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Taxation

Income Tax

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XVI. Tax Reduction and Exemption

Certain tax reductions and exemptions are provided under the *Individual Income Tax Law*.¹ 4, the following categories of individual income are exempted from individual income tax:

- a. monetary awards granted by the State for achievement in science technology, culture, public health, sport or environmental protection, etc;
- b. interest derived from bank savings and government bonds;
- c. subsidies and allowances issued in accordance with national regulations;
- d. welfare benefits, disability pensions, pensions for families of the deceased payments;
- e. insurance indemnities;
- f. payments of military severance or demobilisation;
- g. resettlement allowances, severance payment, retirement payment, retirement and retirement living allowances and subsidies for cadres distributed to workers in accordance with national regulations;

- h. income of diplomatic representatives, consulate officials and other persons at embassies and consulates in China who enjoy tax exemption in accordance with the law;
- i. tax exemptions as stipulated in international conventions; and
- j. other exemptions as stipulated by the State Council.

Taxpayers who are disabled, elderly people, members of a martyr's family or people who have suffered substantial losses in natural disasters are entitled to tax reduction.

Donations to education, public welfare undertakings, and disaster and poverty stricken social organizations or government organs, which do not exceed 30% of a taxpayer's tax, are deductible in accordance with the relevant regulations of the State Council.

If a taxpayer is not a Chinese resident but derives wages and salaries within China, or if he is a Chinese resident but derives wages and salaries overseas, additional expenses may be deducted. The "standard for deduction of additional expenses" is Rmb 3,200.

Article 7 of the *Individual Income Tax Law* deals with double taxation. The amount of individual tax on income derived by a taxpayer outside China upon which tax has already been paid is deductible from the amount of tax payable.

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