



## Recent developments on PRC IIT policies

### Summary:

- The Ministry of Finance, and State Taxation Administration recently issued three collective circulars, the Announcement on Measures for Individual Income Tax (“IIT”) Administration on Operating Income from Equity Investment (“Announcement No. 41 of 2021”), the Announcement on Extending Preferential Individual Income Tax Policies on Annual Bonuses and Others (“Announcement No. 42 of 2021”), and the Announcement on Extending Preferential Individual Income Tax Policies on Allowances for Foreign Nationals and Others (“Announcement No. 43 of 2021”). The circulars laid down the grounds for income assessment methodology for income generated from sole proprietorship and partnership, and echoed the voices of the general public on extension of some of the major preferential IIT policies. These policies will undoubtedly benefit salary income earners, encourage entrepreneurship, whilst strengthening IIT compliance in the long run.

### Background



The Ministry of Finance and the State Taxation Administration jointly promulgated the following new policies at the end of 2021, which have profound impact on the PRC IIT framework and individual taxpayers.

#### 30 December 2021

- Announcement No. 41 of 2021: Starting from **January 1<sup>st</sup>, 2022**, all sole proprietorships and partnerships holding equity investments<sup>1</sup> will be subject to audits for IIT assessment and reporting purposes.

#### 31 December 2021

- Announcement No. 42 of 2021: Preferential IIT policies on annual bonuses and equity incentives granted by public companies have been extended to **December 31<sup>st</sup>, 2023** and **December 31<sup>st</sup>, 2022** respectively.
- Announcement No. 43 of 2021: Preferential IIT policy of tax exemption treatment of benefits-in-kinds provided to foreign nationals working in the PRC have been extended to **December 31<sup>st</sup>, 2023**.

1. Equity investments such as holdings of equity, stocks, and shares in the property of a partnership.



### ▪ Changes to income assessment methodology for operating income from equity investment

Starting from **January 1<sup>st</sup>, 2022**, sole proprietorship and partnership holding equity investments shall:

- be subject to audits for IIT assessment and reporting purposes;
- report any equity investment to the tax authorities within 30 days from the date of holding; and
- in the case of those already holding equity investment prior to **January 1<sup>st</sup>, 2022**, report their equity investments to the tax authorities by **January 30<sup>th</sup>, 2022**, and be subject to audits for IIT assessment and reporting purposes.

### ▪ Continuation of major existing preferential IIT policies

A summary of provisions regarding the continuation of major existing preferential IIT policies is set out as follows:

Nature/Type of Income	Related tax treatment	Effective until
Annual bonuses	<ul style="list-style-type: none"> <li><input type="checkbox"/> Residents: assessed on a separate basis (tax payable at the applicable monthly rate for comprehensive income on the bonus amount divided by 12 over a period of 12 months) or on a consolidated basis (the bonus amount considered as part of annual comprehensive income)</li> <li><input type="checkbox"/> Non-residents: assessed on a separate basis (tax payable at the applicable monthly rate over a period of 6 months)</li> </ul>	31 December 2023
Equity incentives granted by listed companies	<ul style="list-style-type: none"> <li><input type="checkbox"/> Residents: assessed on a separate basis (the applicable tax rate for comprehensive income applies)</li> <li><input type="checkbox"/> Non-residents: assessed on a separate basis (tax payable at the applicable monthly rate over a period of 6 months)</li> </ul>	31 December 2022
Benefits-in-kinds for foreign nationals	<ul style="list-style-type: none"> <li><input type="checkbox"/> Subject to relevant conditions, allowances and subsidies such as housing subsidies and children's education, home leave trips, relocation, language training, meals and laundry are exempt from tax</li> <li><input type="checkbox"/> Residents can choose to apply for additional itemized deductions for IIT</li> <li><input type="checkbox"/> They should choose to enjoy either or the other of the above treatment</li> </ul>	31 December 2023
Exemption from annual IIT reconciliation for comprehensive income	<ul style="list-style-type: none"> <li><input type="checkbox"/> Annual comprehensive income does not exceed RMB 120,000, or</li> <li><input type="checkbox"/> Annual tax underpayment does not exceed RMB 400</li> </ul>	31 December 2023



The changes to tax regulations reflect the authorities' intent to reduce the IIT burden on salary income earners, whilst enhancing the administration of IIT from high-income earners who derive income from sole proprietorships and partnerships. Companies and individuals are suggested to consider the following items in their planning:

- Whilst the preferential IIT policies on equity incentives granted by public companies are extended to the end of 2022, and the preferential IIT policies on annual bonuses, benefits-in-kinds for foreign nationals are extended to the end of 2023, companies and individuals should keep abreast of relevant policy developments and budget for future cost increment and talent retention programs before expiry.
- The extension of preferential IIT policy on equity incentives granted by public companies includes stock options, stock appreciation rights, restricted stocks, and other equity-based awards granted to individuals. Companies should comply with the tax reporting requirements in respect of equity plans in order to secure the preferential tax treatment, and seek professional advice to assess appropriate tax treatment where are in doubt.
- The existing IIT subsidy policy in the Great Bay Area will also expire at the end of 2023. Companies and individuals should also closely follow the developments on any possible changes and extensions to the policy, and devise plan to align corporate and talent strategies.
- Individual investors in sole proprietorships and partnerships should comply with the new income assessment rules for IIT reporting purposes in a timely manner.
- High-net-worth individuals should keep abreast of policy developments and seek professional advice on their tax compliance status and enlist assistance with complying with the relevant tax compliance requirements.

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