

Income Tax

The People's Republic of China uses a progressive tax system, with tax rates ranging from three to 45 percent. A progressive system means that tax brackets increase with respect to your taxable income. The tax year ends December 31st each year.

The Tax Brackets

As of 2012, the tax brackets are as follows:

Monthly Taxable Income (RMB)	Tax Rate	Quick Deduction (RMB)
1-1,500	3%	0
1,501-4,500	10%	105
4,501-9,000	20%	555
9,001-35,000	25%	1,005
35,001-55,000	30%	2,755
55,001-80,000	35%	5,505
80,001 and above	45%	13,505

Calculating Your Tax

Teaching Nomad has produced a tax calculator, available on our website, for easy tax calculations. If you have Microsoft Excel, you can download this tax calculator from our website at:

<http://www.teachingnomad.com/images/documents/tax%20calculator.xls>

Foreigners who legally work in China enjoy an initial tax deduction of 4,800 RMB per month. Only income over this amount is taxed. Furthermore, you should note that not all of your salary is within the same tax bracket. For example, as of 2012, the first RMB 1,500 over your initial deduction of RMB 4,800 is taxed at 3% and then your next RMB 3,000 is taxed at the 10% bracket, and so on. To make this calculation easier, use the quick deduction when finding out how much tax you owe each month. To calculate how much you owe in tax each month, use the following formulas:

$$\text{Taxable Income} = \text{Gross Salary} - \text{RMB } 4,800$$

$$\text{IIT} = \text{Taxable Income} \times \text{Tax Rate} - \text{Quick Deduction}$$

$$\text{Net Salary} = \text{Gross Salary} - \text{IIT}$$

So, if you earned RMB 10,000 a month, subtracting RMB 4,800 gives you a taxable income of RMB 5,200 a month. Multiplying this amount by a tax rate of 20% and subtracting the quick deduction of RMB 555 gives an Individual Income Tax (IIT) of RMB 485. Subtracting the IIT from your gross salary gives a net salary of RMB 9,515. This results in an *effective* tax rate of 4.85%. Remember, some employers give additional tax benefits such as a housing allowance, which is a tax free portion of your salary if spent on rent. This lowers your effective tax rate even lower.