

Policies on annual comprehensive income tax reconciliation under the new individual income tax system published

Regulations discussed in this issue:

- *Announcement No. 94 of the State Taxation Administration, Ministry of Finance, 2019 (hereinafter referred to as "Announcement No. 35")*
- *Announcement on annual comprehensive income tax reconciliation (consultation document) (hereinafter referred to as "consultation document")*

Background

On 14 December 2019, the Ministry of Finance and the State Taxation Administration ("STA") published Announcement 94 of 2019 – "*Announcement on relevant policies regarding individual income tax annual comprehensive income tax reconciliation*" (hereinafter referred to as Announcement No. 94). At the same time, the STA also published the "*Announcement on annual comprehensive income tax reconciliation (consultation document)*" (hereinafter referred to as "consultation document"), seeking public opinion on the proposed annual comprehensive income tax reconciliation policy details. The deadline for responding to the public consultation is 26 December 2019.

Announcement 94 and the consultation document are the first guidance documents published on the annual comprehensive income tax reconciliation (hereafter "Annual Reconciliation") process following the publication of "Implementation rules of the individual income tax law" and "Announcement on individual income tax self-declaration" (Announcement 62 of 2018).

Salient points

Announcement 94 and the consultation document primarily set out the following requirements on the 2019 Annual Reconciliation:

Relevant taxpayers and income types

Resident taxpayers who have received comprehensive income¹ (i.e. employment income, independent personal services income,

¹ *Comprehensive income covered under Annual Reconciliation does not include annual bonus payments, one-off compensation payments for redundancy or early retirement, and equity incentives which are subject to special tax treatment.*

author's remuneration and royalty income) between 1 January 2019 and 31 December 2019.

Calculation formula

Tax liability or refund due for 2019 tax year =

$$\left[\begin{array}{l} \text{Comprehensive} \\ \text{income} \end{array} - \begin{array}{l} 60,000, \\ \text{social insurance} \\ \text{contributions,} \\ \text{itemised} \\ \text{deductions and} \\ \text{other allowable} \\ \text{deductions} \end{array} \right] \times \begin{array}{l} \text{Applicable} \\ \text{tax rate} \end{array} - \begin{array}{l} \text{Quick} \\ \text{deduction} \end{array} - \begin{array}{l} \text{Tax} \\ \text{withheld} \\ \text{for 2019} \end{array}$$

Circumstances under which no Annual Reconciliation required

1. Additional tax due but annual comprehensive income does not exceed CNY 120,000 in 2019 or 2020
2. Additional tax due does not exceed CNY 400 in 2019 or 2020
3. Total tax liability equals tax withheld²
4. Individuals who decide not to seek tax refund

Circumstances under which Annual Reconciliation is required

1. Tax refund due as a result of tax withheld exceeding total tax liability in 2019
2. Annual comprehensive income exceeds CNY 120,000 and additional tax due exceeds CNY 400 in 2019
3. No or insufficient tax deductions obtained and seeking to claim additional deductions via Annual Reconciliation

Timeframe for Annual Reconciliation filing

Standard timeframe: 1 March to 30 June 2020

Special timeframe applies in the following circumstances:

- Non-domiciled individuals who departs from China prior to the standard timeframe can file Annual Reconciliation before their departure date.
- Taxpayers whose annual comprehensive income does not exceed CNY 60,000 and tax withholding has been applied can apply for tax refund via an online fast route between 1 March and 31 May 2020.

² Where withholding agents fail to apply correct tax withholding, resident taxpayers will be required to file Annual Reconciliation to settle additional tax due.

Filing process

1. Taxpayer self-service
2. Via employment income/independent services tax withholding agents
3. Appoint professional tax agents or other organisations/individuals

Filing channels

Online, post or attend tax bureau service centres.

Receiving tax bureaus

- Where taxpayers are employed, the Annual Reconciliation should be filed to the local tax bureau where the employer is based.
- In other cases, taxpayers should file the Annual Reconciliation to the local tax bureau where their household registration (“Hukou”) is located or at their habitual place of residence.

Tax payment or refund considerations

- Those who are seeking tax refund should provide details of their qualified Chinese bank account.
- Those with additional tax to settle can make tax payments via their bank, POS machine, bank counters and other non-bank payment platforms.

KPMG Observation

Announcement 94 and the consultation document continue to carry the spirit of the 2019 individual income tax reform, which aims to reduce the tax burden and lower the administrative obstacles for taxpayers while empowering the enforcement by the tax authorities. Therefore, we would like to highlight the following key points to tax withholding agents and taxpayers:

Withholding agents

In view of the significant size of the Chinese taxpayer population, tax withholding agents play a key role in the collection of individual income tax in China. The consultation document clarifies that where individual taxpayers request withholding agents to facilitate their Annual Reconciliation filing, the withholding agent should provide the necessary assistance. As the key communication channel between taxpayers and the tax authorities, withholding agents should proactively communicate the relevant policies and provide guidance to its employee population, and define business processes to ensure that the Annual Reconciliation can be completed in a timely manner. Where necessary, withholding agents may seek assistance from professional organisations to ensure that their legal obligations can be effectively fulfilled.

Taxpayers

The amended individual income tax law provides for itemised deductions and the concept of comprehensive income, which demands taxpayers to be more aware of the tax regulations compared to the old tax system. Individual taxpayers are responsible for the truthfulness, accuracy and completeness of the information reported to the tax authorities. Taxpayers should review the accuracy of their declared itemised deductions, assess whether they are required to file the Annual Reconciliation based on their personal circumstances and complete the filing process in a timely manner.

Meanwhile, we await the authorities to release further guidance on the following:

- Whether withholding agents or tax professionals can assist with tax refund application for non-domiciled resident individuals who have already left China and no longer maintain a Chinese bank account.
- Documentation requirements, process and timeline for tax refund applications via the Annual Reconciliation process.
- Reporting requirements for resident individuals who received comprehensive income outside of China during 2019.

KPMG will continue to closely follow the relevant policies on Annual Reconciliation, and proactively discuss policy developments and share our practical experiences with the tax authorities. We welcome organisations and taxpayers to contact us for the latest information on individual taxation.



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