

CHINA TAX ALERT

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Sharing from Guangzhou Expatriate Employees Individual Income Tax Conference

Regulations discussed in this issue:

- *Interview on Individual Income Tax Issues for Expatriates—Key Points*

Background

Recently, the Guangzhou local tax bureau (GZ LTB) hosted an Individual Income Tax (IIT) conference ("the Conference") related to expatriate employees ("Expatriates"). We would like to share with you some main contents of this Conference as well as one of the documents, [Interview on Individual Income Tax Issues for Expatriates – Key Points](#), distributed by the GZ LTB.

The GZ LTB has been strengthening the taxation administration of Expatriates' IIT, and investigating under-reporting or evasion of IIT. Using IIT assessments and interviews, the GZ LTB has, over the last three years, chased and collected nearly RMB230 million in tax payments

Updates from the Conference and future actions and focus of GZ LTB

1. Determination of the reasonability of reported salary income through market data

GZ LTB has purchased *International Remuneration Data Report* and data base, which can provide current worldwide salary standards of each main area, industry and position and will continue provision of the updated data to GZ LTB on a regular basis..The GZ LTB can refer to these data for benchmarking in the course of IIT audit and examination.

2. Judgment basis and procedures of IIT assessments and interviews for Expatriates

GZ LTB will continue to make comprehensive assessments and determine interview targets based on the filing materials provided by tax payers, withholding reports provided by withholding entities, and other internal material or information from tax authorities, as well as the *International Remuneration Data Report*.

The procedures of the IIT interview are as follows:

- Interview tax payers or withholding entities or carry out on-site interviews or investigations
 - Explain to the tax payers / entities the tax regulations, legal responsibilities and point out tax issues identified
 - Issue IIT rectification notification
3. Treatments of Expatriate IIT assessment and interview
- Retroactive IIT filing and penalty
 - Transfer to further tax audit
 - Deemed tax payable
 - Exit prevention, visa application or residence permit refusal and information exchange with foreign tax authorities
4. Recent cases of IIT backlog filing
- GZ LTB shared some of the IIT retroactive filing cases in the Conference:
- Under-reporting of allowances and compensation paid by overseas company
 - Expatriate undertakes a short-term assignment and constitutes a permanent establishment in China
 - Japanese senior executives received PRC-sourced bonus after repatriation
5. GZ LTB announcement that they will enforce IIT assessments and interviews for Expatriates in the following months.

KPMG Observations

The State Administration of Taxation (SAT) has made it clear that the IIT of high income individuals is one of their tax audit targets in 2015. The GZ LTB always pays close attention to the taxation administration of Expatriates' IIT, and they have long experiences and effective measures for IIT tax audits and examinations.

The IIT assessment and interview involves communication between Tax officials and Expatriates, and people from a company's Financial, Accounting and HR departments. In addition to typical IIT issues, the tax authorities may also challenge the finance or HR arrangements of the company. Therefore, the persons from the company who are interviewed by the tax authorities should be familiar with IIT treatment of the company, as well as the IIT regulations and local compliance requirements, so that they understand the meaning of the questions raised by the tax authorities, and can explain and defend the reasonability of the company's tax treatments.

If your company has not received IIT assessment and interview notifications or even if your company is not based in Guangzhou, we suggest you prepare for these processes to mitigate the non-compliance risks. You can do so, for example, by carrying out internal reviews and making adjustments or corrections if necessary.

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