

GMS Flash Alert

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People's Republic of China – Individual Income Tax Filing Procedures Clarified

The State Taxation Administration of the People's Republic of China ("China" or "PRC") published on 8 February 2021, "Announcement on relevant matters regarding the 2020 annual individual comprehensive income tax reconciliation filing" (Announcement [2021] No. 2 ("Announcement No. 2")) providing clarifications on filing procedures.

WHY THIS MATTERS

Announcement No. 2 has standardised and enhanced some procedures relating to the Annual Reconciliation filings to help ensure that the rights and interests of individual taxpayers are safeguarded. The guidance aims to help streamline and simplify the Annual Reconciliation process.

Background

Taking on board feedback from last year's filings, the STA issued Announcement No. 2 to help taxpayers with completion of the 2020 annual individual comprehensive income tax reconciliation filing ("Annual Reconciliation").

This continues with the framework set out in STA Announcement [2019] No. 44 (or "Announcement No. 44") for the 2019 Annual Reconciliation, while introducing new measures to streamline and simplify the process.

More Details

Announcement No. 2 provides useful guidance, which we highlight below.

Annual Reconciliation Requirements for Employers

- Where an individual taxpayer authorises his employer to complete the 2020 Annual Reconciliation filing on his

behalf, the taxpayer shall confirm authorisation either in writing or in electronic form by 30 April 2021.

- Use of electronic forms is introduced as an additional confirmation method whereby taxpayers request the employer to complete the 2020 Annual Reconciliation on their behalf, i.e., taxpayers can provide confirmation via an electronic form such as email, SMS, WeChat. This has the same legal force as that of written confirmation.
- In order to protect the rights and interests of taxpayers, employers shall not perform the Annual Reconciliation on behalf of individual taxpayers without their confirmation.

Tax Refund Application for 2020 Annual Reconciliation

- Taxpayers whose 2019 Annual Reconciliation is still outstanding (i.e., unsettled tax liability or have yet to respond to a tax authority enquiry) can only proceed with a tax refund claim for the 2020 Annual Reconciliation upon completion of their 2019 Annual Reconciliation.

New “First Breach Without Penalty” System

- In some cases, a new “first breach without penalty” system can be applied, i.e., tax authorities may exempt the taxpayer from administrative penalties. This covers instances where a taxpayer unintentionally makes an error on the Annual Reconciliation which results in an overclaim for a tax refund or underpaid tax, and subsequently makes an amended tax filing either voluntarily or in response to enquiries raised by tax authorities.

KPMG NOTE

Employers and individual taxpayers may wish to consider the following matters when performing the 2020 Annual Reconciliation:

1. **Employers** are advised to review and improve their internal administration process, drawing on experience gained with the 2019 Annual Reconciliation:

- Assist employees with assessing their Annual Reconciliation obligation;
- Provide support to employees by way of training and guidance to complete the 2020 Annual Reconciliation;
- Develop templates for employee authorisation/confirmation (in written/electronic form) for employees to authorise the employer to complete the Annual Reconciliation on their behalf;
- Assist with the 2020 Annual Reconciliation declaration and tax payment/refund; and
- Retain relevant documents to support the 2020 Annual Reconciliation in case of future tax audit.

2. Announcement No. 2 emphasises that tax refund claims in respect of the 2020 Annual Reconciliation shall be reviewed and processed based on the status of an individual taxpayer’s 2019 Annual Reconciliation. As such, **individual taxpayers** are advised to review the status of their Annual Reconciliation for prior years as part of their 2020 Annual Reconciliation, to allow for timely completion of their 2020 Annual Reconciliation in good faith. In case of failure to do so, one’s personal credit rating may be impacted.

In view of the complexity involved in preparing the Annual Reconciliation, employers and individual taxpayers are also advised to seek professional support so that their obligations are fulfilled in a timely manner.

KPMG NOTE continued:

The KPMG International member firm in the People's Republic of China will continue to closely follow the relevant policies and practices relating to Annual Reconciliation, and share our insights.

RELATED ARTICLE:

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