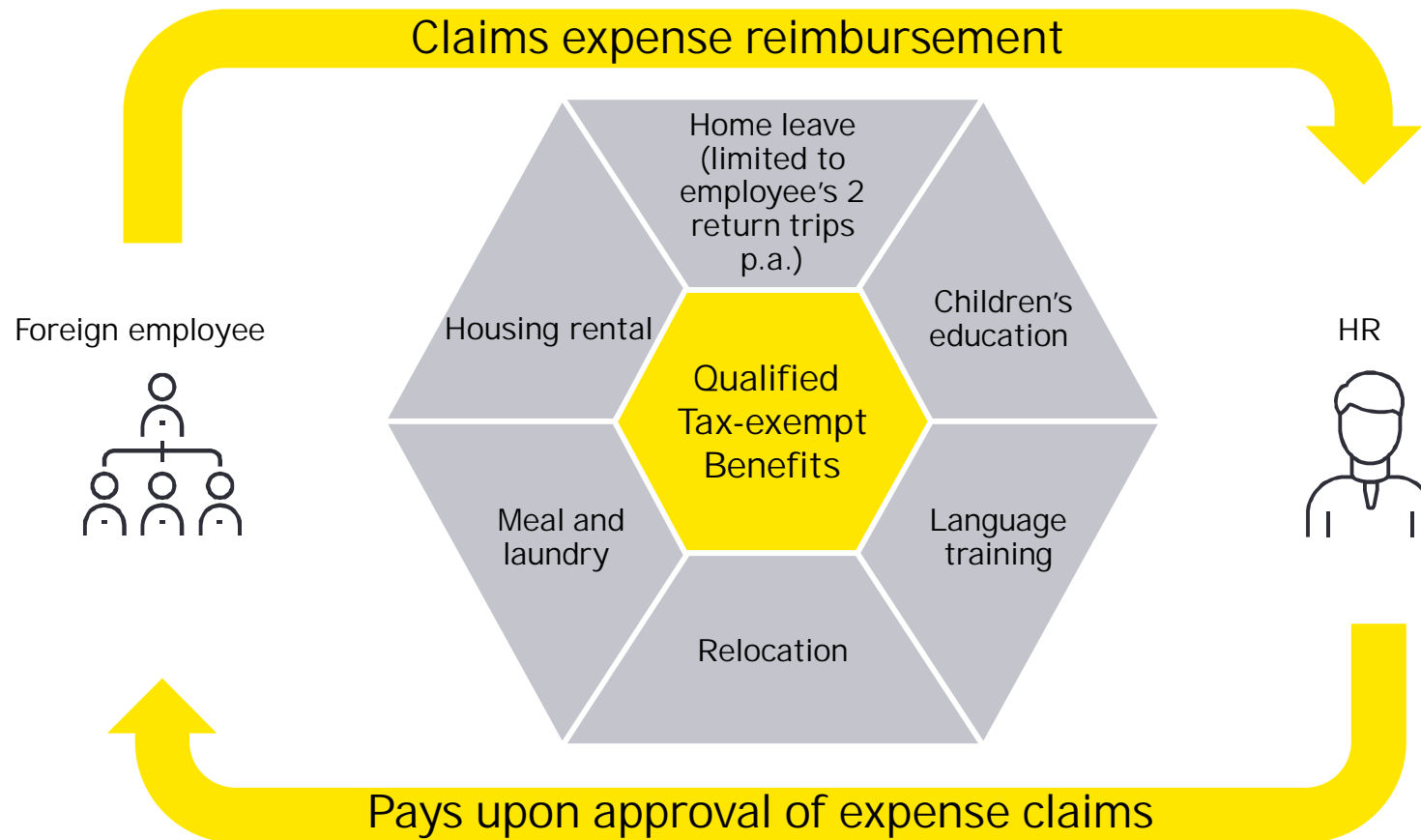
All expenses must be supported by valid documents including original fapiao (meaning tax invoice), lease agreement, etc.

Accounting/ payroll/ employment contract shall reflect occurrence and arrangement of the expenses

Recap on non-taxable benefit arrangement

Introduction of non-taxable benefit arrangement (Cont'd)

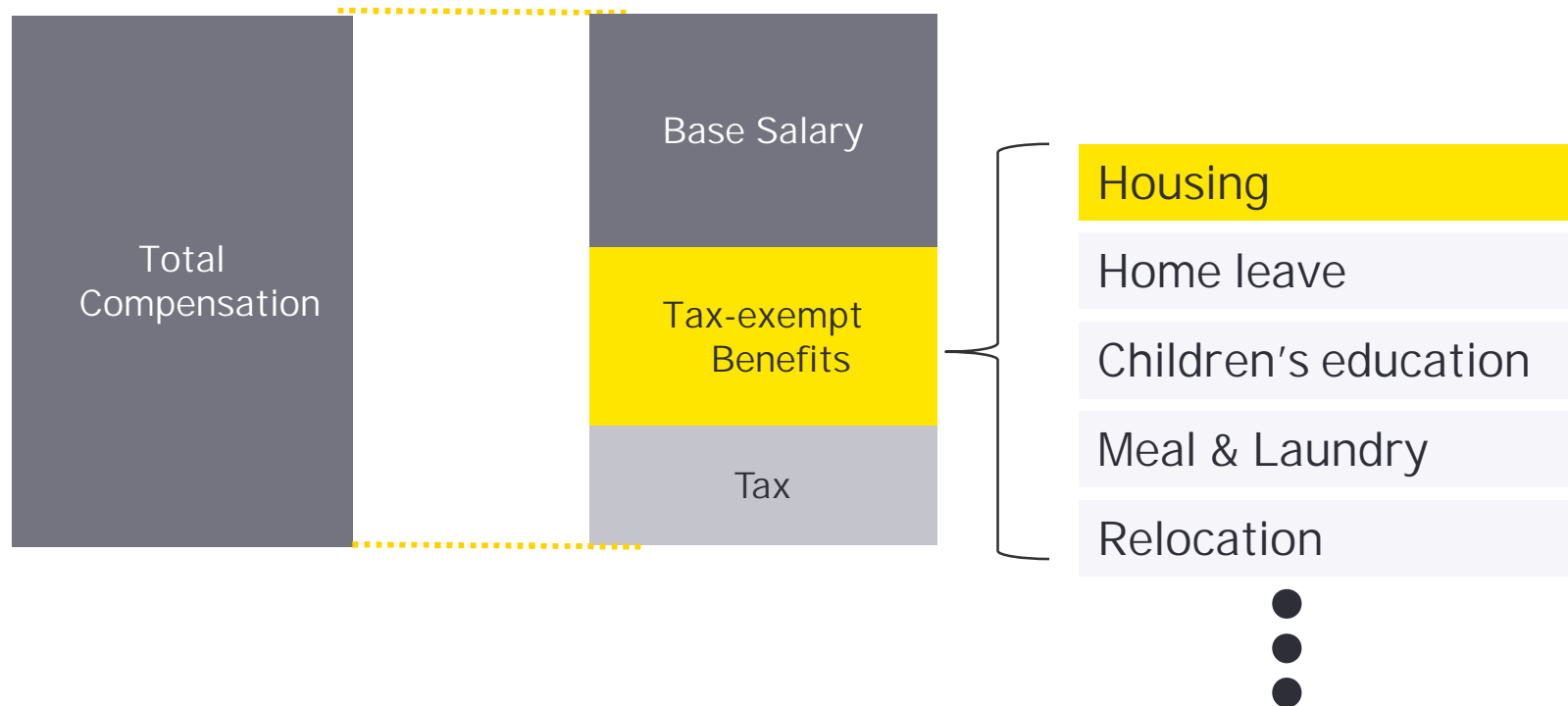
Tax-exempt benefits reimbursement under TEP



Recap on non-taxable benefit arrangement

Introduction of non-taxable benefit arrangement (Cont'd)

Restructure part of compensation as tax-exempt benefits



Recap on non-taxable benefit arrangement

Introduction of non-taxable benefit arrangement (Cont'd)

By implementing the non-taxable benefit arrangement, the below points shall be achieved in order to mitigate compliance risks

- Proper Non-taxable benefit policy and reimbursement process
- Tax registration for non-taxable benefit arrangement
- Proper fapiao verification process
- Reasonableness of the expenses
- Sufficient documentation/evidences of reimbursements.

Points to be noted on non-taxable benefit arrangements

- Strengthened IIT administration - focusing on non-taxable benefits for foreign employees/assignees.
- Tax audits on non-taxable benefit arrangement

Recap on non-taxable benefit arrangement

Illustration of Non-taxable benefit arrangement

Example – Comparison Before and After Non-taxable benefit arrangement:

Compensation	Annual (RMB) Before Non-taxable benefit arrangement	Annual (RMB) After Before Non-taxable benefit arrangement
Base salary		900,000
Fringe Benefits (including housing, children tuition, Chinese language training)	1,260,000	360,000
Total Salary and Benefits	1,260,000	1,260,000
Taxable income	1,200,000	840,000
China IIT	358,080	208,080
Net cash taken home	901,920	1,051,920

Note:

1. The above estimation is based on the assumption the individual is a China tax resident and therefore the annual tax rated is adopted.
2. The estimation is based on the assumption the individual is responsible for China IIT.
3. The above amounts are used for illustration purpose only. They should not be used as a guidance.

**Tax Saving:
150,000**

Regulation changes on non-taxable benefit arrangement after China IIT reform

From 1 January 2022 onwards

- Non-taxable benefits for housing, children education and language training will be abolished from 1 January 2022.
- Specific additional tax deductions could be an alternative
- Significantly increase in employment costs for companies if the company would bear China IIT for the employees.

Please find the cost burden comparison on the next page.

Regulation changes on non-taxable benefit arrangement after China IIT reform (Cont'd)

Example – Cost Burden Comparison (from 1 January 2022)

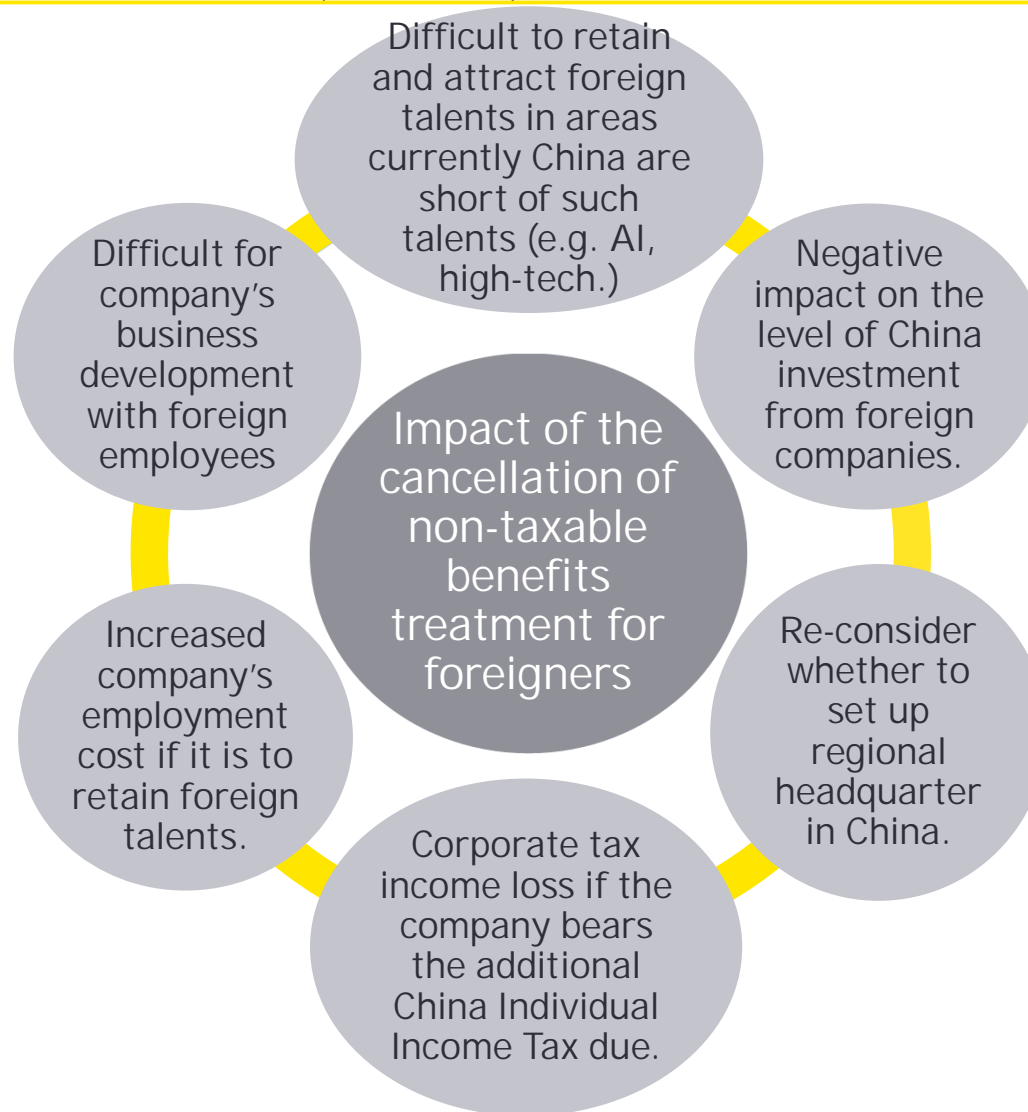
	Annual housing expenses	Annual schooling fee for one child	Annual Chinese language training fee	Total Benefits Amount
Fringe Benefits	240,000	200,000	20,000	460,000

	Treatment starting from 2022: taxable benefit	
	LHF (tax liability borne by employee)	Expats (tax liability borne by employer)
Additional IIT burden	207,000	376,363.64

Note:

1. The above illustration is prepared based on the assumption the individual is subject to the highest marginal tax rate of 45% and the additional tax liability will be borne by the company.
2. As the tax impact on the specific additional tax deductions for the 3 items are immaterial, it is not considered in the cost burden comparison.

Regulation changes on non-taxable benefit arrangement after China IIT reform (Cont'd)



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APAC no. 03012026
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