



2020 individual income tax filing procedures clarified

Summary:

- On 8 February 2021, the State Taxation Administration published “Announcement on relevant matters regarding the 2020 annual individual comprehensive income tax reconciliation filing” providing clarifications on filing procedures.

Background



Leveraging feedback from last year’s filings, the State Taxation Administration (STA) issued Announcement [2021] No. 2 (“Announcement No. 2”) to help taxpayers with completion of the 2020 annual individual comprehensive income tax reconciliation filing (“Annual Reconciliation”). This continues with the framework set out in STA Announcement [2019] No. 44 (or “Announcement No. 44”) for the 2019 Annual Reconciliation (see China Tax Alerts [Issue 2](#), 2020, and [Issue 39](#), 2019) while introducing new measures to streamline and simplify the process.

KPMG observations



New guidance is provided on:

- Annual Reconciliation requirements for employers
 - Where an individual taxpayer authorises his employer to complete the 2020 Annual Reconciliation filing on his behalf, the taxpayer shall confirm authorisation either in writing or in electronic form by 30 April 2021.
 - Use of electronic forms is introduced as an additional confirmation method where taxpayers request the employer to complete the 2020 Annual Reconciliation on their behalf, i.e., taxpayers can provide confirmation via an electronic form such as email, SMS, WeChat. This has the same legal force as that of written confirmation.
 - In order to protect the rights and interests of taxpayers, employers shall not perform the Annual Reconciliation on behalf of individual taxpayers without their confirmation.
- Tax refund application for 2020 Annual Reconciliation
 - Taxpayers whose 2019 Annual Reconciliation is still outstanding (i.e. unsettled tax liability or have yet to respond to a tax authority enquiry) can only proceed with a tax refund claim for the 2020 Annual Reconciliation upon completion of their 2019 Annual Reconciliation.

➤ New “first breach without penalty” system

- This covers instances where a taxpayer unintentionally makes an error on the Annual Reconciliation which results in an overclaim for a tax refund or underpaid tax, and subsequently makes an amended tax filing either voluntarily or in response to enquiries raised by tax authorities. In such case, the new “first breach without penalty” system can be applied, i.e. tax authorities may exempt the taxpayer from administrative penalties.

KPMG suggestions



Announcement No. 2 has standardised and enhanced some procedures relating to the Annual Reconciliation filings to ensure that the rights and interests of individual taxpayers are safeguarded. We would suggest employers and individual taxpayers to consider the following matters when performing the 2020 Annual Reconciliation:

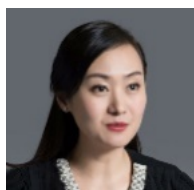
1. **Employers** are recommended to review and improve their internal administration process, drawing on experience gained with the 2019 Annual Reconciliation:

- Assist employees to assess their Annual Reconciliation obligation;
- Provide support to employees by way of training and guidance to complete the 2020 Annual Reconciliation;
- Develop templates for employee authorisation/confirmation (in written/electronic form) for employees to authorise the employer to complete the Annual Reconciliation on their behalf;
- Assist with the 2020 Annual Reconciliation declaration and tax payment/refund; and
- Retain relevant documents to support 2020 Annual Reconciliation in case of future tax audit.

2. Announcement No. 2 emphasises that tax refund claims in respect of the 2020 Annual Reconciliation shall be reviewed and processed based on the status of an individual taxpayer’s 2019 Annual Reconciliation. As such, **individual taxpayers** are recommended to review the status of their Annual Reconciliation for prior years as part of their 2020 Annual Reconciliation, to allow for timely completion of their 2020 Annual Reconciliation in good faith. In case of failure to do so, the personal credit rating may be impacted.

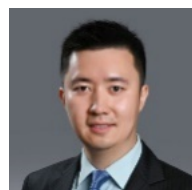
In view of the complexity involved in Annual Reconciliation, employers and individual taxpayers are also recommended to seek professional support to ensure that their obligations are fulfilled in a timely manner. KPMG will continue to closely follow the relevant policies and practices relating to Annual Reconciliation, and share our insights. We welcome organisations and taxpayers to contact us for the latest developments on individual taxation.

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