

GMS Flash Alert



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People's Republic of China - Annual Comprehensive Income Tax Reconciliation Policies Update

On 14 December 2019, the Ministry of Finance and the State Taxation Administration (“STA”) of the People’s Republic of China (“PRC” or “China”) issued two announcements that set out some new requirements regarding the 2019 Annual Reconciliation as to relevant taxpayers and income types, the calculation formula for one’s tax, the timeframe and process for filing, and other issues.

The authorities published Announcement 94 of 2019 – “Announcement on relevant policies regarding individual income tax annual comprehensive income tax reconciliation” (hereinafter referred to as “Announcement No. 94”). At the same time, the STA also published the “Announcement on annual comprehensive income tax reconciliation (consultation document)” (hereinafter referred to as “consultation document”), seeking public opinion on the proposed annual comprehensive income tax reconciliation policy details. The deadline for responding to the public consultation was 26 December 2019.

Announcement 94 and the consultation document are the first guidance documents published on the annual comprehensive income tax reconciliation (hereafter “Annual Reconciliation”) process following the publication of “Implementation rules of the individual income tax law” and “Announcement on individual income tax self-declaration” (Announcement 62 of 2018).

WHY THIS MATTERS

Announcement 94 and the consultation document continue to carry the spirit of the PRC 2019 individual income tax reform, which aims to reduce the tax burden and administrative obstacles for taxpayers while empowering enforcement by the tax authorities.

2019 Annual Reconciliation Requirements

Announcement 94 and the consultation document primarily set out the following requirements on the 2019 Annual Reconciliation.

Relevant Taxpayers and Income Types

Resident taxpayers who have received comprehensive income¹ (i.e., employment income, independent personal services income, author’s remuneration and royalty income) between 1 January 2019 and 31 December 2019.

Calculation Formula

Tax liability or refund due for 2019 tax year equals:

$$\left[\begin{array}{l} \text{Comprehensive} \\ \text{income} \end{array} - \begin{array}{l} 60,000, \\ \text{social insurance} \\ \text{contributions,} \\ \text{itemised} \\ \text{deductions and} \\ \text{other allowable} \\ \text{deductions} \end{array} \right] \times \begin{array}{l} \text{Applicable} \\ \text{tax rate} \end{array} - \begin{array}{l} \text{Quick} \\ \text{deduction} \end{array} - \begin{array}{l} \text{Tax} \\ \text{withheld} \\ \text{for 2019} \end{array}$$

Circumstances under which no Annual Reconciliation Required

1. Additional tax due but annual comprehensive income does not exceed CNY 120,000 in 2019 or 2020.
2. Additional tax due does not exceed CNY 400 in 2019 or 2020.
3. Total tax liability equals tax withheld².
4. Individuals who decide not to seek tax refund.

Circumstances under which Annual Reconciliation Is Required

1. Tax refund due as a result of tax withheld exceeding total tax liability in 2019.
2. Annual comprehensive income exceeds CNY 120,000 and additional tax due exceeds CNY 400 in 2019.
3. No or insufficient tax deductions obtained and seeking to claim additional deductions via Annual Reconciliation.

Timeframe for Annual Reconciliation Filing

Standard timeframe: 1 March to 30 June 2020.

Special timeframe applies in the following circumstances:

- Non-domiciled individuals who depart from the People’s Republic of China prior to the standard timeframe, can file the Annual Reconciliation before their departure date.
- Taxpayers whose annual comprehensive income does not exceed CNY 60,000, and tax withholding has been applied can apply for tax refunds via an online “fast route” between 1 March and 31 May 2020.

Filing Process

1. Taxpayer self-service.
2. Via employment income/independent services tax withholding agents.
3. Appoint professional tax agents or other organisations/individuals.

Filing Channels

Online, post, or appear at tax bureau service centres.

Receiving Tax Bureaux

- Where taxpayers are employed, the Annual Reconciliation should be filed with the local tax bureau where the employer is based.
- In other cases, taxpayers should file the Annual Reconciliation with the local tax bureau where their household registration (“Hukou”) is located or at their habitual place of residence.

Tax Payment or Refund Considerations

- Those who are seeking tax refunds should provide details of their qualified Chinese bank accounts.
- Those with additional tax to settle can make tax payments via their bank, POS machine, bank counters, and other non-bank payment platforms.

KPMG NOTE

Withholding Agents

In view of the significant size of the Chinese taxpayer population, tax withholding agents play a key role in the collection of individual income tax in China. The consultation document clarifies that where individual taxpayers request withholding agents to facilitate their Annual Reconciliation filing, the withholding agent should provide the necessary assistance. As the key communication channel between taxpayers and the tax authorities, withholding agents should proactively communicate the relevant policies and provide guidance to the employee population, and define business processes to help ensure that the Annual Reconciliation can be completed in a timely manner. Where necessary, withholding agents may seek assistance from professional organisations so that their legal obligations can be effectively fulfilled.

Taxpayers

The amended individual income tax law provides for itemised deductions and the concept of “comprehensive income,” which should prompt taxpayers to be more aware of the PRC tax regulations compared to the old tax system. Individual taxpayers are responsible for the truthfulness, accuracy, and completeness of the information reported to the tax authorities. Taxpayers should review the accuracy of their declared itemised deductions, assess whether they are required to file the Annual Reconciliation based on their personal circumstances, and complete the filing process in a timely manner.

KPMG NOTE (cont'd)

Anticipated Next Steps

The KPMG International member firm in China awaits the authorities' release of further guidance on the following:

- Whether withholding agents or tax professionals can assist with tax refund applications for non-domiciled resident individuals who have already left China and no longer maintain Chinese bank accounts.
- Documentation requirements, process, and timeline for tax refund applications via the Annual Reconciliation process.
- Reporting requirements for resident individuals who received comprehensive income outside of China during 2019.

KPMG will continue to closely follow the relevant policies on Annual Reconciliation, report on policy developments, and share our practical experiences with the tax authorities.

FOOTNOTES:

1 Comprehensive income covered under Annual Reconciliation does not include annual bonus payments, one-off compensation payments for redundancy or early retirement, and equity incentives which are subject to special tax treatment.

2 Where withholding agents fail to apply correct tax withholding, resident taxpayers will be required to file Annual Reconciliation to settle additional tax due.

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RELATED ARTICLE

This article is excerpted, with permission, from "[Policies on annual comprehensive income tax reconciliation under the new individual income tax system published](#)," in *China Tax Alert* (Issue 39, December 2019), a publication of the KPMG International member firm in the People's Republic of China.

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