

Exploring the Individual Income Tax Planning Scheme of College Teachers under the New Individual Income Tax Law

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Keywords: College teachers, New income tax, Tax planning.

Abstract. The revised Regulation on the Implementation of the Individual Income Tax Law of the People's Republic of China was put into force from January 1, 2019, together with the new Individual Income Tax Law of the People's Republic of China. The new individual income tax law increases the tax abatement for individual income tax, increases special deductions for children's education and medical expenses for serious diseases, etc. and supplements anti-tax avoidance terms. In this paper, combining the reform of the new individual income tax law and the characteristics of the income of college teachers, using case analysis and field survey, the author points out the influence of the reform of individual income tax on the income of college teachers and proposes an individual income tax planning scheme, with a view to guide college teachers to understand tax policies under the new individual income tax law. Hopefully, college teachers can make individual income tax planning actively, so as to safeguard their own interests.

1. Introduction

With the improvement of the new tax law and the strengthening of its enforcement, taxpayers have raised the awareness of tax payment and paid more and more attention to tax planning. The new individual income tax law changes classified taxation into a combination of comprehensive taxation and classified taxation, optimizes and adjusts the original tax rate structure. Under the new individual income tax law, the original tax planning is obviously not very applicable, so it is especially important to analyze the individual income tax planning schemes of college teachers under the new individual income tax law.

2. Changes Brought about by the Reform of Individual Income Tax

2.1 The classified taxation is changed into a combination of comprehensive taxation and classified taxation

Comprehensive income includes four categories: wage & salary, labor remuneration, author's remuneration and royalties. These four categories shall be taxed by means of comprehensive taxation on an annual basis. The uniform progressive tax rates ranging from 3%~45% shall apply. The new individual income tax law offers a tax cut of 20% for three categories: labor remuneration, author's remuneration and royalties. For the author's remuneration, a further discount of 70% will be given on the above basis, so the author's remuneration is actually taxed by 56% of the income. The new tax law increases the tax abatement for comprehensive income from 3,500 yuan per month currently to 5,000 yuan per month, that is, the tax abatement for comprehensive income every year is 60,000 yuan tax.

2.2 The tax rate structure is optimized and adjusted

The new individual income tax law increases the tax abatement for comprehensive income from 3,500 yuan per month currently to 5,000 yuan per month, that is, 60,000 yuan per year. Apart from the change in tax abatement, the tax rate also changes. So does the quick calculation deduction. The new individual income tax rates are shown in Table 1.

Table 1 New Individual Income Tax Rates
(Applicable to withholding and remittance from individual residents' wages and salaries)

Level	Taxable Income Throughout the Year	Tax Rate	Quick Calculation Deduction
1	Not over CNY 36,000	3%	0
2	Over CNY 36,000 to CNY 144,000	10%	2,520
3	Over CNY 144,000 to CNY 300,000	20%	16,920
4	Over CNY 300,000 to CNY 420,000	25%	31,920
5	Over CNY 420,000 to CNY 660,000	30%	52,920
6	Over CNY 660,000 to CNY 960,000	35%	85,920
7	Over CNY 960,000	45%	181,920

From Table 1, it can be seen that the new individual income tax rates widen the gap between low levels of tax rates and thus relieves the tax burden of middle-income groups. In a manner of speaking, a vast majority of taxpayers can enjoy the benefits of tax abatement to varying degrees, especially those below middle income levels. Let's take Associate Professor Zhang, whose monthly income is 8,000 yuan (all of which is income from wages and salaries) as an example and assume that the special deductions for "three insurances and one housing provident fund" are 2,000 yuan. Without considering special extra deductions, under the old individual income tax law, the exemption amount is 3,500 yuan and the monthly payable income tax is $(8,000 - 2,000 - 3,500) \times 10\% - 105 = 145$ yuan. Under the new tax law, with an exemption amount of 5,000 yuan, the monthly payable income tax is $(8000 - 2000 - 5000) \times 3\% = 30$ yuan. That is to say, 115 yuan individual income tax can be saved per month. The amplitude of decrease is 79.31%.

2.3 Six special extra deduction items are added

The special extra deductions in the new individual income tax law are the highlight of the present tax reform. *The Special Extra Deductions* have clearly stated that six special extra deduction items shall be added, in the application scope of each deduction item, the standard and method of deduction, the time point of deduction and voucher requirements, etc., The calculation formula for the new individual income tax is: taxable income = annual income - 60,000 yuan (threshold) - special deductions - special extra deductions - other deductions determined by law. Since everyone has different income profiles, the tax rates applicable to them are different and the special extra deductions they can enjoy are different, too. So the tax abatements of everyone are different. Therefore, making good use of the new policy is a way of tax planning.

2.4 The influence of the new individual income tax reform on the income of college teachers

Since most of the income of college teachers comes from wages & salaries and labor remunerations, etc., under the economic and mental stress of high housing prices, necessary household expenses and appraisal of professional titles, etc., it is actually hard for teachers to support their families. It is particularly important for teachers to be aware of the latest reform of individual income tax system that is closely related to themselves, better comply with the tax laws and avoid tax risks, when enjoying the benefits of the reform. When the wages & salaries collected by teachers from colleges and universities they work for are relatively low, the usual salaries of many ordinary teachers range from several thousand to over ten thousand yuan, and teachers often earn part-time labor remuneration, etc. through hard work. In the past, they had to pay 20% income tax. But in the final settlement in 2019, there may be tax rebates (because the actual comprehensive income is subject to a tax rate lower than 20%) and they can fully enjoy the benefits of the reform. The new individual income tax has a significant tax-cutting effect on the middle and lower- income teacher groups. Generally speaking, for teacher groups whose pre-tax income from wages & salaries are below 20,000 yuan, the expected amplitude of decrease is more than 70%.

3. Existing Problems in the implementation of Individual Income Tax Planning in Colleges

3.1 Weak awareness about tax planning

Colleges and universities don't have special funds for tax planning and seldom give special trainings on tax laws and regulations. Most of the tax planning is spontaneous behaviors of financial personnel and depends on the subjective initiative of the financial personnel. But the latter are often underpowered. Most of the teachers mistakenly think that the payment of taxes is the business of the financial personnel of the school and that how the individual income tax is calculated has nothing to do with them.

3.2 There are barriers between the information systems of colleges

Many departments in colleges, including the finance, personnel, logistics, teaching affairs and scientific research cannot share data with external units that pay author's remuneration and royalties. It is precisely because of the presence of barriers between information systems that the taxable income cannot be calculated accurately. Once the taxable income exceeds a critical point, a higher level of income tax will be levied.

4. Key Points and Methods of the Individual income tax Planning of Full-time Teachers in Colleges and Universities

4.1 The tax planning for special extra deductions

The new individual income tax law has added six special extra deduction items for the first time, including children's education, continuing education, medical expenses for serious diseases, housing loan interests, housing rents, elderly care expenses, etc. This means that the 6 kinds of expenses above can be deducted before tax. After deducting them, your payable individual income tax can be reduced and your take-home income can be increased. In terms of children's education, a quota of 12,000 yuan can be deducted per child per year. In terms of continuing education, a quota of 3,600 yuan or 4,800 yuan can be deducted per year. In terms of medical expenses for serious diseases, a quota of 80,000 yuan can be deducted according to facts per year for any expenses above 15,000 yuan. In terms of the housing loan interest for the first suite, a quota of 12,000 yuan can be deducted per year. In terms of housing rent, according to the standards of different cities, a maximum quota of 1,500 yuan can be deducted per month. In terms of elderly care expense, a quota of 24,000 yuan can be deducted per year. For example, Zhao, an associate professor at a college, works in Beijing and his monthly income is 10,000 yuan. The special deductions for "three insurances and one housing provident fund" are 2,000 yuan and the monthly housing rent is 2,000 yuan. He has a daughter who is now in kindergarten and his parents are already in their 60s. Under the old individual income tax law, there are no special extra deductions and his monthly payable income tax is $= (10000 - 2000 - 3500) \times 10\% - 105 = 345$ yuan. While under the new individual income tax law, Zhao can enjoy a deduction of 1,500 yuan for housing rent, a deduction of 1,000 yuan for children's education and a deduction of 2,000 yuan for elderly care expense (Zhao is an only child). Thus, the monthly payable income tax is $(10,000 - 2,000 - 5,000 - 1,500 - 1,000 - 2,000) \times 3\% = 0$ yuan. The reform itself has taken into account the problem of how to avoid taxes, so as to achieve the maximum tax-saving effect. The special extra deduction for children's education shall be deducted from the children's parents or other statutory guardians. Both parents can deduct 500 yuan individual income tax per child per month, or either of the parents can deduct 1,000 yuan individual income tax per child per month. For whether the father can deducts 1,000 yuan or the mother deducts 1,000 yuan, or both of them deduct 500 yuan receptively, generally speaking, it will be more cost-effective for the one with higher income to do so. The special extra deduction for housing rent is also faced with the same problem. If both of the couple works mainly in the same city, then only either of them can deduct and this person should be the tenant signing on the house leasing contract. Whose deduction will be more cost-effective, the husband's or the wife's? Who should be the tenant signing on the house leasing contract? We should calculate which way would be more

cost-effective, by comparing with the case where both of the couple sign on the house leasing contract.

4.2 The tax planning for labor remuneration income

Nowadays, the income sources of college teachers become increasingly diversified, including: paper review, all kinds of invigilation, allowance from supervision group, processing fee, testing fee and drawing fee, etc. for being commissioned by enterprises, etc. The differences between the ways these incomes are distributed have a great impact on the amount of payable tax. For example, the invigilation is divided into on-campus invigilation and special invigilation. The special invigilation includes all kinds of off-campus invigilation, including professional title examination, national public servant examination, qualification examinations for primary and secondary school teachers, etc. If the invigilator fees are first paid to the school by the unit organizing the exam and then granted to teachers by the school, since the teachers have signed labor contracts with the school and they have an employment relationship, the labor remuneration they obtain are wages & salaries. All of them should be counted in comprehensive income in the current month for taxation. If the invigilator fees are directly granted to teachers by the unit organizing the exam, the labors haven't signed any labor contract with the unit and they have any employment relationship, so the labor remuneration they obtain shall be treated as service income and counted by 80% of the income in the comprehensive income for taxation.

4.3 The tax planning for year-end bonus

As is explicitly stipulated by *the Notice on the Cohesion of Preferential Policies after the Revision of the Individual Income Tax Law* lately issued by the Ministry of Finance and the State Administration of Taxation, the year-end bonus obtained by an individual resident before December 31, 2021 shall not be counted in his/her comprehensive income in the current year, but shall be treated as one month's wage & salary alone to calculate individual income tax. That is to say, the year-end bonus obtained by the individual resident before December 31, 2021 can continue to enjoy the individual income tax preference. After January 1, 2022, this income shall be counted in the comprehensive income in the current year, consolidated and settled in the following year. According to this notice, the calculation formula of payable tax is: payable tax = one-time annual capital income divided by 12 months × applicable tax rate- quick calculation deduction. The individual income tax rates applicable to year-end bonus are shown in Table 2.

Table 2 Individual Income Tax Rates
(Applicable to year-end bonus)

Level	Taxable Income Throughout the Month	Tax Rate	Quick Calculation Deduction
1	Not over CNY 3,000	3%	0
2	Over CNY 3,000 to CNY 12,000	10%	210
3	Over CNY 12,000 to CNY 25,000	20%	1,410
4	Over CNY 25,000 to CNY 35,000	25%	2,660
5	Over CNY 35,000 to CNY 55,000	30%	4,410
6	Over CNY 55,000 to CNY 80,000	35%	7,160
7	Over CNY 80,000	45%	15,160

The level adjustment of the new tax rates produces new critical points. If one doesn't pay sufficient attention, the phenomenon that "one yuan more in the year-end bonus, one thousand yuan less in the take-home income" will occur.

Table 3 The Invalid Intervals of Year-end Bonus

Level	Taxable Income Throughout the Month	Tax Rate	Quick Calculation Deduction	Invalid Interval
1	≤3,000	3%	0	36001.00~38566.67
2	3,000<X≤12,000	10%	210	-
3	12,000<X≤25,000	20%	1410	144001.00~160500.00
4	25,000<X≤35,000	25%	2660	300001.00~318333.33
5	35,000<X≤55,000	30%	4410	420001.00~447500.00
6	55,000<X≤80,000	35%	7160	660001.00~706538.46
7	>80,000	45%	15160	960001.00~1120000.00

As can be seen from Table 3, 36,000 yuan is a critical point. If Professor Zhang's one-time annual bonus is 36,000 yuan, without considering the wage & salary and other factors in the current month, the applicable tax rate is 3%, the individual income tax payable is $36,000 \times 3\% = 1,080$ yuan, and the after-tax income is 34,920 yuan. Professor Zhu's year-end bonus is 1 yuan more than that of Professor Zhang, that is, 36,001 yuan in year-end bonus. So the applicable tax rate is 10%, the individual income tax payable is $36,001 \times 10\% - 210 = 3390.1$ yuan, and the after-tax income is 32,610.9 yuan. By contrast, when one yuan more year-end bonus is granted, 2,309.1 yuan less after-tax income will be obtained. More bonus, less take-home income. The reason for this is that the 960,001.00 yuan bonus is within an invalid interval. The invalid interval of one-time annual bonus is a range where the growth of annual bonus income is slower than the growth of tax burden. In addition to this, 144,000 yuan, 300,000 yuan, 420,000 yuan, 660,000 yuan and 960,000 yuan are also critical points. When the college is calculating and granting one-time annual bonus, it shall plan well ahead of schedule. If the year-end bonus granted by the college is within an invalid range, then relevant the teachers and administrative staff can communicate with the unit to give up part of the year-end bonus, so as to maximize the actual paid-in amount.

4.4 The tax planning for author's remuneration

The new individual income tax law allows the income from author's remuneration to be calculated and taxed after deducting 20% of expenses and gives a further discount of 70% on this basis. This is equivalent to calculating and taxing the author's remuneration by 56%, which significantly reduces the tax burden. When publishing works, teachers should first agree with the publishing house on the payment of relevant fees by the latter before publication, so as to reduce the tax base for author's remuneration. The individual income tax on author's remuneration = $[\text{income} \times (1-20\%) \times 70\% - 60,000 - \text{special additional deduction}] \times \text{applicable tax rate} - \text{quick calculation deduction}$. For example, Professor Li's monthly salary is 10,000 yuan. He plans to publish an academic monograph. The research group has previously obtained some research expenditures. The estimated author's remuneration after publication is 120,000 yuan, the research expenses and relevant fees are 50,000 yuan. If the publishing house directly pays 120,000 yuan to Professor Li as the author's remuneration, without considering special extra deductions, the author's remuneration is $= 120,000 \times (1-20\%) \times 70\% = 67,200$ (yuan). The individual income tax on author's remuneration is $= (120,000 + 67,200 - 60,000) \times 10\% - 2,520 = 10,200$ (yuan). If the publishing house pays 50,000 yuan of relevant fees, the author's remuneration that Professor Li can obtain is 70,000 yuan, the income from author's remuneration is $70,000 \times (1-20\%) \times 70\% = 39,200$ (yuan). The individual income tax on author's remuneration is $= (120,000 + 39,200 - 60,000) \times 10\% - 2,520 = 7,400$ (yuan). Thus it can be seen that when teachers publish works, they should agree with the publishing house on the payment of relevant fees by the latter before publication. In doing this, 2,800 yuan tax can be saved (10,200-7,400).

4.5 The tax planning for scientific research rewards

College teachers make a large number of scientific research achievements every year. How to distribute rewards to college teachers in a reasonable way is a problem that teachers always think about. It can be paid to the project director in full and then the latter distributes to other project participants, or it can be directly paid to those who participate in the project. In this way, the rewards can be taxed separately and the tax will be greatly reduced. Besides, materials, books &

reference materials, conference fees and other research expenses can also be reimbursed before final settlement. In doing so, the amount of individual income tax can be reduced. For example, a scientific research project obtains a scientific research fund of 50,000 yuan. If the 50,000 yuan is collected by the director, Associate Professor He alone, and then distributed to other teachers participating in the project, Associate Professor He's monthly salary is 7,000 yuan, then the tax payable by Associate Professor He is $= (7,000 \times 12 + 50,000 - 60,000) \times 10\% - 2,520 = 4,880$ (yuan). If the school directly grants the reward to five teachers who participate in the project and each teacher collects 10,000 yuan respectively, then the tax payable by Associate Professor He is $= (7,000 \times 12 + 10,000 - 60,000) \times 3\% = 1,020$ (yuan). All of the other four teachers have the professional title of lecturer and their monthly salary is 5,000 yuan. The tax payable by the other four teachers in the research group is $(5,000 \times 12 + 10,000 - 60,000) \times 3\% \times 4 = 1,200$ yuan. If the scientific research fund, 50,000 yuan, is collected by the director, Associate Professor He alone and then distributed to other teachers who participate in the project, then 2,660 (4,880-1,020-1,200) yuan tax can be saved. For another example, Professor Zhong's monthly salary is 9,000 yuan. He has been approved a scientific research project, and obtained a scientific research fund of 30,000 yuan. If the individual income tax payable by Professor Zhong this month is calculated according to this income, then the tax payable by Professor Zhong is $= (9,000 \times 12 + 30,000 - 60,000) \times 10\% - 2,520 = 5,280$ (yuan). If 5,000 yuan conference fees, 1,000 yuan books & reference materials, 3,600 yuan traveling expenses and 3,000 yuan research expenses incurred during the scientific research are reimbursed first, the individual income tax payable by Professor Zhong is 4,050 yuan. Thus it can be seen that using the last calculation method, 1,230 yuan (5,280-4,050) tax can be saved.

5. Measures for the Effective Implementation of the Tax Planning Scheme

5.1 All members shall participate in the tax planning

Tax planning is not merely the work of the financial department and the personnel department. It requires the cooperation of all departments. The new individual income tax reform increases the workload and challenge of relevant departments, but this work is closely related to all teachers and administrative staff. There are hundreds of teachers and administrative staff in a college, but only a few financial staff. To ameliorate this situation, the personnel department of the college should strengthen the internal training on tax planning. They can hire professionals outside the college or excellent accounting teachers inside the college to guide and disabuse all members through regular lectures, so that the teachers can understand the important role of tax planning. All college teachers must establish an awareness of tax planning. Each of the teachers and administrative staff should learn to calculate the individual income tax. Some of the expenditures that are saved can be used to reward teachers and administrative staff that make contributions.

5.2 To realize data sharing and prevent individual income taxes from exceeding critical points

Under the new individual income tax law, the mode of comprehensive taxation not only involves relevant departments in colleges, such as finance department, personnel department, logistics department and scientific research department, but also involves external units that pay author's remuneration and royalties. Only by realizing data sharing can taxable income be calculated in a correct way. At present, a progressive tax rate system is adopted. When a teacher's taxable income is slightly higher than the critical point of a certain level of taxable income, he/she should take corresponding measures, such as buying tax-advantaged health insurance and planning to obtain a skill certificate. On the one hand, this can help avoid tax reasonably. On the other hand, he/she can increase certificates for competition in the workplace.

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