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A GUIDE TO EXPAT TAXES & SOCIAL SECURITY IN CHINA

Do you consider a job with a foreign company in China, or do you consider sending an employee on assignment to China? Expat relocations offer great opportunities for both employers and employees, but it does come with some understanding of the local tax and social security requirements. Here you will find the answers to your questions.

Do you need to pay social insurance premiums?

Foreigners working in China may participate in social insurance schemes. One does, however, always have to keep in mind that different regions apply different provisions.

In general, when an employer in China employs a foreigner, the employer and the foreigner shall pay the premiums of (1) basic endowment insurance for employees (pension), (2) basic medical insurance for employees, (3) unemployment insurance, (4) maternity insurance and (5) work-related injury insurance. Note that, in practice, there are no unemployment benefits for foreign employees, as a foreigner not employed in China will not be permitted to continue living in China.

The domestic work entity needs to go through the social insurance registration for the employed foreigner within 30 days of the date on which an employment certificate is handled. After registration, the employer is obligated to withhold the applicable social contributions of employees from payroll for onward payment, together with the employer's contributions.

As mentioned before, there are some notable exceptions to the rules set out above. Shanghai, for example, has not adopted these national standards. Therefore it is still not mandatory for Shanghai employers to contribute social insurance for their foreign employees. Next to that, there are some countries that signed a social security treaty with China. Such treaties may allow foreign employees to be partially insured for social security in their home country, for a period capped at certain years. These kinds of treaties mostly do not apply to all social security components and of course these bilateral treaties differ per country.

What happens to pension contributions when leaving China?

If any foreigner leaves China before reaching the required pension age, the individual social insurance account shall be kept and if the foreigner will be employed in China again, the number of years for which social insurance premiums are paid shall be calculated on an accumulative basis. If the social insurance relationship is terminated upon a written application of the foreigner, the deposit amount of the individual social insurance account may also be paid to the foreigner in a lump sum.

What are the rates and calculations for social security?

The monthly employer and employee social contribution rates and caps in Shanghai and Beijing are as follows:

	SHANGHAI		BEIJING	
Social Insurance Items	**Employee's portion**	**Employer's portion**	**Employee's portion**	**Employer's portion**
1. Pension	8%	20%	8%	19%
2. Medical	2%	10%	2% +RMB 3	10%
3. Unemployment	0,5%	1%	0.2%	0,8%
4. Maternity	0%	1%	0%	0,8%
5. Injury	0%	0.2-1.9%	0%	0,2-2,85%
Total	10.5%	32.2-33.9%	10.2%+RMB 3	30.8-33.45%
Ceiling for monthly salary base	RMB 17,817	RMB 17,817	RMB 21,258	RMB 21,258
Maximum monthly contribution	RMB 1,871	RMB 5,737– RMB 6,040	RMB 2,171	RMB 6,547– RMB 7,111

Read more on this website:
http://taxsummaries.pwc.com/uk/taxsummaries/wwts.nsf/ID/Peoples-Republic-of-China-Individual-Other-taxes

What do you need to know about the Housing Fund?

Next to the five social insurances, there is a so-called 'Housing Fund' in China. This fund stands out from the other types of welfare, both in regulation and administration. The fund allows employees to save money towards buying property or renting a house. If an employer and an employee agree on the optional participation, they will have to pay on a 50/50 basis. Again, different provisions apply in different regions, so foreigners are not always allowed to join a Housing Fund. As of October 2015, foreigners are allowed to join the Housing Fund in Shanghai, when they are employed by local employers and get working permits and residency permits in the city.

Am I subject to individual income tax?

Foreigners residing in China are subject to Individual Income Tax ("IIT"). Whether an employee is subject to IIT in China depends on income source and time period spent in China.

There are different sources of income. China-sourced income refers to income paid by the employer (both domestic and foreign) during the period the employee provides services under employment in China. Non-China sourced income refers to income received when working outside the territory of China. The difference is important because of the following rules:

A. If an employee resides in China for **less than 90/183 days** (depending on whether the foreigner is a resident of a PRC treaty country) continuously or cumulatively during a calendar year, the only taxable income is the China-source income received from a Chinese employer.

B. If an employee resides in China for **more than 90/183 days but less than one year,** all of the China-sourced income will be subject to IIT, but the employee does not have to pay IIT on income derived from outside of China.

C. Employees who reside in China for **more than one year, but less than five years,** are subject to IIT on all China-sourced income as well as foreign-sourced income borne by a China-based entity.

D. Employees who reside in China for **more than five years** are taxed on their worldwide income.

‘Residing in China for one calendar year’ means that temporary absences from China are less than 30 days continuously or 90 days altogether. This also means that if a foreign employee, for example in the sixth year, resides in China for less than a year, the five year period is reset and the 90/183 day rule applies again.

What is considered taxable income?

Taxable income includes all compensation received by an employee, including amounts received directly or indirectly from the work performed for the employer. For example: base salary, bonuses, expatriate premiums, cost-of-living allowances and mobility premiums.

Exempted from tax (provided that the amounts are reasonable and substantiated by official invoices/ receipts) are for example: rental of accommodation, relocation, language training (for the employee only), children’s education and home leave travel (up to two trips a year for the employee only).

For foreigners the monthly taxable income is calculated after a standard monthly deduction of RMB 4,800.

What are the rates and calculations for individual income tax?

The rates applicable for monthly taxable income are as follows:

TAXABLE INCOME		TAXABLE INCOME SUBJECT TO GROSS UP		TAX RATE	QUICK DEDUCTION
In excess of RMB	**To RMB**	**In excess of RMB**	**To RMB**	**Percent**	**RMB**
0	1,500	0	1,455	3	0
1,500	4,500	1,455	4,155	10	105
4,500	9,000	4,155	7,755	20	555
9,000	35,000	7,755	27,255	25	1,005
35,000	55,000	27,255	41,255	30	2,755
55,000	80,000	41,255	57,505	35	5,505
80,000	Over	57,505	Over	45	13,505

The basic formulae are as follows.
If tax is borne by the employee, tax should be calculated on the taxable income basis (column 1):
Monthly tax = monthly taxable income x applicable tax rate – quick deduction.

If tax is borne by the employer, tax should be calculated on a gross-up basis (column 2):
Grossed-up monthly taxable income = (Monthly taxable income subject to gross up – quick deduction 2) / (100 percent - applicable tax rate 2)

Monthly tax = Grossed-up monthly taxable income x applicable tax rate – quick deduction 1.

Read more on this website: https://home.kpmg.com/xx/en/home/insights/2011/12/china-income-tax.html .

What other taxes do you need to pay?

Besides the insurance items and IIT, there are other important taxes such as lump sum tax, capital income tax, custom tax and VAT.

For further information please contact

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