



## Policy on 2021 annual comprehensive income tax reconciliation aiming at strengthening tax collection and administration & enhancing tax service quality

### Summary:

- On 8 February 2022, the State Taxation Administration published “Announcement on relevant matters regarding the 2021 annual individual comprehensive income tax reconciliation filing”, providing clarifications on procedures relating to the 2021 annual reconciliation filing.

### Background



In view of feedback collected from the 2019 and 2020 annual reconciliation filings, the State Taxation Administration (STA) issued Announcement [2022] No. 1 (Announcement No. 1) in relation to the 2021 annual individual comprehensive income tax reconciliation filing (Annual Reconciliation). In principle, Announcement No. 1 follows the framework outlined in STA’s Announcement [2019] No. 44 and Announcement [2021] No. 2 regarding 2019 and 2020 Annual Reconciliation (see China Tax Alerts [Issue 2, 2020](#) and [Issue 4, 2021](#)), and introduces new measures to streamline and simplify the procedures for 2021 annual reconciliation filing.

### KPMG observations



Announcement No. 1 provides supplementary guidance on the “Notice of the State Taxation Administration on In-depth Study and Implementation of the Opinions on Further Deepening the Reform of Taxation” in the following aspects:

- Introducing “lodgement by appointment” service at outset of the filing season
  - Where an individual taxpayer needs to complete Annual Reconciliation between March 1<sup>st</sup> and March 15<sup>th</sup> 2022, appointment can be made via mobile application starting from February 16<sup>th</sup> 2022.
- Clarification on taxpayer claiming personal deduction
  - A taxpayer who derives income from both comprehensive income and business operation income sources could claim personal standard deduction of up to RMB60,000 per annum, specific deduction, itemised deductions and other tax-deductible expenses, under either the category of comprehensive income or business operation income, not both.
  - A taxpayer who has claimed deductions against his/her business operation income during the year, will be prompted to review and confirm his claim when completing the Annual Reconciliation via the tax filing mobile application or online filing portal.

- Clarification on taxpayers who are exempt from Annual Reconciliation requirement
  - A taxpayer may be exempt from completing Annual Reconciliation where:
    - his/her annual comprehensive income does not exceed RMB120,000;
    - his/her tax payable after Annual Reconciliation is no more than RMB400; or
    - he/she is due for a tax refund after Annual Reconciliation and agrees to forfeit his/her right to the refund claim.
  - Annual Reconciliation is required where the tax withholding agent has not withheld tax properly.
- Clarification on in-charge tax authority that should be designated to deal with Annual Reconciliation after June 30<sup>th</sup>
  - An in-charge tax authority will be designated for taxpayers whose Annual Reconciliation filing is overdue
- Encouraging personal tax compliance by waiving penalty on self-disclosure
  - The STA has emphasised in Announcement No. 1 that where a taxpayer inadvertently omits or inaccurately reports income tax on Annual Reconciliation which results in a tax refund or underpaid tax position, but subsequently declares the omitted income voluntarily or promptly responding to tax authority's enquiry, would not be subject to penalty.
- Reinforcement of post-administrative measures
  - Where a taxpayer fails to settle his/her tax liability within the Annual Reconciliation period, the tax authority has the discretion to impose late payment interest surcharge, and record the incidence in the taxpayer's personal tax payment records. The tax authority will also undertake appropriate steps, including enquiry, interview and investigations where the amount of underpaid tax is material, with the aim of raising taxpayers' awareness on personal tax compliance.

## KPMG suggestions



Announcement No. 1 provides enhancement to some of the procedures relating to Annual Reconciliation to ensure that the rights and interests of individual taxpayers are safeguarded. It also aims at enhancing administrative measures to enforce personal tax compliance. We highlight some of the key considerations for employers and individual taxpayers, in preparation for the 2021 Annual Reconciliation filing season:

1. **Employers** are recommended to review and improve their internal administration process based on guidelines under prevailing tax law and regulations, and specific requirements of the employee population to:
  - Remind employees of the potential outcome of being non-compliant with personal income tax;
  - Assist employees with assessing and/or preparing their Annual Reconciliation by providing adequate training and support.
  - Retain relevant documents to support 2021 Annual Reconciliation in case of future tax audits.
2. Announcement No. 1 puts emphasis on the fact that assessment of 2021 Annual Reconciliation will be based upon individual taxpayer's 2019 and 2020 Annual Reconciliation filing status and record. Therefore, **individual taxpayers** are recommended to review the status of their prior year Annual Reconciliation, before commencing preparation of 2021 Annual Reconciliation, to ensure accurate and timely submission of the 2021 Annual Reconciliation. Personal credit rating may be adversely impacted due to non-compliance with personal tax.

3. Announcement No. 1 also explicitly states that an Annual Reconciliation filing requirement is imposed on individual taxpayer where the withholding agent did not fulfil the tax withholding obligation. This is to raise taxpayer's awareness on keeping personal tax affairs in order, by not only providing employers with accurate personal information, but also proactively reviewing tax filing status, and making necessary adjustments during Annual Reconciliation. At the same time, **employers** should update employee's personal information timely to ensure tax withholding is executed on accurate basis.
4. Notwithstanding the fact Announcement No.1 does not explicitly address declaration of overseas income, it is anticipated that this will continue to be a key area of focus when it comes to personal tax compliance, in particular with the move on enhancing personal tax compliance, and the "going abroad" strategy of Chinese enterprises. Enterprises should remind employees with overseas income to complete Annual Reconciliation on a timely basis and provide guidance and support where needed.

In view of the complexity involved with Annual Reconciliation, employers and individual taxpayers are also recommended to consider seeking 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 timely. We welcome organisations and taxpayers to contact us for the latest development on individual taxation.

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