KPMG

GMS Flash Alert

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People's Republic of China – Measures Introduced on IIT Reconciliation for Comprehensive Income

Measures announced in the People's Republic of China ("China" or "PRC") clarify the rights and obligations of taxpayers, enterprises, tax authorities, and other parties involved in the PRC Individual Income Tax reconciliation process. They also refine and formalise the tax filing process and enhance tax services.

Drawing on years of practical experience with the PRC Individual Income Tax Reconciliation for Comprehensive Income ("PRC IIT Reconciliation"), the PRC's State Administration of Taxation officially announced the "Administration Measures on PRC Individual Income Tax Reconciliation for Comprehensive Income" (hereinafter referred to as the "Measures") on 26 February 2025. The Measures further standardise the management of the reconciliation process.

WHY THIS MATTERS

The Measures retain the principles and regulations of PRC IIT reconciliations while formalising and refining the administrative process, including tax filing, deduction claims, tax refunds, etc. They clarify the responsibilities and obligations of all parties involved and enhance the legal framework of PRC IIT Reconciliation. Additionally, the Measures emphasise the tax credit mechanism and impose penalties for non-compliant behaviour.

Highlights

Extension to File PRC IIT Reconciliation

- Starting from 2025, taxpayers can apply for *an extension* to file PRC IIT reconciliation.
- Taxpayers whose extension applications have been approved should *pre-pay taxes* before the filing deadline.

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Consolidated Filing of Equity-Based Incentives

Taxpayers who *receive two or more lots of equity-based incentives* in a tax year should follow the guidelines below:

- If the equity-based incentives are derived *from different entities*, taxpayers are no longer required to request that the current employer consolidate the income with that from the previous employer for tax calculation purposes;

- If equity-based incentives are derived *from the same entity*, the income should be consolidated for tax calculation purposes.

Legal Responsibilities and Rights

Taxpayer

- The principle of "no penalty for a first-time violation" for taxpayers continues to be emphasised. If taxpayers corrected their under-reported or under-paid tax "behaviours," the tax authorities shall promptly *remove non-compliance remarks* from their personal-income-tax payment records.

- Taxpayers who engage in false or improper declaration behaviours will be recorded in the *credit information system*. Those with serious offences will face *dishonesty constraints* according to regulations.

- When the legitimate rights and interests of taxpayers are infringed upon, they can seek *legal remedies* through complaints, reports, applications for administrative reconsideration, or filing administrative litigation.

Enterprise/Employer

- In cases where an entity fails to complete PRC IIT reconciliation on behalf of its employees or assumes a false identity, it will be subject to penalties as stipulated in the tax collection and management regulations and will also find its tax-credit-rating assessment impacted.

- A credit constraint mechanism has been introduced for situations where enterprise managers or executives fail to complete PRC IIT reconciliation in due course. If a legal representative or individual partner fails to complete PRC IIT reconciliation, it will impact its tax-credit-rating assessment of the relevant enterprise or partnership.

KPMG INSIGHTS

Based on the Measures' requirements and local practices, we have summarised the following recommended actions from both the taxpayer and employer perspectives, in order to help with planning ahead and executing the PRC IIT reconciliation process effectively, thereby fostering compliance with prevailing PRC tax rules.

Taxpayer

Information confirmation and verification

- Confirm the validity of personal basic information (phone number, bank account, etc.). A valid domestic bank account is required for tax refunds in China. For departing personnel, if a domestic bank account will no longer be accessible after one's departure, PRC IIT reconciliation should be completed before leaving China.

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KPMG INSIGHTS (cont'd)

- Verify the completeness and accuracy of personal income, deductions, and tax withholding information to determine if PRC IIT reconciliation is necessary. Please note:
    - Consolidate equity-based incentives from different entities for tax calculation and reporting purposes.
    - Combine taxable overseas income with domestic income for tax calculation and reporting purposes. If PRC IIT reconciliation cannot be completed by the due date, taxpayers may file an extension at the competent tax authority and pre-pay the tax before 30 June.

Agent authorisation

- If the taxpayer authorises his/her employer or a professional firm to handle PRC IIT reconciliation, such authorisation must be confirmed in writing or electronically.

Responsibilities and rights

- Taxpayers should retain relevant information and documents for at least five years from the due date of PRC IIT reconciliation.
- Taxpayers should timely submit supplementary documents (where necessary) and complete tax payment (refund application) in order to avoid any potential impact to personal tax records.

Enterprise/Employer

Employee education and support

- Where necessary, conduct employee education sessions with regards to PRC IIT reconciliation and help employees to fulfill PRC IIT reconciliation obligations in due course.
- Collate outbound expatriate employees' information and remind them, and/or provide assistance, to report overseas income and remit the tax in due course.
- Remind the enterprise managers (e.g., legal representative, etc.) of their PRC IIT reconciliation obligations and the potential impact to the company's tax credit rating assessment for any failure to fulfill the obligations.

Fulfilling agency obligations

- If the taxpayer authorises his/her employer to handle his/her PRC IIT reconciliation, the employer should:
    - complete PRC IIT reconciliation and tax payment, or educate and support the taxpayer to complete PRC IIT reconciliation and tax payment (refund);
    - confirm with the taxpayer if agent authorisation has occurred in writing or electronically;
    - retain relevant information and documents for five years.
- Failure to fulfill agency obligations or assume a false identity will attract penalties and affect the company's tax credit assessment.

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KPMG INSIGHTS (cont'd)

KPMG in China is monitoring developments on this matter closely and will endeavour to provide updates as and when any important developments occur.

Any questions or concerns about the change in the rules and procedures regarding PRC IIT reconciliation and the Measures should be directed to your usual qualified tax professional or a member of the GMS team with KPMG in China (see the Contacts section).

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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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The information contained in this newsletter was submitted by the KPMG International member firm in the People's Republic of China.

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