

China Tax Alert

Issue 7, February 2023



Policy on 2022 annual comprehensive income tax reconciliation released

Summary :

On 2 February 2023, the State Taxation Administration published “Announcement on relevant matters relating to the 2022 annual individual comprehensive income tax reconciliation filing” (“Announcement No. 3”) providing clarifications on procedures relating to the 2022 annual reconciliation filing.

Highlights

Announcement No. 3 generally follows the basic framework of 2019-2021 annual comprehensive income tax reconciliation filing¹, and includes two new tax deductible items in addition to the basic provisions. Announcement No. 3 also emphasises the registration requirements for companies in respect of equity incentive plans and introduces several new measures to enhance tax service quality and optimise taxpayer experience.

The key points of Announcement No. 3 are as follows:

- Two new pre-tax deductions²
 - Itemised deduction for care for infants under the age of 3.
 - Private pension contribution.

Tax authorities have launched a smart scanning and filling service for the pre-tax deductions of the “private pension contribution”. Taxpayers can use the IIT App to scan the QR code on the annual contribution certificate to generate their annual tax deduction details and report automatically.

- Extension of the period for appointments

The period for lodgement of the 2022 annual reconciliation through an appointment is from 1 to 20 March 2023, which is 5 days longer than in the previous year. Since 16 February, taxpayers have been able to make an appointment through the IIT APP on any day during the aforesaid period. Starting from 21 March, taxpayers may complete the annual reconciliation at any time without making an appointment.

- Expansion of the scope of taxpayers who can enjoy prioritised tax refund services

- Taxpayers with a large decline in income in 2022.
- Taxpayers who need to support the elderly or raise children (including the taxpayers who claimed the deduction for care of infants under the age 3), or who have a heavy burden of medical care.

¹ For details, please refer to KPMG China Tax Alert [Issue 2](#) in January 2020, [Issue 4](#) in February 2021 and [Issue 5](#) in February 2022.

² For details, please refer to KPMG China Tax Alert [Issue 7](#) in April 2022 and [Issue 21](#) in November 2022.

- Emphasis on company registration requirements for special income items
 - Equity (stock) incentives (including equity incentives of overseas companies' shares to domestic employees).
 - Cash reward for the transformation of scientific and technological achievements.

KPMG observations

2022 marks the fourth year following the IIT reform that combined consolidated and classified income. Based on the annual reconciliation experience in the past three years, this year's annual reconciliation has enhanced tax services and provided for the declaration and deduction of new items, while also emphasising the registration requirements for certain special income items for the first time. We recommend that companies and individuals pay attention to the following:

1. Employers should consider their employees' actual situations and the requirements of relevant laws and regulations to improve their internal administration process for the 2022 annual reconciliation:
 - Remind employees to complete the 2022 annual reconciliation on time and in accordance with regulations. For employees who are not domiciled in China and who intend to leave the country by 1 March, remind them to complete the annual reconciliation before departure.
 - Provide training and guidance for employees on the annual reconciliation when required, assist employees in completing the 2022 annual reconciliation, and retain the relevant materials for the annual reconciliation for future reference.
 - The Announcement on the Continued Implementation of Relevant Preferential Individual Income Tax Policies stipulates that the preferential individual income tax policies for tax residents on equity incentives of listed companies remain effective from 1 January 2023 to 31 December 2023³. Announcement No. 3 also emphasises the registration requirements for companies in respect of equity incentive plans. Although the annual reconciliation does not cover income from equity incentives which is taxed separately, tax authorities are expected to strengthen the review of relevant filing and submission documents in the future. While declaration of individual income tax on equity incentives for taxpayers and enjoying tax incentives, companies should complete thorough tax registrations for equity incentive plans to cope with any enhanced tax supervision or audits that may arise in the future.
2. Individuals should complete the 2022 annual reconciliation (if required) by 30 June 2023, taking into account their own situations:
 - Taxpayers may claim or supplement their deductions through the annual reconciliation that were not filed in the monthly withholding return. Meanwhile, taxpayers who participated in tax-deferred commercial pension insurance in 2022 can confirm the way in which the policy is linked to the tax incentives for personal pensions and make adjustments accordingly in the 2022 annual reconciliation.
 - Where the annual reconciliation is made by the employer on behalf of the taxpayer, the taxpayer should confirm with their employer in writing, electronically or otherwise that the annual reconciliation is to be made on their behalf by 30 April 2023, and provide supplementary information and materials regarding comprehensive income obtained outside the current employer in 2022, relevant deductions, tax incentives applied, etc.

In view of the complexity and professional nature of tax-related matters, we encourage companies and individuals to contact us for professional support and assistance. We will continue to closely monitor changes in relevant IIT policies and share the latest developments with you.

If you have any questions about IIT, please do not hesitate to contact us.

³ For details, please refer to KPMG China Tax Alert [Issue 5](#) in January 2023.

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