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New policy may tighten taxpayers' belts

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A new tax regulation will crimp the wallets of many employees of State-run enterprises, while foreign company employees may not be affected.

Considered an open secret for many organizations based in the capital, the so-called "gray income" has been allowed for local tax evaders because the monthly stipend for such expenses as taxi fares has never been listed as person income items prior to the new nationwide rule.

The gray incomes add up to thousands of yuan per month but analysts said the new regulation on personal income tax issued this year by the State Administration of Taxation will eliminate this common practice.

The timely move will also direct more tax revenue into the nation's coffers as it slowly recovers from the recent financial recession.

The new regulation lists phone and transportation stipends as part of an employee's personal income for the first time. It also holds employees liable for tax payments once the regulation is in effect.

The original scope of personal income includes an employee's salary, annual bonus, overtime salary and some additional income sources, which are not specified.

However, employees from foreign corporations in the capital said yesterday they will not be affected.

Lene Long, an accountant who has previously worked in two Beijing-based foreign companies, gave two reasons to explain the rule's ineffectiveness.

"First, foreign ventures audit corporate spending carefully," Long said. "Second, they pay employees much more than State-run organizations, so there is no room for stipends for their employees."

Financial experts agreed.

"The new tax-imposing policy will mainly target State-owned enterprises who have been almost addictive to cashing everything through receipts to make more without paying taxes," said Liu Junsheng, a Beijing-based financial expert and advisor to the Ministry of Human Resources and Social Security.

Accountants in government-run agencies in the capital yesterday said they expected a significant cut in employees' incomes as a result of the regulation, but employees said they expected "little changes."

"Tax authorities seem pretty serious this time about the receipt practice after a difficult financial year so far," said an accountant of a government-run agency, who declined to be named.

"If [authorities] investigate us, we can do nothing but cut off stipends," she told China Daily.

But Jiang Yang, an employee with a State-run enterprise in Beijing, said even if tax authorities begin looking into a company's tax practices, there will no major changes in paychecks.

"Senior officials have many ways of earning money, so they won't care about losing some taxi stipends," he told *China Daily*. "For little potatoes, we may not be allowed to cash out receipts in the future, but I bet we will receive more shopping cards instead."

But taxation authorities yesterday also pointed out difficulties when implementing the new policy: Companies and government agencies may come up with new items for stipends that are out of reach for taxation watchdogs.

Beijing's local taxation bureau's anti-tax evasion office was not available for comment by press time yesterday.

(*China Daily* September 17, 2009)

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