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HOW WILL CHINA'S TAX REFORM IMPACT YOU?

By Mark Ray, Managing Director
Sovereign China

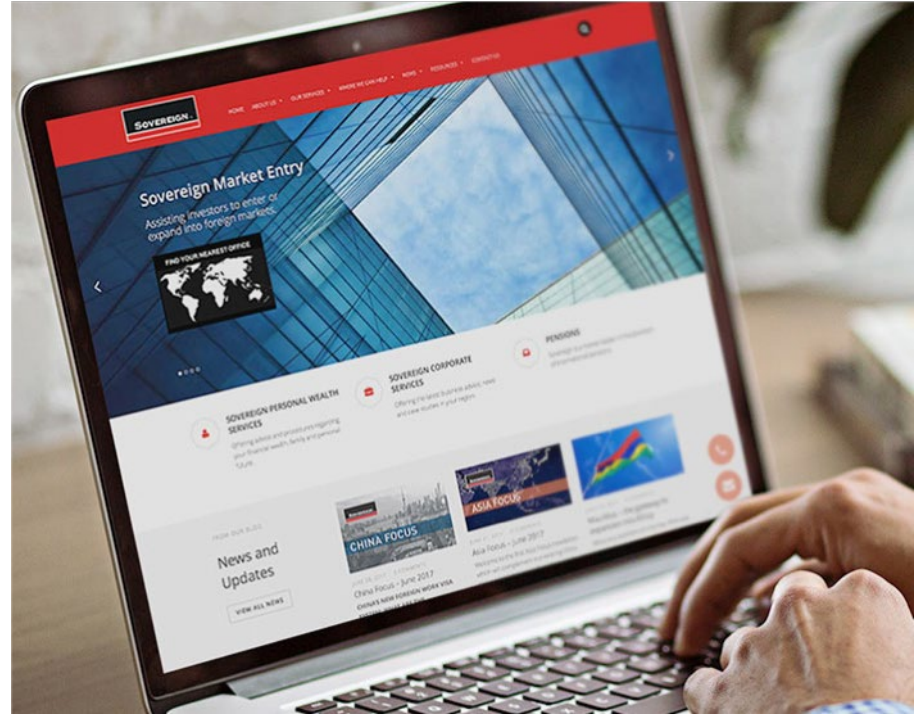
SOVEREIGN BEGAN OVER 30 YEARS AGO IN GIBRALTAR...

- 1987: First office opened in Gibraltar
- 2003: Sovereign Art Foundation Established
- 2013: Formally established WFOE in China



LARGEST PRIVATELY OWNED TRUST & CORPORATE SERVICES COMPANY IN THE WORLD

- Manage over 20,000 structures
- Assets under administration in excess of US\$10 billion
- Sovereign Corporate Services
- Sovereign Private Client Services
- Sovereign Retirement Planning
- Sovereign Insurance Services



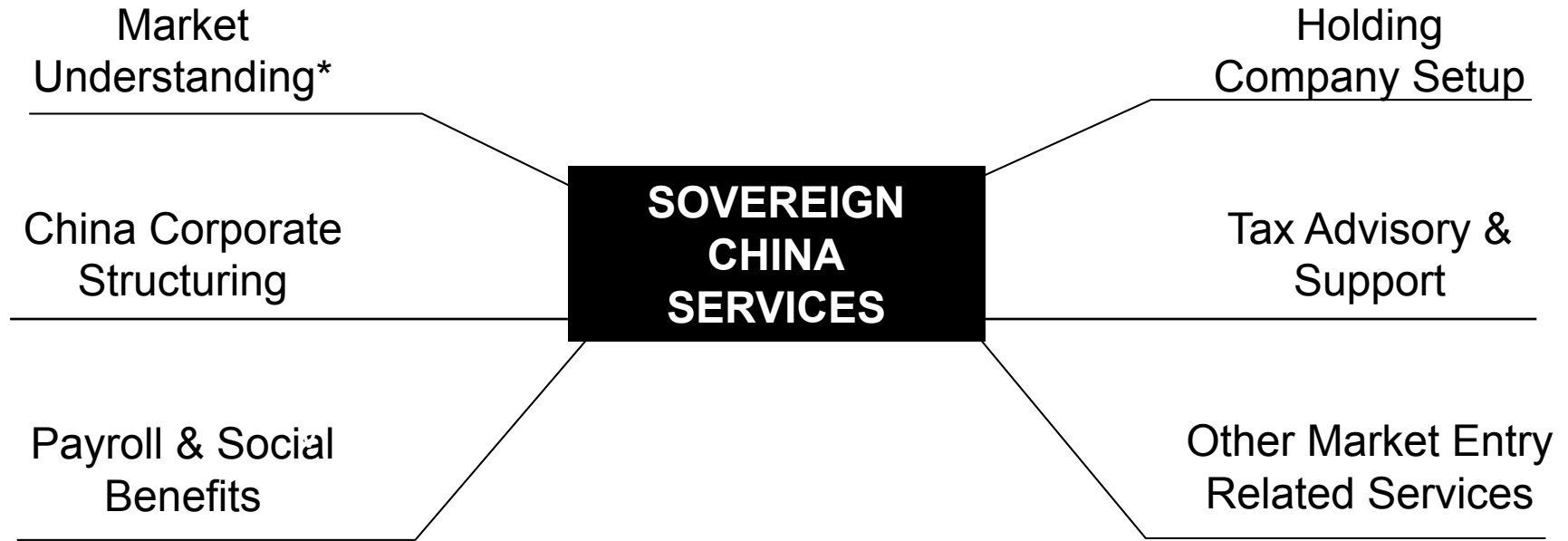
WE HAVE OFFICES IN ~30 JURISDICTIONS GLOBALLY



OFFERING A RANGE OF SERVICES



SOVEREIGN CHINA PROVIDES A NUMBER OF CORPORATE SERVICES TO SUPPORT FOREIGN INVESTED ENTERPRISES



** Depending on how specialized the need, we may use strategic partners*

ABOUT ME



- Managing Director of Sovereign China
- From North America
- 12 years in China
- Assisted 300+ with their China operations
- 13 years in corporate services and tax

WE HELP COMPANIES THAT HAVE A LONG-TERM STRATEGY FOR SUCCESS



BOMBARDIER



We allow our clients to focus on their core business without worry so they can do what they do best

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BEFORE WE BEGIN...

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REGULATIONS IN CHINA ARE:

1. Complicated
2. Vague
3. Rapidly Changing

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AND ON AUGUST 31, 2018

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**IN REALITY, IT'S PROBABLY MORE LIKE
A LAVA FLOW –
SERIOUS BUT MANAGEABLE**

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THREE TOPICS COVERED TONIGHT

1. Summary of IIT Changes
2. Impact on Expats
3. Impact on Chinese





SUMMARY OF IIT CHANGES

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FIVE KEY CHANGES TO THE IIT LAW

1. Tax residency rules
2. IIT liability now on an annual basis
3. Income tax brackets changed
4. Standard and itemize deductions
5. Expanded anti avoidance powers



** The tax residency required are quite complicated and discussed later*

Tax Brackets Adjusted: 10% Bracket Expanded and 30%-45% Bracket Unchanged

Previous Tax Brackets (Prior to 1 Oct 2018)			
Income from salary and wages			
Taxable Income (Monthly)	Marginal Tax Rate	Quick Deduction (Monthly)	
≤1,500	3%	0	3%
1,501 to 4,500	10%	105	10%
4,501 to 9,000	20%	555	20%
9,001 to 35,000	25%	1,005	25%
35,001 to 55,000	30%	2,755	30%
55,001 to 80,000	35%	5,505	35%
>80,000	45%	13,505	45%

Revised Tax Brackets (Effective from 1 Oct 2018)			
Comprehensive Income*			
	Taxable Income (Annual)	Marginal Tax Rate	Quick Deduction
3%	≤36,000	3%	0
10%	36,001 to 144,000	10%	2,520
20%	144,001 to 300,000	20%	16,920
25%	300,001 to 420,000	25%	31,920
30%	420,001 to 660,000	30%	52,920
35%	660,001 to 960,000	35%	85,920
45%	>960,000	45%	181,920

* Tax brackets are now based on comprehensive income, not just income from salary and wages

Six Itemized Deduction Categories

Education expenses for children	RMB 12,000/year/child	
Expenses for continuing education	RMB 3,600 or RMB 4,800/year	Depends: certificate or degree
Medical treatment for critical illness	RMB 15,000 to RMB 80,000/year	
Mortgage interest charges	RMB 12,000/year	
Housing rent	RMB 18,000/year	
Support for elderly	RMB 12,000 or RMB 24,000/year	Depends on number of children

* Details regarding the deduction categories are going to be sent as part of a summary email.

CHINA A SIGNATORY OF COMMON REPORTING STANDARDS





IMPACT ON EXPATS

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TWO KEY AREAS IMPACT EXPATRIATES

1. Tax Residency
2. Deductions & Exemptions



“183 DAY RULE” DETERMINES TAX RESIDENCY

Tax Resident

China domiciled individual

Non-China domiciled individual
who resides in China **183 days
or more** in a calendar year

Tax Liability: Worldwide income

Non-Tax Resident

Non-China domiciled individual

Non-China domiciled individual
who resides in China **fewer than
183 days** in a calendar year

Tax Liability: China sourced
income

HOWEVER...THERE IS A **6 YEAR RULE** IN PLACE

Worldwide non-China sourced income is taxable if:

A Non-China domicile spends **183 days or more** in a calendar **year for 6 consecutive years**

AND

Did not leave China during those 6 years for **30+ days consecutively** or **183 cumulatively** in any single tax year

It is important for expatriates concerned about global tax to leave China for the prescribed time within each six year period

“SIX-YEAR RULE”: EXAMPLE

- An expatriate works in China since January 2013. Therefore, 2019 is their 6th year in China without having left for 30 consecutive days or 183 days cumulatively in a year.
- In order to not paying worldwide income tax to the Chinese authorities, they must make either a single trip outside China for more than 30 consecutive days or 183 days cumulatively.



“SIX-YEAR-RULE” IN SUMMARY

Period of time in China (Aggregate)	Income Earned WITHIN China		Income Earned OUTSIDE China	
	Salary by Chinese Entity	Salary by Overseas Entity	Salary by Chinese Entity	Salary by Overseas Entity
<= 90 Days (183 Days with DTT)	Pay	Exempt	Exempt	Exempt
>183 Days <= 6 Yrs	Pay	Pay	Pay	Exempt
> 6 Years	Pay	Pay	Pay	Pay

CHOICE BETWEEN TAX DEDUCTION OR TAX EXEMPTION

Previously, expatriates afforded tax exempt benefits – i.e. allowances

Most common of which were:

- Housing Allowance
- Children Education Allowance
- Language Training

The option to continue with exempted allowances will end in 2021, after which time, expatriates must claim deductions

BONUS FOR EXPATS IMPACTED

- Until December 31, 2021, bonuses are treated separately – i.e., not part of their comprehensive income
- 2022 onward – the bonus is counted in regular earnings



UNSURE HOW CHINA WILL DEAL WITH US CITIZENS

	CHINA	USA
FATCA	X	✓
CRS	✓	X

KEY QUESTION:

Q: How does one reset the clock when being taxed on all global income (i.e. – the person never reset the clock within the 6 year window)?

A: Currently unclear





IMPACT ON CHINESE

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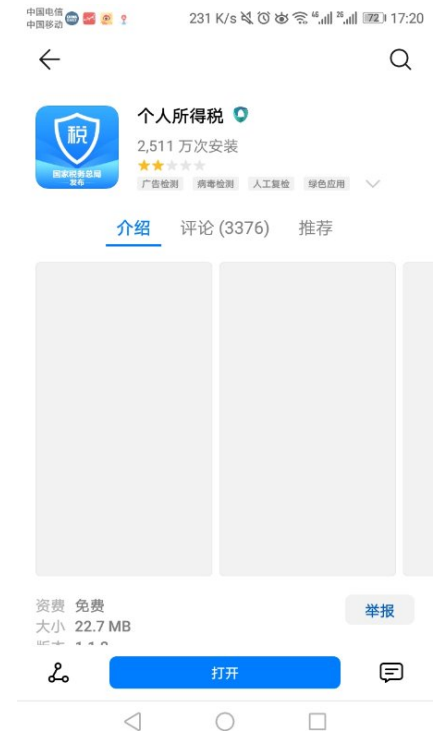
APP Required for IIT Deductions

China's Individual Income Tax APP



Chinese should download the APP by Tuesday January 22, 2019

CHINA'S INDIVIDUAL INCOME TAX APP: EXAMPLE





ADMINISTRATION

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MONTHLY WITHHOLDING AND ANNUAL FILINGS REQUIRED

Monthly Withholding Obligation

- Provisional IIT withholding and filing by the **15th day of the following month**
- A company's HR agent should be able to manage monthly obligations

Annual Filing Obligation

- Reconciliation to be completed between **March 1 – June 30** following the end of the tax year (December)

** The above applies to comprehensive income; foreign sourced income is reported during the annual filing.*

EXAMPLE: MONTHLY IIT WITHHOLDING CALCULATION

Month	Monthly Salary	Multiplier	Annual Income	tax rate	Tax before deductions	Quick Deduction	IIT after QD	Provisional Monthly Withholding
January	20,000	1	20,000	3%	600	-	600	600
February	20,000	2	40,000	10%	4,000	2,520	1,480	880
March	20,000	3	60,000	10%	6,000	2,520	3,480	2,000
April	20,000	4	80,000	10%	8,000	2,520	5,480	2,000
May	20,000	5	100,000	10%	10,000	2,520	7,480	2,000
June	20,000	6	120,000	10%	12,000	2,520	9,480	2,000
July	20,000	7	140,000	10%	14,000	2,520	11,480	2,000
August	20,000	8	160,000	20%	32,000	16,920	15,080	3,600
September	20,000	9	180,000	20%	36,000	16,920	19,080	4,000
October	20,000	10	200,000	20%	40,000	16,920	23,080	4,000
November	20,000	11	220,000	20%	44,000	16,920	27,080	4,000
December	20,000	12	240,000	20%	48,000	16,920	31,080	4,000
Total IIT Withheld:							31,080	31,080
Total IIT Payable:							31,080	31,080

Provisional Monthly Withholding = Accumulative IIT Payable – Total IIT payable for previous months

SEVERANCE MAY HAVE TAX OBLIGATIONS

Exempt Amount: 3 x annual local minimum average salary

Taxable Amount: Excess of 3 x annual local minimum average salary
and subject to annual comprehensive tax rate

SUMMARY

The 6-Year Rule

- Similar to the 5-year rule
- Unsure of how long it will remain in place

2022

- Expats no longer allowed tax exempt allowances
- No more tax benefits for bonuses

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