GMS Flash Alert

2023-044 | February 28, 2023

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

On 2 February 2023, the State Taxation Administration of the People's Republic of China published Announcement No. 3, "Announcement on relevant matters relating to the 2022 annual individual comprehensive income tax reconciliation filing," providing clarifications on procedures relating to the 2022 annual reconciliation filing. The announcement is aimed at optimising taxpayer experience and highlighting certain registration requirements for companies.

WHY THIS MATTERS

Employers need to be aware of the enhancements in the annual reconciliation procedures in Announcement No. 3 to safeguard the rights and interests of individual taxpayers and encourage their personal tax compliance. In addition to providing two new deductions, taxpayers have other new options and certain companies have new registration requirements. (See KPMG Insights section below for specific recommendations.)

Highlights

Announcement No. 3 generally follows the basic framework of 2019-2021 annual comprehensive income tax reconciliation filing,[1] and includes two new tax-deductible items in addition to the basic provisions (for prior coverage, see *GMS Flash Alert* 2022-40, 1 March 2022). Announcement No. 3 also reviews and emphasises the registration requirements for companies for their equity incentive plans and introduces several new measures to enhance tax service quality and improve taxpayer experience.

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

- Two new pre-tax deductions:[2]

  - Itemised deduction for care for infants under the age of 3;

  - Private pension contributions.

  The tax authorities have launched a smart scanning and filing service for the pre-tax deductions for a "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 filing the 2022 annual reconciliation through an appointment is from 1 to 20 March 2023, which is five days longer than in the previous year. Beginning 16 February 2023, taxpayers have been able to make appointments through the IIT App on any day during the 1 to 20 March 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 those taxpayers who claimed the deduction for care of infants under age 3), or who have a heavy burden of medical care.

- Emphasis on existing company registration requirements for two 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 INSIGHTS

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 has 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.

KPMG INSIGHTS continued:

- Announcement 2, the "Announcement on the Continued Implementation of Relevant Preferential Individual Income Tax Policies," in January 2023, extended the preferential individual income tax policies for tax residents on equity incentives of listed companies from 1 January 2023 to 31 December 2023.[3] Announcement No. 3 also reviews and emphasises the registration requirements for companies for their 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 future. For taxpayers to enjoy the preferential tax treatment for equity incentives, Announcement 3 reminds companies to complete thorough tax registrations for equity incentive plans, perhaps signaling possible enhanced tax supervision or audits that may arise in 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 on a monthly withholding return. 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.

    - When the annual reconciliation is made by the employer on behalf of the taxpayer, the taxpayer should confirm with his or her employer in writing, electronically, or otherwise that the annual reconciliation be made on his or her 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, employers and individual taxpayers are also advised to consider seeking professional support to help ensure that their obligations are fulfilled properly and in a timely manner.

KPMG in the People's Republic of China will continue to closely follow developments concerning relevant policies and practices relating to annual reconciliation, and share our insights.

FOOTNOTES:

1 For details, please refer to the following issues of KPMG *China Tax* Alert: Issue 2, January 2020; Issue 4, February 2021; and Issue 5, February 2022.

2 For details, please refer to the following issues of KPMG *China Tax* Alert: Issue 7, April 2022; and Issue 21, November 2022.

3 For details, please refer to KPMG *China Tax Alert* Issue 5, January 2023.

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Contact us

For additional information or assistance, please contact your local GMS or People Services professional or the following professional with the KPMG International member firm in the People's Republic of China.

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