
Personal income tax threshold may rise to spur demand

Created: 2010-3-5 0:23:50

Author: Maggie Zhang

CHINESE income tax payers may enjoy an increase in their individual tax threshold this year as part of the government's moves to boost domestic consumption, according to industry watchers.

Li Shufu, a member of the Chinese People's Political Consultative Conference, the top political advisory body, has suggested that the individual income tax threshold be raised from 2,000 yuan (US\$29.28) to 5,000 yuan to reduce the burden on low-income families and free more funds for domestic consumption.

Freeman Bu, an Ernst & Young partner in Shanghai, said low-income families, rather than the wealthy ones, will benefit from a cut on individual income tax as that could boost their consumption.

"The increase in the threshold and the reduction in the maximum rates are very much likely to occur this year, backed by China's strong economic growth and the need to boost consumption," said Bu.

But Bu said the taxation bureau may view the proposed 5,000 yuan threshold as too much but a 3,000 yuan level is more likely as it would want the increase to be gradual.

The State Administration of Taxation has put forward several tax cutting measures for this year, earlier media reports said.

The top individual income tax rate is 45 percent on the Chinese mainland while it is only 16 percent in Hong Kong.

China has reiterated for a long time the need to cut reliance on exports and investments for economic growth and to boost domestic demand as a driver for expansion. Cutting taxes is expected to be part of the measures to achieve the aim.

Jia Qinglin, chairman of the CPPCC, has outlined initiatives to trim the income gap as among the key strategies for the year ahead.