



COMMENTARY ON TAX ALLOWANCES AND TAX-FREE BENEFITS IN KIND FOR EXPATRIATES UNDER IITL 2018

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The Chinese Ministry of Finance (“MOF”) and State Administration of Taxation (“SAT”) have also provided the public with an exposure draft on the details of personal allowances provided under the new individual income tax law (“IITL 2018”) in addition to the standard allowance of RMB 60,000/year or RMB 5,000/month. Such additional allowances are designed to address individuals’ personal circumstances, including:

1. **Child education allowance** as a standard deduction of RMB12,000/year or RMB1,000/month for each child receiving formal education ranging between preschool and doctorate degree programs.
2. **Self-continuing education allowance** as a standard deduction of RMB4,800/year or RMB400/month for an individual taxpayer receiving education leading to formal academic qualifications. The RMB4,800 annual deduction applies during those years when the individual is pursuing such qualifications. A taxpayer pursuing professional or vocational qualifications is granted a standard deduction of RMB3,600 in the year when the qualification is obtained.
3. **Medical cost of illness** as a deduction on actual basis for qualified medical spending above RMB15,000 during a year, but limited to RMB60,000.
4. **Mortgage interest** on loans obtained for the first purchase of a property for residential use by the owner or his spouse, as a standard deduction of RMB12,000/year or RMB1,000/month. This amount can also be allocated between husband and wife for their first jointly-owned residential property. Both husband and wife may elect for the benefit of the deduction for a particular year.
5. **Rental cost** as a standard deduction of RMB9,600/year or RMB800/month for renting a residential property situated in a city with registered population less than 1 million; RMB12,000/year or RMB1,000/month where the city’s population is above 1 million; and RMB14,400/year or RMB1,200/month where the city is a provincial capital, equivalent or above.

6. **Elderly relatives' allowance** as a standard deduction of RMB24,000/year or RMB2,000/month for a single child providing financial support to parents or grandparents. An individual who is not a single child has to share the deduction between siblings or as specified by the seniors receiving support.

Tax-free benefits in kind for expatriates

Interestingly, expatriates or foreign nationals, as defined in the exposure draft, may elect to enjoy these additional allowances set out above or to continue the taxation of benefits in kind under the existing practice with respect to school fees, language training and housing allowances. In other words, employers can continue to provide various tax-free benefits to expatriate employees, in line with the country's policy of attracting foreign talents to work in China.