



## What are IIT Equity Incentives for Expats Filing their Taxes in China?

**LEHMANBROWN**  
雷博國際會計  
International Accountants

[www.lehmanbrown.com](http://www.lehmanbrown.com)

This article was prepared by LehmanBrown International Accountants.  
This article is intended for general information purposes only and is not intended to provide, and should not be used in lieu of professional advice. The publisher LehmanBrown assumes no liability for readers' use of the information herein and readers are encouraged to seek professional assistance with regard to specific matters. Any conclusions or opinions are based on the specific facts and circumstances of a particular matter and therefore may not apply in all instances.

## ***What are IIT Equity Incentives for Expats Filing their Taxes in China?***

A quick guide for understanding and benefiting from the IIT Equity incentives for expats

China's economic rebound in 2020 following their containment of Covid-19 continues to abate, and the Financial Times has shared that China's growth by 6.5 per cent in the fourth quarter shows faster growth than before the pandemic beating expectations. China is expected to grow further in 2021 and continue attracting international business and with it foreign talent and experts to work and live in China. A key factor in going forward for China's businesses recruitment of high-quality talents worldwide, is the use of equity incentives to attract and maintain foreign talent.

With that in mind, LehmanBrown outlines in this article the key considerations and formulas for calculating the Individual Income Tax (IIT) on equity incentives and the common misunderstandings that expats have when filing their taxes in China.

### **Difference Between Resident and Non-Resident**

The IIT law states that individual taxpayers in China are divided into resident individuals and non-resident individuals. Resident individual refers to an individual who has a residence in China or has lived in China for a total of 183 days in a tax year (the China tax year runs from 1st January to 31st December). A non-resident individual refers to an individual who has not lived in China or is not registered as a resident in China for less than 183 days in a tax year. The tax related to an expatriate's residence status is different, and the applicable equity incentive tax policy also differs.

According to Notice of the Ministry of Finance and the State Administration of Taxation on Issues Relating to Transition of Preferential Policies following the Revision of the Individual Income Tax Law (Cai Shui [2018] No.164), equity incentives obtained by an individual resident following the policy conditions shall not be consolidated into the comprehensive income of the current year before 31st December 2021. The comprehensive income tax rate shall be applied in full on a standalone basis against the equity incentive.

The Announcement on Individual Income Tax Policies for Non-resident Individuals and Non-domiciled Resident Individuals (Ministry of Finance and State Administration of Taxation Announcement [2019] No. 35) says that non-resident individuals which obtain equity incentive income within one month, after calculating the monthly income following relevant regulations, they shall not be combined with other wages and salaries for the month, and shall be taxed based on six months without deducting the expenses, and shall be calculated applying the monthly tax rate table.

### **Method for Calculating Equity with Incentives and Taxation**

Equity incentives generally include stock options, stock appreciation rights, restricted stocks, and equity awards. For the equity incentives obtained by expatriates from listed companies, it is necessary to accurately calculate the equity incentive income and accurately calculate the IIT payable using different calculation methods applicable to individual residents and non-resident individuals.

## Case Study

John is a foreign employee of a listed company, and he performed well in January-May 2018. The company granted **10,000** shares of stock options in May, the stock price of the grant was **10 RMB**, and the option price was **8 RMB**. These can be exercised in May 2019, assuming that John exercised on 28th May 2019, and the market price of the stock on the day of the exercise was **16 RMB**, then how much IIT does John need to pay?

According to Notice of Ministry of Finance and State Administration of Taxation on Issues relating to the Collection of Individual Income Tax on Personal Income from Shares and Options, the income shall be calculated and paid using the provisions applicable to "wages and salaries". Taking the difference between the actual purchase price (the exercise price) of the stock obtained from the enterprise and the fair market price on the purchase date (the stock's closing price on the day of the stock).

The wages and salaries taxable income in the form of equity incentive = (market price per share of exercised stocks - the price per share paid by the stock option)  $\times$  the number of shares. That is, John obtained the equity incentive income when exercised on 28th May 2019; therefore, the equation is as follows:

$$(16-8) \times 10,000 = 80,000 \text{ RMB}$$

If John is a resident individual, according to Cai Shui [2018] No.164, IIT payable = equity incentive income  $\times$  applicable tax rate - quick deduction. John's stock option incentives are fully taxed separately; therefore, the IIT payable is:

$$80,000 \times 10\% - 2,520 = 5,480 \text{ RMB}$$

If John is a non-resident individual, he lived in China for 90 days less than 183 days, assuming that he worked 85 days during Jan-May 2018, and only obtained this stock option incentive. According to the Ministry of Finance and State Administration of Taxation Announcement [2019] No. 35, his equity incentive income attributable to China = Incentive income  $\times$  workdays  $\div$  calendar days in the period, therefore:

$$80,000 \times 85 \div 151 = 45,033.11$$

IIT payable = [(equity incentive income attributable to China  $\div$  6)  $\times$  applicable tax rate - quick deduction]  $\times$  6 = tax paid. Therefore the answer is:

$$[(45,033.11 \div 6) \times 10\% - 210] \times 6 = 3,243.31$$

(Note: The quick deduction is fixed as part of the formula)

## Other Tax Preferential Policies

According to Notice of the Ministry of Finance and the State Administration of Taxation on Improving Income Tax Policies Relating to Equity Incentives and Provision of Technology in Exchange for Shareholding (Cai Shui [2016] No. 101), where a listed company grants share options, restrictive shares

and equity incentives to individuals, upon the completion of filing formalities with the tax authorities in charge, the individuals may pay IIT within the 12 months from the date of the exercise of share options, or the date of lifting moratorium for restrictive shares, or the date of obtaining equity incentives. Expatriates can pay attention to and enjoy this preferential policy when exercising these rights.

When the employee re-transfers the stock after the exercise, the difference between the fair market price and the reasonable market price obtained on the purchase date shall be calculated and paid according to the applicable provisions of the “income from property transfer”. According to the Notice of the Ministry of Finance and the State Administration of Taxation on the Temporary Exemption of Individual Income Tax on Individual Transfer of Stocks (Cai Shui [1998] No. 61), income from personal transfer of shares of listed companies will continue to be temporarily exempt from IIT. Foreign employees’ stocks obtained through equity incentives can enjoy IIT's preferential exemption when they conduct free trade on the stock market.

For example, if an option is granted, and the person buys the share as 70 when the market value is 80, and then sells it at 100, 10 is taxed as a gain for IIT, and 20 is exempt.

## General Tips for Submitting tax

In China, the Individual Income Tax Law has made clear provisions on the IIT collection and management requirements.

Expats being serviced by a withholding agent won't have to submit their tax, as the withholding agent is responsible for prepaying tax every month or upon each payment earned. In the case the taxpayer receives taxable income but does not have a withholding agent, they can submit their tax returns with the tax authorities within the first 15 days of the following month after obtaining the income and pay tax.

Tax payable on income from wages and salaries derived by a non-resident individual shall be withheld and prepaid by the withholding agent, if any, every month or based on each income item.

However, if there is a need to deliver a final settlement and payment, the taxpayer can do so from 1st March until 30th June of the following year after obtaining the income.

Finally, expats who are registered as residents in China with consolidated income can submit IIT yearly.

## How can LehmanBrown Help?

LehmanBrown has decades of experience taking care of taxation for business and individuals to navigate difficult situations and deliver tailored solutions. To avoid future issues, it is strongly recommended to carry out proper tax planning and ensure that all preferential tax policies are included.

To resolve your specific situation please send your enquiry to [enquiries@lehmanbrown.com](mailto:enquiries@lehmanbrown.com)



## About Us

LehmanBrown is a licensed China-focused accounting, taxation and business advisory firm, operating dedicated offices in Beijing, Tianjin, Shanghai, Shenzhen, Guangzhou, Hong Kong and Macau, and with an extensive affiliate network throughout China and in over 100 countries worldwide.

LehmanBrown combines years of international expertise with practical China experience and knowledge, offering expert advice and support to both local and international clients. We are committed to providing individually tailored financial and business solutions for each of our clients, recognizing that each client is different. Through offering “whole of life” services, LehmanBrown offers clients assistance throughout every step of their business life cycle, from pre-conception to afterlife. LehmanBrown is registered with the PCAOB in the US and is able to conduct SEC work, as well as being accredited by accounting bodies in the UK and Australia.

## 关于我们

雷博国际会计是一家具有专业资质，主要从事有关中国范围内会计、税务和财务咨询服务公司。雷博在北京、天津、上海、深圳、广州、香港和澳门设有专门办事机构，并且在全国范围和世界超过 100 个国家建立了广泛的联合专业服务网络。

综合多年的国际经验以及对中国市场的深刻理解和洞察，我们致力于为本地及国际客户提供高质量的专业服务和支持。我们了解每位客户都是独一无二的，承诺为每一位客户量身打造适合自身的财务和商业解决方案。从前期策划到市场退出，雷博通过提供“全生命周期”服务，为客户在不同商业生命周期的每一个阶段提供协助。雷博在美国公众公司会计监督委员会（PCAOB）已注册，有资质开展美国证监会（SEC）相关工作，同时在英国和澳大利亚也得到会计方面的专业认证。

## Professional Services

### Audit & Assurance External Audit

[China Statutory Audit](#)

US GAAP Audit

IFRS Audit

Hong Kong Statutory Audit

### [Internal Audit](#)

Fraud Investigation

Forensic Accounting

### [Special Purpose Audit](#)

Foreign Currency Audit

Royalty Audit

Capital Verification Audit

### Valuation Services

#### [Corporate Valuation](#)

Damage Assessment Valuation Intellectual

Property Valuation Asset Valuation

Special Purposes Valuation

### Corporate Finance

Debt Restructuring

Acquisition, Disposal & Financing

### Mergers & Acquisitions

Transaction Advisory

M&A Divesture

M&A Integration

Financial Due Diligence

## Business Services

### Company Registration & Maintenance

Cash Flow Management

Chop Custodian Services

Market Entry Advisory

Updating Company Certificates

Annual Inspection & Reporting

Company Secretarial Services

Company Ownership Transferring/Corporate

Restructuring Background/Credit Checking

Company Deregistration & Bankruptcy

### HR Support Services

China Visa Services for Expatriates

Social Welfare Structures

## Outsourcing Services

### Accounting & Bookkeeping

Budgeting & Forecasting Financial Statement

Preparation Head Office Reporting

### Financial Management

Interim Financial Management Finance

Manager Function

CFO Function

### Treasury Management

Set-up of Bank Account

### Payroll Services

Payroll Processing Setup

Expatriate Employees

Local Employees

Secondment & Temping Service

## Taxation Services

### Individual Tax Planning (IIT)

Tax Immigration & Investment Review

US & Overseas Personal Income Tax Planning  
& Filing IIT Tax Payment Facilitation

Application for Individual Income Tax Refund

Expatriate Staff Individual Income Tax Staff

Filing Local Staff Individual Income Tax

### Company Taxation (CIT)

#### [Tax Consulting](#)

Corporate Tax Planning

Business Restructuring

Value Chain Review

Onshore / Offshore Investment

Transfer Pricing

#### [Tax Compliance](#)

Tax Due Diligence

Tax Deregistration

Negotiation of Tax Penalties

Tax Refund Application

Tax Representatives for Tax Audit

VAT & Customs Duty Clearance

PRC Tax Receipt Verification

VAT Application

VAT & Sales Tax Filing

Corporate Income Tax Reporting

## Specialist Accounting & Risk Management

### Internal Controls

Systems

Risk Management

Sarbanes - Oxley (SOX 404)

### GAAP, SEC & IFRS Compliance

#### [US GAAP](#)

US GAAP Financial Statement Preparation

US GAAP Conversion

#### [Other GAAP](#)

GAAP Conversion

Public Company Compliance

Financial Statement Preparation

#### [IFRS](#)

IFRS Accounting Repackaging

IFRS Financial Statement Preparation

IFRS Public Company Compliance

#### [SEC](#)

SEC Public Company Compliance

## Legal Services

### Legal Advisory

#### [Labour Legal Advisory](#)

Workforce Downsizing Advisory

Labour Tribunal Assistance & Advisory

Labour Law Review & Audits

Review & Preparation of Employment Contracts

#### [Corporate Legal Advisory](#)

Legal Due Diligence

Corporate Restructuring Advisory

Review & Preparation of Articles of Association (AoA)

Review & Preparation of JV Contracts

Review & Preparation of Repatriation Agreements

#### [Other Legal Services](#)

Dispute Mediation & Advisory

Trademark & Intellectual Property Advisory

Debt Collection Assistance

Litigation Support

# LEHMANBROWN

雷博國際會計  
International Accountants



## Contact Us 联系我们

For further information about how we can add value and support your individual or business needs, please contact us.

如需为个人或企业获取更多的增值服务及业务协助信息，请与我们联系。

### Beijing 北京

6/F, Dongwai Diplomatic Building, 23 Dongzhimenwai Dajie,  
Beijing 100600, China  
中国北京市朝阳区东直门外大街 23 号东外外交办公大楼 602  
Tel: + 86 10 8532 1720  
Fax: + 86 10 8532 2746  
Email: [beijing@lehmanbrown.com](mailto:beijing@lehmanbrown.com)

### Shanghai 上海

Room 1501 & 1504, Wan Tai International Building,  
480 North Urumqi Road, Shanghai 200040, China  
中国上海市静安区乌鲁木齐北路（华山路）480 号万泰国际大厦 1501 & 1504  
Tel: + 86 21 6249 0055  
Fax: + 86 21 6288 1636  
Email: [shanghai@lehmanbrown.com](mailto:shanghai@lehmanbrown.com)

### Guangzhou 广州

Room 3317, China Shine Plaza, 9 Lin He Xi Road, Guangzhou  
510610, China  
中国广州市林和西路 9 号耀中广场 3317 室  
Tel: + 86 20 2205 7883  
Fax: + 86 20 2205 7880  
Email: [guangzhou@lehmanbrown.com](mailto:guangzhou@lehmanbrown.com)

### Shenzhen 深圳

Room 3206, News Building 2, Shennan Middle Road, Shenzhen  
518027, China  
中国深圳市深南中路 2 号新闻大厦 3206  
Tel: + 86 755 8209 1244  
Fax: + 86 755 8209 0672  
Email: [shenzhen@lehmanbrown.com](mailto:shenzhen@lehmanbrown.com)

### Tianjin 天津

Unit 2901-04, The Exchange Tower 2, 189 Nanjing Road, Heping  
District Tianjin 300051, China  
中国天津市和平区南京路 189 号津汇广场 2 座 2901-04 室  
Tel: + 86 22 2318 5056  
Fax: + 86 22 2318 5001  
Email: [tianjin@lehmanbrown.com](mailto:tianjin@lehmanbrown.com)

### Hong Kong 香港

Suite 03, 16/F, Sino Plaza, 255-257 Gloucester Road, Causeway  
Bay, Hong Kong, China  
中国香港铜锣湾告士打道 255-257 號信和廣場 16 樓 03 室  
Tel: + 852 2426 6426  
Fax: + 852 2426 6427  
Email: [hongkong@lehmanbrown.com](mailto:hongkong@lehmanbrown.com)

### Macau 澳門

Level 20, AIA Tower, 251A-301 Avenida Commercial De Macau,  
China  
中国澳門商業大馬路 251A-301 號友邦廣場 20 樓  
Tel: + 853 8294 2434  
Fax: + 853 8294 2399  
Email: [macau@lehmanbrown.com](mailto:macau@lehmanbrown.com)



[www.lehmanbrown.com](http://www.lehmanbrown.com)