New Personal Income Tax Interpretation and Tax Planning

Ying TANG
Bank of China Changsha Cai’e Branch, Changsha, China

Keywords: The new tax, Reform highlights, Individual tax declaration, Tax planning.

Abstract. Under the current background of expanding domestic demand, the reduction of personal income tax can directly increase the disposable income of residents, and then directly stimulate consumer demand. Under the background of tax as a means of redistribution and the weakened role of income mediation, it is urgent to carry out reform. The main goal of the new personal income tax reform is to reduce taxes for middle - and low-income people. The state will raise the minimum threshold, increase special additional deductions and adjust the progressive tax rate. This paper starts from the background of the new personal income tax reform, studies six highlights of the new personal income tax reform, and focuses on the matters needing attention in the personal income tax declaration under the new tax system. Under the situation of ITS system going online and popularizing and strict supervision, this paper puts forward some Suggestions on how to do a good job in the collection and management of individual income tax and further strengthen the tax planning of taxpayers.

Introduction
In 2017, the annual tax amount of personal income tax about 1.20 trillion people, accounting for 8.3% of the total tax revenue, which has become the third largest tax category in China. With the economic development and the increase of residents income, the tax scale of individual income tax in 2017 has increased to 154 million people, and the role of tax in regulating income distribution has declined significantly, resulting in a very high degree of concern for individual tax reform. In addition, economists predict that the tax reform in 2018 will reduce taxpayers from 154 million to 64 million, reduce taxes by tens of millions, promote consumption demand growth by 0.22%, and promote consumption economic growth by 0.28%. Therefore, in the current context of expanding domestic demand, a tax cut can directly increase the disposable income of residents, and then directly stimulate consumer demand.

Bright Points of New Individual Income Tax

The main objective of this tax reform is to reduce taxes for middle and low-income people. The state has changed from “one size fits all” to individualized expense deduction in several aspects, such as raising the starting point, increasing special additional deduction and adjusting progressive tax rate, so as to make the pre-tax deduction standard closer to the actual situation of taxpayers and more reflect the fairness of tax revenue. Its main changes and highlights are as follows:

Establishment of Individual Income Tax System Combining Comprehensive and Classification
Syndrome tax shall be imposed on wages and salaries, remuneration for services, remuneration for contributions and royalties, and individual income tax shall be calculated on the basis of combined income in the tax year. Implementing comprehensive taxation can better reflect the reasonable burden of personal income, enhance the taxpayer's sense of identity, enhance the motivation of taxpayers and social governance, and give full play to the regulation function of personal income tax on income distribution, which plays an important role in promoting the modernization of national governance.
Raising the Starting Point of Individual Income Tax

The starting point of individual tax increased from 3500 yuan per month to 5000 yuan per month, and the lower income group was also included in the exemption scope, which reduced the individual tax burden of the lower consumption group. In 2017, the taxpayer population will be about 154 million. After the implementation of individual tax reform, the proportion of taxpayers will be reduced from 38% to 24% in 2018, regardless of special additional deduction items. Especially for taxpayers below the second-tier cities, or will be exempted from all individual taxes, which is of great significance to promote the “consumption upgrading” of residents.

Optimizing the Structure of Tax Rate and Expanding the Gap of Lower Tax Rate

Another key point of this tax reform is to optimize and adjust the tax rate structure, expand the lower tax rate gradation. Compared with raising the initial levy, the tax reduction of expanding the lower tax rate gradation is more powerful for middle-income people. The new tax law still carries out the 7-level excess progressive tax rate from 3% to 45%, but it enlarges the 3%, 10% and 20% lower tax rates, while the 30%, 35% and 45% higher tax rates remain unchanged. The old tax rate is 10% and the old tax rate is 25%. The new tax reform enlarges the gap between the lower income tax rate and helps to redistribute income and increase fairness.

Additional Special Deduction Items

Another major breakthrough in this tax reform is the addition of special additional deductions, including children’s education expenditure, continuing education expenditure, major illness medical expenditure, interest on housing loans and housing rent, pension support expenditure, etc. In the past, people with the same income have the same tax amount, but because of the inconsistent family background, there are great differences in the quality of life. Therefore, our country is fully considering the differences of individual (or family) situation, increasing special additional deductions, humanized tax mediation policy, and more highlighting the national concern for people's livelihood.

Clarifying the Criteria of Identity Definition of “Non-resident Individual”

The new personal income tax law draws lessons from enterprise income tax, introduces the concepts of “resident individual” and “non-resident individual” at the tax level, and decreases the criteria for determining residence time from one year to 183 days. On the one hand, the standard enlarges the scope of individual residents and will increase personal income tax revenue to a certain extent. On the other hand, the standard is in harmony with tax agreements or arrangements signed by China and other countries and regions, and further conforms to international standards. The new tax law continues to use the concept of “habitual residence” and emphasizes the internal relationship between taxpayer's residence and household registration, family and economic interests when judging the sources of income in China.


The new tax law also adds anti-tax avoidance clauses in order to plug tax loopholes and prevent individuals from using various means to evade individual taxes. The core idea of tax reform is to pursue fairness. In order to plug the tax loopholes and safeguard the tax rights and interests of the state, referring to the anti-tax avoidance provisions of the Enterprise Income Tax Law, the tax authorities are empowered to adjust their tax payment in a reasonable way in view of the tax avoidance behaviors of individuals who do not transfer property according to the principle of independent transactions, avoid tax in tax havens abroad, and implement unreasonable commercial arrangements to obtain improper tax benefits. Where the tax authorities are required to make tax adjustments and to collect additional taxes, they shall collect additional taxes and collect interest according to law.
Notices for New Individual Income Tax Declaration

Well Done the New Individual of Mobilizing, Coaching and Collecting Special Additional Deduction Information for the New Deal

Every unit should do a good job in publicizing and training the new tax policy, so that “everyone knows the policy, everyone can operate, everyone can fully deduct, everyone pays taxes according to law”, not only should they fully enjoy the dividend of the national policy, but also ensure that they pay taxes according to law and regulations.

In addition, human resources should download, register and regularly announce the use of the “personal income tax” APP software to ensure that each employee can fill in and declare special additional deduction information on the APP; employees who have not reported information should be promptly supervised and regularly updated to ensure that the interests of each employee are maximized.

Define the Rights and Obligations of Enterprises and Employees in the New Tax Law

As a withholding agent, an enterprise is obliged to inform every employee to declare special additional deduction information, fully enjoy the policy dividends of the state, and obtain wages and salaries for employees. The unit shall provide the taxpayer with personal income and tax withholding information within two months after the end of the year. Employees who fail to make information declaration in our bank must be informed that they will be withheld and withheld normally. Employees should pay by themselves at the local tax bureau from March to June next year. In addition, the tax-related information and information submitted by taxpayers (employees) shall be kept confidential according to law, and the information shall not be altered without authorization.

Employees, as taxpayers, are responsible for the authenticity, accuracy and completeness of the additional deduction information for special declarations. If they find that the declaration information is inconsistent, they may request amendments. If the unit refuses to amend the information, they shall report it to the tax authorities. Special additional deduction of relevant supporting information shall be kept by the employee himself, and the period of custody shall be kept for reference within five years after the end of the clearing period of the following year. For those who meet the conditions for self-repayment and settlement, the individual residents shall, from March 1 to June 30 of the following year, handle the annual settlement and settlement of comprehensive income to the competent tax authorities.

Dissemination of Legal Knowledge, Sharing of Information and Punishment of Offences

This tax reform brings the information sharing system into the means of tax collection and management, clarifies the legal obligation of the departments concerned with the special additional deduction information to assist in verifying the special additional deduction information, and requires multi-departments to share information and assist in verifying the authenticity of the special additional deduction information. Taxpayers must grasp the key points of special additional deduction, the scope of tax payable and the calculation of tax payable, so as to maximize their rights and interests. In addition, taxpayers should bear in mind that they should not resort to deception or concealment to make false tax declarations or fail to declare, fail to pay or underpay the tax withheld or collected. If the amount is large, it will constitute the crime of tax evasion and evasion.

Do a Good Job of Propaganda and Interpretation of Accumulative Withholding and Advance Payment

Under the cumulative withholding method, for taxpayers with only one salary and salary income and whose comprehensive income spans different tax rates, the pre-payment rate at the beginning of the year is low. Over time, the cumulative income increases continuously, and the pre-withholding rate increases accordingly. The pre-payment rate at the end of the year is consistent with the actual tax rate.
Case 1: Employee A, the monthly payable salary in 2019 is 20,000 yuan, the monthly deduction fee is 5,000 yuan, the special deduction of “three insurance and one fund” is 4,500 yuan and the additional deduction of children's education and support for the elderly totals 2,000 yuan. There is no deduction or exemption of income or tax. Without considering the one-time bonus, the annual taxable income is 10% applicable. The tax rate for the whole year shall be 7680 yuan, and the amount of withholding and advance tax for each month shall be calculated according to the following methods.

This method, on the one hand, for taxpayers with only one salary and salary income, the tax withheld and paid in advance at the end of the tax year is basically equal to the annual tax payable, and they do not need to go through self-tax declaration, remittance and settlement; on the other hand, for taxpayers requiring tax refund, the gap between the tax withheld and the annual tax payable is small, which does not occupy too much of the taxpayer's funds, but for employees who are accustomed to the basic stability of their monthly after-tax salary, they may face floating after-tax monthly income in the future.

Under the New Supervision Situation, How to Do a Good Job in Tax Planning of Personal Income Tax

Grasp the Critical Point of Tax Filing

In the practice of tax collection, “critical point” is of great significance to tax planning. The “critical point” of personal income tax is the annual taxable income of 60,000 yuan, 96,000 yuan, 240,000 yuan, 360,000 yuan, 480,000 yuan, 720,000 yuan. When calculating the annual taxable income of individuals, it is particularly necessary to increase the sensitivity of the “critical point”. In the case of no significant increase in income, we should try not to trigger the tax rate adjustment so as to avoid the contribution of excessive income to the National tax.

Case 2: Taxpayer's annual taxable income is 200,000 yuan, applicable to 10% tax rate, pay the tax 17,480 yuan, earned income 18,2520 yuan; if enterprises give an additional 5,000 yuan reward, the annual taxable income is 205,000 yuan, applicable to 20% tax rate, pay a tax of 24,480 yuan, pay an extra tax of 6,600 yuan, earned income of 18,920 yuan, resulting in excessive income but less money.

Full Enjoyment of Special Additional Deduction Policy

Taxpayers should fully grasp the deduction standard of special additional deduction items and fully enjoy the policy dividends of the country. Special attention should be paid to the following aspects: First, special additional deduction projects should focus on maximizing the interests of families and coordinate the deduction projects. Apart from supporting parents and continuing education, taxpayers can choose to deduct and proportionate deductions from one spouse or when there are many additional deduction items that cannot be deducted at the same time. Therefore, both spouses should calculate and plan the annual tax payable and minimize the family tax burden as far as possible. Second, we should make full use of the special additional deduction policy and make full use of the deduction. For example, the housing rent policy stipulates that both husband and wife do not have their own housing in the main working place. For rental housing to parents and relatives, as long as they sign lease contracts and pay rent, they can enjoy deduction policy. Similarly, for exchange cadres in different places, they can also enjoy rent deduction if they sign rent contracts.

Make Full Use of Tax Incentives and Non-tax Incentives

According to the relevant regulations of the State, subsistence allowances(hardship subsidies), pensions, and relief benefits; Medical subsidies, workers' compensation, compensation for industrial injury; Funeral expenses, pensions, only child expenses, employees' relocation expenses, and childcare subsidies; Travel allowance, missed meals allowance; Transportation subsidies and communications subsidies within the scope specified in the policy may be exempted or exempted from individual income tax. The authors suggest that: 1. maternity allowance for female employees
is recommended to be paid directly to the individual employee, not to the current wage performance, maternity allowance to the unit, and similar to the injury medical allowance. The second is to increase the total amount of expenses deducted. For employees’ “five risks and one bonus” and “enterprise annuity”, the top deduction can be achieved, and the employees' income can be increased while the tax burden is reduced. Third, refer to the implementation of transportation subsidies, and at the same time change the form of communication subsidies issued in the form of currency to the form of actual reporting and sales within the limit to reduce taxable income. Fourth, employees are encouraged to purchase compliant commercial health insurance products and deferred commercial pension insurance products to obtain more pre-tax deductions.

**Key Tips for Grasping Welfare Expenses**

All persons who are paid to their own employees from welfare fees and trade union funds have a share of subsidies, subsidies, or non-monetized objects, which must be incorporated into the “wages and salaries” to pay a tax. At present, only the travel allowance and the meal allowance are explicitly not taxed, and all other forms of subsidies should be taxed. However, because the subsidies are non-monetized and difficult to measure, the benefits actually enjoyed by everyone cannot be measured. If it is difficult to operate in the collection, there is basically no tax. Therefore, when the welfare payments are made, it should be noted that non-monetary benefits are taxable and that the welfare payments that cannot be accurately apportioned to individuals are temporarily not taxed.

**Tax Planning for Annual Bonus**

**Planning of Method Selection**

At the beginning of 2019, there were two calculation methods for the issuance of the 2018 annual bonus: (1) You can choose to use this preferential policy to calculate the annual bonus tax separately; (2) The annual bonus can be incorporated into the current year's comprehensive income calculation to pay a tax. Individual residents should choose to use or not to use preferential policies according to their own circumstances, and they cannot deal with the problem easily and pay more taxes.

**Case 3:** C staff has a fixed salary of yuan 3,000 per month (after deducting three insurance, one gold, Union, and annuity). At the end of the year, the company will give her a one-time bonus of yuan 20,000 for the entire year. Without regard to deductions:

1. The calculation of the tax payable by the C employee's annual bonus: 20000 / 12 = 1667 yuan, the tax rate table finds the tax rate of 3% and the quick deduction number 0.
2. The tax payable for C staff's year-end bonus is as follows:
   - Taxable amount = 20000 * 3% = 600 yuan

**Case 4:** D employee's monthly fixed salary is 5000 yuan (after deducting three insurance and one pension, trade union and annuity). At the end of the year, the company will give her a one-time bonus of 35000 yuan. Without considering the deductions:

1. The year-end bonus of D staff shall be calculated by tax: 35 000/12 = 2916.67. Find out the tax rate of 3% and the quick deduction of 0 according to the tax rate table.
2. The tax payable for D staff's year-end bonus is as follows:
   - Taxable amount = 35000 * 3% = 1050 yuan
(2) D-employee is required to pay a tax if he chooses to incorporate the annual consolidated income in that year:

① Annual salary income of D staff: 5000*12=60000 yuan
② Annual comprehensive income of D staff: 60000 +35000 = 95000 yuan
③ The tax rate of 10% is applicable to the annual tax payable. The tax payable for D staff's annual bonus is: the tax payable = (95000-60000)x 10% -210 = 3290 yuan

Planning of the Critical Value of Year-End Bonus

When calculating the year-end bonus, we also need to consider the “critical value”. If we choose the latest policy of applying tax law to the year-end bonus, we will increase more taxes (see Table 2). Personnel departments should pay special attention to the sensitive value of the year-end bonus when issuing the year-end bonus, and do a good job in explaining the staff.

In addition, the issue of year-end bonuses should also pay attention to the various items of bonuses other than one-off bonuses for the whole year, such as half-year bonuses, quarterly bonuses, overtime bonuses, advanced awards, attendance awards, etc., which are all combined with the monthly salary and salary income, and pay personal income tax according to the provisions of the tax law.

Summary

We must raise tax awareness and avoid similar “the person Fan Bingbing Incident”. We urgently need to enhance each taxpayer's tax awareness, improve the ability of special deduction screening and tax planning. For units, it is better to entrust third-party organizations to withhold and pay and answer policy questions. For those with multiple sources of income and high-income personnel, professional tax authorities and tax administrators can be entrusted to make tax planning, so as to clarify the responsibilities of taxpayers and withholding agents, and to avoid the tax-related risks of both enterprises and employees.

References


[2] Personal tax deduction New Deal officially announced, the most complete analysis! Figure out how much you can save.[EB/OL].[2018-12-23].https://mp.weixin.qq.com/s/T8RPakhaZfKS2mBQZp0ClQ

[3] State taxation bureau implements new individual income tax law to collect manage zha to join completely? An official announcement was made.[EB/OL]. [2018-12-20].https://news.163.com/18/1220/14/E3FOJ5750001875N.html
