



TAX BRIEF

2010 Individual Income Tax

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Further Information

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Tax Payment Receipt: Information Rights Respected By Tax Authority

SAT is making great efforts to fulfill its commitment of “Law Based Administration” and “Respecting Citizen Rights”. As we all remembered, last year SAT issued *Notice on Rights and Obligations of Taxpayers*, which clearly states that getting a payment receipt when taxes are paid is the taxpayer’s legal right. To put that into actual practice, it recently issued *Notice on Further Improving Works on Issuing Payment Receipts of Individual Income Tax*, making sure that taxpayers should know about their tax payments.

The Notice has provided respective methods for areas with different situations. When the taxes are directly paid to tax bureau, the tax bureau should issue receipts to taxpayers as demanded. Also, as in provinces where detailed withholding of full-amount and all-staff has been applied and other conditions were fulfilled, payment information would be notified through a lot of methods, such as direct receipt, online search and text message.

In case that above methods are not available, local authorities will adopt other measures. Necessary explanations will be made and withholding agents are required to publicize related information. We can assume that if this Notice could be well implemented, it would be a big step of China tax system development.

SAT Dedicates To Strengthen High Income Tax Management

Major management and monitoring contents of SAT	
Resource Distribution	<ul style="list-style-type: none"> a) Acknowledge the main resources of high-earners’ incomes b) Build database of high-earners’ income resources c) Perfect tax administrative institution.
Detailed Withholding Declaration	<p>Full-amount and all-staff declaration</p> <ul style="list-style-type: none"> a) Declaration by law b) Improve declaration quality c) Administrative penalty on violators



Self declaration of High-incomers	<ul style="list-style-type: none">a) Establish routine managementb) Cooperation and coordination with other departments
MIS of Individual Income Tax	<ul style="list-style-type: none">a) Publicize utilization of MISb) Collect data and centralize to the SAT
Major income items SAT focuses on	
Property Transfer Incomes	<ul style="list-style-type: none">a) Restricted stock transfer incomesb) Stock transfer incomes of non-listed companyc) House transfer incomesd) auction incomes
Interests, Dividends and Bonuses.	<ul style="list-style-type: none">a) Intensify management of companies' stock capital and registration capital converted from reserves.b) Investigate loan and interest-payment from individuals to natural persons, enterprises and other organizations, and levy individual income taxes based on interest incomes.c) Intensify management of nonproductive expenditure disbursed from companies and loan from investment enterprises by individuals.
Business and Operation Incomes	<ul style="list-style-type: none">a) Establishment and management of account-booksb) Cancellation registration management of unincorporated enterprisesc) management of consumption expenses of individual and production and business expenses in unincorporated enterprises
Remuneration Incomes	<ul style="list-style-type: none">a) Esp. high-paid projects (art performance, speech making, consulting, financing and full/part time training, etc).b) Comparative management of information from withholding declaration data and from Enterprise Income Tax declaration data.
Foreign Individual Incomes	<ul style="list-style-type: none">a) Coordinate with Police to obtain entry & exit information of foreigners, so as to provide legal basis for tax collection and offshore clearance.b) Cooperate with banks and foreign currency administrative, to manage tax certification for oversea payments, so as to control the finance transfer pass.c) Establish files of foreign individuals, to know remuneration standards of inbound enterprises and to emphasize on incomes derived within China paid by organizations out of China.



Restricted Stock Taxed as Property Transfer Incomes

Restricted stocks

U Scope

1. Original non-tradable shares between date of completion for equity division reform and date of trade resumption; transferred stocks and bonus stocks derived from the above between the date of trade resumption and the date of ban lifting.
2. Restricted stocks from companies firstly publicized and listed after 2006 reform, transferred stocks and bonus stocks derived from the above between the date of trade resumption and the date of ban lifting.
3. Other restricted stocks determined by Ministry of Finance and SAT jointly.

U Tax calculation

4. Taxable incomes = Transfer incomes of restricted stocks – (Original price + Reasonable taxes and fees)
5. Tax amount = Taxable incomes × 20%

U Subjects of tax relationship

6. Taxpayers: the owner of the restricted stocks
7. Withholding agents: Security Company where the individual stock owner opened his account.
8. Collector: tax authority where the security company located.

Collecting rules

U Restricted stocks before preparation of security company's technology and institution finished. — — Combination of both withholding and self-declaration

1. Declaration of pre-withholding of security company
For restricted stocks transformed from transfer stocks, the security company should calculate its transfer incomes by closing the date of price resumption date after the transformation; calculate its original price, reasonable taxes and fees by 15% of the transfer incomes; and calculate and withhold tax amount by transfer incomes minus original price and reasonable taxes and fees.
Withheld taxes should be paid to tax authority before the 7th day of next month.
2. Declaration and clearance of taxpayers
If taxpayers discovered that the tax amount calculated on actual transfer incomes and costs differed from withheld amount, they could apply for clearance within 3 months from the first 1st after withholding. It should be noted that the time limit is very strict.
 - a) Match rule: the incomes and costs must go with each other.
Transfer incomes should be calculated on actual incomes, original price must be calculated on actual costs. If complete and truthful certificates can not be provided for accurate calculation, 15% methods still fit.
 - b) Detailed transfer records are required, including trade date, time,



price, trade amount, account sum, commission, stamp tax, transfer fee and other fees.

c) Agency could be used when original copy of effective identity certificate and authorization are provided.

U Restricted stocks after preparation of security company's technology and institution finished. — Direct withholding

1. Security Company should directly calculate and withhold individual income tax on actual transfer incomes minus original price and reasonable taxes and fees. Original price would be set into the clearance system.

Withheld taxes should be paid to tax authority before the 7th day of next month.

Environmental Protection Influences Tax Reduction

The earth is our only home, to keep its clean and thriving is not only our mutual hope, but also in the State's prior consideration. Various measures have been adopted to protect the environment, and people are encouraged to do environmental friendly deeds. This certainly, has its reflection on Tax Policy.

Stipulated paragraph 1, article 4 of *Individual Income Tax Law*, Income taxes on science, education, technology, culture, medication, sport and environment protection bonuses distributed by provincial authority, Ministries of the State Council, army corps and foreign/international organizations are exempted.

On that basis, SAT issued a Notice, declaring that incomes from China Environmental Prize of the 6th were exempted, which was set up by China Environmental Protection Foundation (CEPF) to reward persons who had greatly contributed to our environmental career. Also, Incomes of China Environmental Prize appraised in future by law will be exempted in the same way.

Hwuason is a specialist tax practice dedicated to offering a complete range of tax and related legal services to domestic and international clients. The Firm practices in all areas of taxation law: income taxation, transactional taxes (VAT etc.), customs, and other incidental taxes.

For more information on the topics discussed in this briefing paper, please contact our International Tax Services team.

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