



**Newsletter No. 100 (EN)**

**Taxation of foreign sourced salaries of Ex-  
pats living in China**

**November 2010**

A question regularly raised by Expats living in China refers to the taxation and declaration obligations of their foreign sourced salary income in China.

The relevant salaries are typically paid and borne by a foreign (group) company. This is typically a situation where the expat has two or more functions, often one local and one regional responsibility, e.g. a China Managing Director who at the same time is a Asia-Pacific Director. For the two roles he would have one employment contract with the China entity and a second for example with the headquarter company.

A differentiation needs to be made between the obligation to declare income and the actual taxation.

Generally, two different tax returns have to be made. A monthly tax return being the basis for the monthly IIT payment. This return has to be filed with the in charge tax office by the 7th day of the following month. Furthermore, an annual

return is to be filed generally by 31 March of the following year.

**1. Tax computation for non-domiciled employees**

Expatriates, without a domicile in China and who have resided in China for less than 90 days in a year or less than 183 days where a tax treaty is applicable, are taxable under China IIT only with regard to their China sourced income („time apportionment“). Only that portion of the income is taxable in China that is received for the actual work time in China and which is paid or borne by a Chinese employer.

In the computation of monthly IIT both the income from within China as well as the portion from offshore needs to be taken into consideration.

According to Guo Shui Fa [2004] No. 97 in connection with Guo Shui Fa [1994] No. 148 the computation of the IIT is as follows:

$$\begin{aligned}
 & \textbf{Individual Income Tax payable} = \\
 & (\text{amount of taxable income derived from wages and salaries earned in and } \underline{\text{outside China}} \text{ in the current month } X \text{ applicable tax rate} - \text{quick calculation deduction}) \quad X \\
 & \frac{\text{wages paid for working in China in the current month}}{\text{total wages paid for working in and outside China in the current month}} \quad X \\
 & \frac{\text{number of working days in China in the current month}}{\text{number of days in the current month}}
 \end{aligned}$$

This formula is applicable for all non-Chinese including Senior Management. So generally, foreign income has to be included in the calculation for the determination of the taxable income and the IIT and is thus part of the IIT declaration with regard to the time apportionment.

**2. Annual IIT filing**

An annual filing has to be filed by employees who:

- a Receive a salary above 120,000 RMB (around 13,000 EUR) and resides in China for a full year. The requirement of a full year residence is not

- fulfilled where a person spends more than 30 days in one trip outside of China or spends in total more than 90 days during a calendar year outside of China or
- b) Receives income from more than one employer or
  - c) Receives other foreign sourced income or
  - d) Receives income for which there is no withholding agent.

In the case of a), b) and d) the filing deadline is 31 March of the following year. In case of c) the filing deadline is 30 January of the following year.

This regulation is being applied slightly differently in various locations. It is therefore advisable to check with the in charge tax office when to file and what to declare in the return.

The annual filing form has a separate column to declare non-China sourced income (see attachment).

### **3. Declaration of non-China sourced income according to the “Provisional Measures on the Personal Lodging of Individual Income Tax”**

Art. 5 of the Provisional Measures clarifies how non-China sourced income has to be declared in China for cases where tax has already been paid in another country. The taxpayer has to file a tax return with his in charge tax office within 30 days after the end of the foreign tax year. This applies in cases where the tax becomes due upon the end of the foreign tax year. If the tax is due in the foreign country at the time of receiving the income then the tax filing is due on 30 January of the year following the receipt of the income. This also applies in case the income is tax exempt in the foreign country.

### **4. Summary**

Non-China sourced income has to be considered in various circumstances in the Chinese tax declarations. This is similar to international standards. Such information is increasingly being used to do information exchange with tax authorities in other countries. It is therefore highly important to prepare such tax declarations in accordance with all regulations and compliance requirements.

**ATTACHMENT**

个人所得税年度申报表

INDIVIDUAL INCOME TAX ANNUAL RETURN 纳税月份:

自 年 月 日至 年 月 日 填表日期: 年 月 日

Taxable month: From\_date\_monthyear Date of filling\_date\_\_month\_\_year  
to\_date\_\_month\_\_year 金额单位:

人民币元 Monetary unit: RMB Yuan

纳税人编码: Tax payer's file number:
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纳税人姓名 Tax payer's name	国籍		抵华日期									
在中国境内住址 Address in China	省、市、县、街道及号数 (包括公寓号码) Street name and number (including number of apartment.) _____ 公寓 Apartment _____ 街道 Street _____ 县/市 County/City _____ 省 Province											
在中国境内通讯地址 (如非上述住址)	邮编	电话										
职业 Profession	服务单位	服务地点										
中国境内所得已纳税额 Amount of income tax paid in China			境外所得应纳税额 Tax on <b>income from sources outside China</b>									
所得项目 Categories of income	所得期间	应纳税所得额	已纳所得税额	自缴或扣缴 self-report-	所得项目	收入额	减费用额	应纳税所得额	税率	速算扣除数	应纳税所得额	境外已缴税额

*We hope that the information provided herein was helpful for you and your business. If you have any further questions, please do not hesitate to contact us at*

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