

Tax Planning of Individual Income Tax under the New Individual Income Tax Law

Fang He^{1,*}

¹*School of Management, Liaoning Institute of Science and Technology, Benxi, 117004, China*

**Corresponding author: bxjxhf@163.com*

Keywords: Individual income tax, Tax planning, Deductions

Abstract: Since January 1, 2019, our country's individual income tax has implemented a collection system combining classification and synthesis. Great changes have taken place in the new individual tax collection methods, tax items, tax rates and deductions, how to carry on the individual income tax planning under the new individual income tax law appears to be particularly important. Therefore, this article intends to study the changes of the new personal income tax law from the aspects of the collection method, tax items, tax rates and deductions, and analyze the effects of these changes on the planning of personal income tax, and propose the planning scheme of personal income tax from different angles, reduce personal income tax burden, reduce tax expenditure, increase personal income after tax.

1. Introduction

The individual income tax is one of the most important sources of finance in our country. How to plan for individual income tax payment has been one of the hot topics. With the reform of individual income tax in 2018, from 2019, the individual income tax of our country carries out the collection mode of combination of classification and synthesis, and the change of the mode makes the planning of individual income tax more important. Compared with the old law of individual income tax, the new law of personal income tax has changed a lot in the way of collection, tax items, tax rates, deduction items, etc. Therefore, it is very urgent to analyze the change of new individual income tax and its influence on individual income tax planning, and then propose effective individual income tax planning scheme.

2. Changes of the new individual income tax law

2.1 The threshold shall be set at 5,000 yuan per month

The new tax law stipulates that the total income of individual residents shall be the taxable income amount, after deducting 60,000 yuan of expenses from the income amount of each taxable year and after special deductions, special additional deductions and other deductions determined according to law. [1]

2.2 Tax cuts are skewed towards lower and middle incomes

According to the new tax law, after the amendment, some levels of personal income tax rates have been further optimized and adjusted, with the levels of 3%, 10% and 20% being increased, and the levels of 25% being reduced, while the levels of 30%, 35% and 45% being unchanged.

2.3 A number of expenses are tax deductible

In calculating individual income tax in the future, besides the standard of deducting basic expenses and “Three insurances and one fund”, the special additional deductions have been added. Under the new tax law, special additional deductions include expenses such as children's education, continuing education care, medical care for serious illnesses, house loan interest or house rent, and support for the elderly. [2]

2.4 Some items adopt the way of comprehensive collection

Income from remuneration for personal services, income from contribution, income from royalties and income form salaries and wages shall be calculated on the basis of the combination of the tax years, and a comprehensive levy shall be carried out on it at progressive tax rates. [3]

2.5 Reform the taxation of year-end bonuses.

From 2022, our country will abolish the year-end bonus tax policy, the year-end bonus will also be incorporated into the comprehensive income to calculate the individual income tax. [4]

3. The influence of the change of the new personal income tax law on tax planning

3.1 The impact of changes in the mode of collection on planning

Under the original individual income tax, remuneration for services, contributions and royalties are collected separately, therefore, tax planning can be carried out through the split of each income from remuneration for services, contributions and royalties, and the amount of individual income tax can be reduced to obtain the absolute benefit of tax planning, a combined levy on remuneration for services, contributions, royalties and wages and salaries, so that the total amount of individual income tax can not be reduced through a split planning method, but only changes in the timing of tax payments, so as to obtain the relative income of tax planning.

3.2 The impact of changes in deducting items on tax planning

Under the new individual income tax law, six new special additional deductions have been added, namely, education for children, continuing education, medical treatment for serious diseases, housing loan interest or housing rent, and support for the elderly, the standard of these deduction items and the choice of deduction method will affect the amount of individual income tax, so the choice of Appropriate deduction method can effectively reduce the tax of individual income tax.

3.3 The impact of the change in the tax rate band on tax planning

The tax rate band of the first three brackets of comprehensive income has expanded more, especially the band of the 10% tax rate. The second band of the old tax rate is 1,500-4,500 yuan per month, while the second band of the new tax rate per month is 3,000-12,000 yuan. The gap has

increased significantly, which helps lower-and middle-income groups to reduce taxes and increase after-tax income. Therefore, in the planning process, we should control the income at 10% tax rate as can as possible, thus the applicable tax rate and the tax payable will be reduced.

3.4 The impact of the change in the taxation of the year-end bonus on the tax planning

Under the original individual income tax law, the year-end bonus is taxable separately; and according to the provisions of the new individual income tax law, starting from 2022, our country will abolish the policy of the year-end bonus being taxable separately, the year-end bonus will also be incorporated into the consolidated income for individual income tax. This means that the year-end bonus can be separately from the consolidated income for the year until December 31 2021. The change of the year-end bonus collection method has also brought a great impact on the individual income tax planning, once the abolition of the year-end bonus separate tax, then the year-end bonus tax planning space will be greatly reduced.

4. The tax planning mode under the new individual income tax law

4.1 The one-time annual bonus tax planning

Under the new tax law, the transition period of the year-end bonus policy is 3 years. During the transition period, the year-end bonus can be taxed separately or incorporated into the comprehensive income. The 2021 China State Council executive meeting decided to extend the implementation of the year-end Bonus transitional period until the end of the 2023 year. This means that, before the 2024, tax planning can be done by choosing whether to tax the year-end bonus separately or combine it with the combined income. [5]

4.1.1 A reasonable choice of whether to incorporate the combined income or calculate it separately

Case 1:

Mr. Wang's salary income in 2020 was 7,000 yuan per month in salary, “Three insurances and one fund” was 1,000 yuan per month, and special additional deductions was 3,000 yuan per month (specifically 1,000 yuan per month for children's education and 2,000 yuan per month for supporting the elderly). In December 2020, he received a one-off annual bonus of 24,000 yuan.

Option 1: if the year-end bonus is taxable separately

Then $24000/12 = 2000$, individual income tax payable $= 24000 \times 3\% = 720$ yuan. The taxable income amount of annual salary income $= 7000 \times 12 - 60000 - 1000 \times 12 - 3000 \times 12 = -24000$, So it is free of tax. So the taxable amount of year-end bonus and salary income is 720 yuan.

Option 2: If the year-end bonus is integrated into the comprehensive income,

Then the taxable income $= 7000 \times 12 + 24000 - 60000 - 1000 \times 12 - 3000 \times 12 = 0$, and the individual income tax is not required for the whole year.

From the above analysis can be seen, Mr. Wang should select option 2, which can get more tax benefits, saving tax 720 yuan.

Case 2:

Mr. Sun's salary income in 2020 was 14,000 yuan per month in salary, “Three insurances and one fund” was 1,000 yuan per month, and special additional deductions was 3,000 yuan per month (specifically 1,000 yuan per month for children's education and 2,000 yuan per month for supporting the elderly). In December 2020, he received a one-off annual bonus of 24,000 yuan.

Option 1: if the year-end bonus is taxable separately,

Then $24000/12 = 2000$, individual income tax payable $=24000 \times 3\% = 720$ yuan. The taxable income amount of salary income $= 14000 \times 12 - 60000 - 1000 \times 12 - 3000 \times 12 = 60000$, and the income tax payable $=600 \times 10\% - 2520 = 3480$ yuan. So the income tax payable of year-end bonus and salary is $720 + 3480 = 4200$ yuan

Option 2: If the income is integrated into the comprehensive income tax,

Then the taxable income $= 14000 \times 12 + 24000 - 60000 - 1000 \times 12 - 3000 \times 12 = 84000$ yuan,

The individual income tax payable $= 84000 \times 10\% - 2520 = 5880$ yuan.

From the above analysis, it can be seen, the option 1 can save the tax payable $= 5880 - 4200 = 1680$ yuan. Therefore, when the taxable income of the combined income is negative, the year-end bonus should be more suitable to be merged into the combined income.

4.1.2 The taxation of the year-end bonus should avoid the tax blind area (the critical point).

When choosing the separate taxation of the year-end bonus, there exists the year-end bonus blind area (the critical point). When the taxable bonus falls in this range, because the tax burden increases more than the bonus increase, leading to the actual bonus decrease, this range is called “blind zone”. There are six such blind spots in total: (36000yuan, 38566.67yuan), (144000yuan, 160500yuan); (300000yuan, 318333.33yuan), (420000yuan, 447500yuan); (660000yuan, 706538.46yuan); (960000yuan, 1120000yuan)

Therefore, in the year-end bonus separate tax, to avoid the year-end bonus tax blind zone. The concrete scheme is as follows:

(1) Avoiding blind area artificially. If the bonus should be paid in the blind area, the bonus should be controlled at the left end of the range, such as 36,000yuan, 144,000yuan, 300,000yuan, 420,000yuan, 660,000yuan and 960,000yuan. The extra amount can be reimbursed for communication expenses by means of actual reimbursement, or as travel expenses. [6]

(2) Divide the bonus payable into two parts, one part is taxable separately according to the year-end bonus and the other part is consolidated into the consolidated income tax. [7]

Case 3

Mr. Liu's income in 2020 was as follows: 10,000 yuan per month for salary, “Three insurances and one fund” was 1,000 yuan per month, and special additional deductions was 3,000 yuan per month (specifically 1,000 yuan per month for children's education and 2,000 yuan per month for supporting the elderly). In December 2020, he received a one-off annual bonus of 37,000 yuan.

According to the provisions of the tax law, the taxable income amount of Mr. Liu's annual salary $= 10,000 \times 12 - 60,000 - 1000 \times 12 - 3000 \times 12 = 12,000$ yuan.

Option 1

Combine the year-end bonus of 37,000 yuan into the comprehensive income, then the year-end bonus and salary should pay individual income tax $= (12000 + 37000) \times 10\% - 2520 = 2380$ yuan.

Option 2

The year-end bonus will be separately taxable, then $37000/12 = 3083$, so the year-end bonus should pay individual tax $= 37000 \times 10\% - 210 = 3490$; the salary income should pay individual tax $= 12000 \times 3\% = 360$ yuan; the total individual tax payable $= 3490 + 360 = 3850$ yuan

Option 3

the year-end bonus of 1000 yuan out of 37,000 yuan shall be reimbursed in the form of actual reimbursement of communication expenses, while 1000 yuan of communication expenses shall be reimbursed without paying tax, the remaining year-end bonus 36,000 should pay tax $= 36,000 \times 3\% = 1080$ yuan, and salary should pay tax $= 12,000 \times 3\% = 360$ yuan; Both the year-end bonus and salary pay tax $= 1080 + 360 = 1440$ yuan.

Option 4

Divide the year-end bonus 37,000 yuan into two parts, of this amount, 36,000 yuan will be paid as the year-end bonus, and the extra 1,000 yuan will be paid directly as the salary of the current month. The year-end bonus will pay individual income tax of $36,000 \times 3\% = 1,080$ yuan. The individual income tax payable on salary will be $13,000 \times 3\% = 390$ yuan. Both pay a total individual income tax of $1080 + 390 = 1,470$ yuan.

To sum up, option 3 and 4 of individual income tax less, enterprises in the year-end bonus, can take a shift or split approach, reduce the tax burden of individual income tax.

4.2 Making rational use of special additional deductions

For housing loans, housing rent, serious diseases and other special additional deductions may be deducted from either spouse when filing individual income tax returns, children's education can be deducted by either of the spouses or by 50% of each spouse. Therefore, it is feasible to make use of special additional deduction for tax planning. [8]

Case 4

Xiao Wang's monthly salary is 34,000 yuan, his wife Xiao Sun's monthly salary is 11,000 yuan, Xiao Wang pays 2,000 yuan and Xiao Sun pays 1,000 yuan each month for "Three insurances and one fund". They have a child who goes to primary school and needs to pay the monthly housing loans, Xiao Wang and his brother support the elderly together, Xiao Sun is an only child, his parents over 60 years old. How to reasonably use the deductions to reduce the individual income tax of Xiao Wang and Xiao Sun's family.

Because the Children's education and housing loans can be deducted by either of the spouses, we calculate the individual income tax of the whole family when the children's education and housing loans are deducted by the husband Xiao Wang and the wife Xiao Sun respectively, the detailed calculation process is shown in Table 1:

Table 1: The Computation process of the Individual Income Tax of Xiao Wang and Xiao Sun

Computation process	option1 deducted by Xiao Wang		option2 deducted by Xiao Sun	
	Xiao Wang	Xiao Sun	Xiao Wang	Xiao Sun
1.Monthly income	34000	11000	34000	11000
2.Expenses	5000	5000	5000	5000
3.Three insurances and one fund	2000	1000	2000	1000
4.Children's education	1000			1000
5.housing loans	1000			1000
6.supporting the elderly	1000	2000	1000	2000
7.Taxable income=1-2-3-4-5-6	24000	3000	26000	1000
8.Combined annual income	288000	36000	312000	12000
9.Tax Rate, quick calculation of deductions	20%, 16920	3%, 0	25%, 31920	3%, 0
10.individual Income Tax = 8 * Tax rate-quick calculation of deductions	40680	1080	46080	360
Xiao Wang and Xiao Sun pay taxes together	41760		46440	

As can be seen from Table 1, option 1 pays less individual tax, saving a total of 4680 yuan.

To sum up, special additional deductions should be deducted in the high-income side of the family, which can reduce the taxable income and tax rates, thus achieving the goal of tax savings.

5. Conclusion

This paper analyzes the change of the new individual income tax law and its influence on the planning of Individual Income Tax, and discusses the design of the tax planning plan under the new individual income tax law by taking the year-end bonus and the reasonable use of deductions as

examples, for the planning of the year-end bonus, we should make rational use of the transitional policy of the year-end bonus tax revenue. During the transitional period, we should compare the individual income tax burden that is calculated separately with that of the consolidated income, and pay attention to avoiding the blind area of the year-end bonus when we choose to calculate the tax separately, and through the conversion or split method control the amount of year-end bonus in the left of the blind area. As for the plan of making rational use of special additional deduction, we should try our best to deduct special additional deduction on the higher income side to decrease the progressive tax rate, so as to reduce individual income tax.

References

- [1] Hong Shen. *The Necessity and Feasibility of Individual Income Tax Planning*. *Taxes*. 2019, 13(33): 47.
- [2] Yanli Yin. *Research on Tax Planning under the New Individual Income Tax Law*. *Taxes*. 2019, 13(32): 35-36.
- [3] Yang Wang. *An Analysis of How to Plan Individual Income Tax in the New Individual Income Tax*. *Tax Planning*. 2019 (19): 62
- [4] Shujing Chen. *Tax Planning for Individual Income Tax*. *Finance*. 2019(11):237-238.
- [5] Jia Lei. *Discussion on the Tax Planning of Individual Income Tax on Salary Income of Public Institutions under the New Individual Income Tax*. *Learning about Accounting*. 2019(29): 157-158.
- [6] Ning Ning. *An Analysis of the Tax Planning of Individual Income Tax Based on the Tax System Reform*. *Hebei Enterprise*. 2019(10): 77-78.
- [7] Zhiwei Wang. *The Tax Planning of Salary Individual Income Tax under the New Tax Law*. *Taxes*. 2019, 13(28): 52.
- [8] Rui Li. *Study on the Planning of a Company's Material Incentive Individual Income Tax*. *Shanxi University*. 2019.