



GMS Flash Alert

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

On 8 February 2022, the State Taxation Administration (STA) of the People's Republic of China published Announcement [2022] No. 1, "Announcement on relevant matters regarding the 2021 annual individual comprehensive income tax reconciliation filing," providing clarifications on procedures relating to the 2021 annual reconciliation filing.

Announcement No. 1 was issued in view of feedback collected from the 2019 and 2020 annual reconciliation filings. (For related coverage, see [GMS Flash Alert 2020-012](#), 17 January 2020.) In principle, Announcement No. 1 follows the framework outlined in STA's Announcement [2019] No. 44 and Announcement [2021] No. 2 regarding 2019 and 2020 Annual Reconciliation (see the following issues of *China Tax Alert*: [Issue 2, January 2020](#) and [Issue 4, February 2021](#), a publication of the KPMG International member firm in the People's Republic of China), and introduces new measures. (For prior coverage, see [GMS Flash Alert 2021-073](#), 2 March 2021.)

The key considerations for employers and individual taxpayers preparing for the 2021 Annual Reconciliation filing season are highlighted below.

WHY THIS MATTERS

Employers need to be aware of the enhancements in the Annual Reconciliation procedures in Announcement No. 1 to safeguard the rights and interests of individual taxpayers and encourage their personal tax compliance.

Announcement No. 1 introduces new measures to streamline and simplify the procedures for the 2021 Annual Reconciliation filing.

Overview

Announcement No. 1 provides supplementary guidance on the “Notice of the State Taxation Administration on In-depth Study and Implementation of the Opinions on Further Deepening the Reform of Taxation” in the following aspects:

- Introduction of the “lodgement by appointment” service at the outset of the filing season
 - When an individual taxpayer needs to complete an Annual Reconciliation between 1 March and 15 March 2022, an appointment can be made via mobile application starting from 16 February 2022.
- Clarification regarding taxpayers claiming a personal deduction
 - A taxpayer who receives both comprehensive income and business operation income sources could claim a personal standard deduction of RMB 60,000 per annum, specific deductions, itemised deductions, and other tax-deductible expenses, under either the category of comprehensive income or business operation income, but not both.
 - Taxpayers who have claimed deductions against their business operation income during the year, will be prompted to review and confirm their claim when completing the Annual Reconciliation via the tax filing mobile application or online filing portal.
- Clarification regarding taxpayers who are exempt from the Annual Reconciliation requirement
 - Taxpayers may be exempt from completing the Annual Reconciliation when:
 - their annual comprehensive income does not exceed RMB 120,000;
 - their tax payable after the Annual Reconciliation is no more than RMB 400; or
 - they are due for a tax refund after the Annual Reconciliation and agree to forfeit their right to the refund claim.
 - The Annual Reconciliation is required if the tax withholding agent has not withheld tax properly.
- Clarification regarding the in-charge tax authority that should be designated to deal with the Annual Reconciliation after June 30
 - An in-charge tax authority will be designated for taxpayers whose Annual Reconciliation filing is overdue.
- Encouraging personal tax compliance by waiving the penalty on self-disclosure
 - The STA has emphasised in Announcement No. 1 that a taxpayer who inadvertently omits or inaccurately reports income tax on Annual Reconciliation that results in a tax refund or underpaid tax position, but subsequently declares the omitted income voluntarily or promptly responds to the tax authority’s enquiry, would not be subject to penalty.
- Reinforcement of post-administrative measures
 - When a taxpayer fails to settle a tax liability within the Annual Reconciliation period, the tax authority has the discretion to impose a late payment interest surcharge, and record the incidence in the taxpayer’s personal tax payment records. The tax authority will also undertake appropriate steps, including enquiry, interviews and investigations where the amount of underpaid tax is material, with the aim of raising taxpayers’ awareness in respect of personal tax compliance.

KPMG NOTE

Announcement No. 1 provides enhancements to some of the procedures relating to the Annual Reconciliation to help ensure that the rights and interests of individual taxpayers are safeguarded. It also aims to enhance administrative measures to enforce personal tax compliance. We highlight some of the key considerations for employers and individual taxpayers, in preparation for the 2021 Annual Reconciliation filing season:

1. **Employers** are encouraged to review and improve their internal administration processes based on guidelines under prevailing tax law and regulations, and specific requirements of the employee population to:
 - remind employees of the potential outcome of being non-compliant with personal income tax;
 - assist employees with assessing and/or preparing their Annual Reconciliation by providing adequate training and support;
 - retain relevant documents to support the 2021 Annual Reconciliation in case of future tax audits.
2. Announcement No. 1 emphasises that assessment of the 2021 Annual Reconciliation will be based upon an individual taxpayer's 2019 and 2020 Annual Reconciliation filing status and record. Therefore, **individual taxpayers** are encouraged to review the status of their prior-year Annual Reconciliation before commencing preparation of 2021 Annual Reconciliation, to help ensure accurate and timely submissions of the 2021 Annual Reconciliations. A taxpayer's personal credit rating may be adversely impacted due to non-compliance with personal tax.
3. Announcement No. 1 also explicitly states that an Annual Reconciliation filing requirement is imposed on an individual taxpayer when the withholding agent did not fulfil the tax withholding obligation. This is to raise taxpayer awareness of keeping personal tax affairs in order, by not only providing employers with accurate personal information, but also proactively reviewing their tax filing status, and making necessary adjustments during the Annual Reconciliation. At the same time, employers should timely update employee personal information to foster timely and accurate tax withholding.
4. Notwithstanding that Announcement No.1 does not explicitly address the declaration of overseas income, it is anticipated that this will continue to be a key area of focus when it comes to personal tax compliance, in particular with respect to how to enhance personal tax compliance, and the "going abroad" strategy of Chinese enterprises. Enterprises should remind employees with overseas income to complete Annual Reconciliation timely and provide guidance and support where needed.

In view of the complexity involved with Annual Reconciliation, employers and individual taxpayers are also advised to consider seeking professional support to help ensure that their obligations are fulfilled in a timely manner.

KPMG in China will continue to closely follow developments concerning relevant policies and practices relating to Annual Reconciliation, and share our insights.

[RMB 1 = USD 0.158 | RMB 1 = EUR 0.14 | RMB 1 = GBP 0.119 | RMB 1 = JPY 18.187 | RMB 1 = AUD 0.218 (www.xe.com)]

RELATED ARTICLE

This article is excerpted, with permission, from "Policy on 2021 annual comprehensive income tax reconciliation aiming at strengthening tax collection and administration & enhancing tax service quality" in *China Tax Alert* (Issue 5, February 2022), a publication of the KPMG International member firm in the People's Republic of China.

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