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## **China Interim Measure for Individual Income Tax Itemised Additional Deductions 2019 (Consultation Draft)**

On 20 October 2018, the Ministry of Finance and State Administration of Taxation of the People's Republic China unveiled an "Interim Measures for Individual Income Tax Itemised Additional Deductions (Consultation Draft)" (thereafter the "Draft") on special additional deductions from taxable personal incomes to collect public opinions. The interim measures are set to effect from 1 January 2019.

China's revised individual income tax law that came into force this month added itemized additional deductions from taxable incomes for children's education, continuing education, treatment for serious diseases, caring for the elderly, as well as housing loan interests and rents. The interim measures set out the scope and standard of those deductions.

In accordance with the Draft, a taxpayer is entitled to deduct the itemised additional deductions from their consolidated taxable income of the current year. Any deduction in excess of the taxable income cannot be carried forward to next tax year.

### **1. Children's Education**

In accordance with the Draft, for children's education, an amount of RMB12,000 will be deducted each year from the parents' taxable income for the education of each child. Each parent is entitled to receive 50% of the deduction or any one parent is entitled to receive 100% of deduction.

Once decided, the taxpayer cannot change of method of deduction during the tax year.

### **2. Continuing Education**

The expenses of continuing education allowable for deduction are RMB4,800 per annum (400 per month) and RMB3,600 per annum for academic qualification continuing education and non-academic qualification continuing education respectively.

In respect of the deduction for academic qualification continuing education, the taxpayer can designate his/her parents to enjoy the deduction from their taxable income (as the deduction for children's education).

### **3. Treatment for Serious Diseases**

As to the deduction of expenses for medical treatment for serious illness, a taxpayer is entitled to deduct a maximum of RMB60,000 from his taxable income when the amount of medical expense which is to be borne by himself exceeds RMB15,000.

### **4. Housing Loan Interest**

Regarding the housing loan interest deduction, a taxpayer or his/her spouse who incurred interest expenses on mortgage loan taken for the purpose of purchasing his or her first property which they used exclusively as their place of residence, during the loan repayment period, is entitled to a deduction of RMB12,000 per annum (RMB1,000 per month). A taxpayer is not entitled to deduction on the interest expenses incurred for the purchase of a residential property other than the first one.

A taxpayer is only entitled to enjoy the deduction of interest expense incurred for the purchase of only and first residential property.

Taxpayer can deduct the interest expenses from his/her taxable income or designate his/her spouse to deduct the interest expenses.

### **5. Housing Rent**

Housing rent deduction of up to RMB14,400 yuan each year will be granted to taxpayers who do not own residential property in the city where they work, according to the Draft. In particular, depending on the place the taxpayer works, the amount of deductions prescribed are as follows:

- (1) A taxpayer who works in a municipality directly under the Central Government, capital city of a province, city under separate state planning or a city specifically designated by the State Council is entitled to a standard deduction of RMB14,400 per annum (RMB1,200 per month);
- (2) A taxpayer, who works in a city with a population of more than one million people having registered hukou, is entitled to a standard deduction of RMB12,000 per annum (RMB1,000 per month);
- (3) A taxpayer, who works in a city with a population of less than one million people having registered hukou, is entitled to a standard deduction of RMB9,600 per annum (RMB800 per month).

According to the Draft, when a taxpayer and his/her spouse work in the same city, only the taxpayer or his/her spouse is entitled to the deduction. And when a taxpayer and his/her spouse work in different cities and each of them does not have self-owned residential property, both the taxpayer and his/her spouse is entitled to the deduction.

A taxpayer and his/her spouse are not entitled to deduction of housing loan interest and housing at the same time.

## 6. Caring for the Elderly

A taxpayer, in the case when he/she is the only child in the family and he/she takes care of his/her parents who are over the age of 60, is entitled to a standard deduction of RMB24,000 per annum (RMB2,000 per month). In the case when there are two or more children in the family, the children themselves can agree on the amount of deduction each of them can claim or claims the amount of deduction determined by their parents, either way, each child is entitled to a deduction of up to RMB12,000.

For example, a parent is being taken cared by his three children in a tax year. The children can determine by themselves that they will share the deduction equally, that is, RMB8,000 each. Or they can also determine that their sharing of deduction is to be set at RMB6,000, RMB6,000 and RMB12,000 respectively.

Regardless the number of elderlies a taxpayer takes care, the deduction is capped at RMB24,000 per annum.

Except for treatment for serious illness deduction and other exceptionally situation, a taxpayer who meets the requirements for 4 itemised additional deductions may enjoy a total deduction of up to RMB5,600, including children's education of RMB2,000, continuing education of RMB400, housing rent of RMB1,200 and caring for the elderly of RMB2,000.

*If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at [www.bycpa.com](http://www.bycpa.com) or contact us through the following and talk to our professionals:*

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