

# GMS Flash Alert

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

The State Taxation Administration of the People's Republic of China ("China" or "PRC") formally published "Announcement on relevant policies regarding 2019 individual income tax annual comprehensive income tax reconciliation" (hereinafter referred to as "Announcement 44"). Announcement 44 provides further details and guidance in respect of the 2019 annual comprehensive income tax reconciliation process.

The final policy comes on the heels of the completion of public consultation on "Announcement on annual comprehensive income tax reconciliation (consultation document)" (hereinafter referred to as "consultation document").

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### WHY THIS MATTERS

Announcement 44 clarifies relevant details of the 2019 Annual Reconciliation. Taxpayers and withholding agents, as well as tax service providers, should understand their responsibilities and requirements under the final policies.

There are some important deadlines noted below and, furthermore, this process can be challenging, considering it is the first Annual Reconciliation under the new tax reform. As such, taxpayers (as well as withholding agents) may wish to take steps now to make sure they are timely in meeting their compliance obligations – this could include reaching out to professional tax advisers for assistance.

## Key Changes

Announcement 44 has broadly adopted the policies set out in the consultation document (please refer to our previous report in GMS [Flash Alert 2020-005](#)), and also introduced the below-noted additions and changes.

### Obligations of Withholding Agents

- Where requested by the taxpayer, withholding agents should facilitate the Annual Reconciliation filing on behalf of the taxpayer, *OR provide training or guidance to help taxpayers complete the Annual Reconciliation online filing (including via the mobile App) and the tax payment/refund process.*
- Where the withholding agent will complete the filing on behalf of the taxpayer, *the taxpayer should agree with the withholding agent in writing by 30 April 2020*, and provide relevant information including additional comprehensive income, deductions, and other allowable beneficial tax treatment to the withholding agent. The taxpayer will be responsible for the truthfulness, accuracy, and completeness of the information provided.

### Information Reporting and Retention

- During the filing process, in addition to submitting the Annual Reconciliation form to the tax authorities, taxpayers should update relevant personal information (if necessary). Those who are claiming additional deductions or beneficial tax treatments *should carefully check the claims to make sure they are truthful, accurate, and complete.*
- Taxpayers, and withholding agents who file on behalf of taxpayers, should retain the Annual Reconciliation form and the relevant supporting documents (including those related to comprehensive income, deductions, tax withholding, and beneficial tax treatment) for five years from the completion date of the Annual Reconciliation.

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## KPMG NOTE

Following the public consultation, Announcement 44 further clarifies the obligations of individual taxpayers and withholding agents. It continues to focus on the traditionally successful strategy of utilising the withholding mechanism, and aims to ease the administrative burdens on individual taxpayers.

In the meantime, while confirming the obligations of withholding agents, Announcement 44 provides that they can also support the taxpayers by way of training and guidance to complete the Annual Reconciliation online filing as well as tax payment or refund process. The tax authorities will also introduce a series of relevant services (including enhancement of policy interpretation and administrative support, providing filing software to withholding agents) in order to reduce the burdens on withholding agents.

As the first Annual Reconciliation under the latest tax reform, it brings challenges to taxpayers and withholding agents. Considering the complex and technical nature of taxation, Announcement 44 also emphasises that Annual Reconciliation can be performed via professional tax advisers. This implies that withholding agents and taxpayers should consider seeking support from professional advisers to foster the fulfilment of their obligations in a timely manner.

Organisations with the following characteristics are advised to contact professional advisers in respect of the 2019 Annual Reconciliation at the earliest opportunity:

- Large employee population but limited in-house Human Resource capacity;
- Relatively high employee fluidity, e.g., a large number of intra-group employee transfers, therefore a significant portion of employees are expected to have filing obligations;

## KPMG NOTE continued

- Complex employee structure which brings additional technical challenges, e.g., locally hired foreigners, expatriate employees, outbound Chinese, etc.

Organisations and individuals may wish to consider seeking assistance from their professional tax advisers; alternatively, they may contact us to discuss policy developments and practical experiences.

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## RELATED ARTICLE

This article is excerpted, with permission, from “Final policies on 2019 annual comprehensive income tax reconciliation published” in China Tax Alert (Issue 2, January 2020), a publication of the KPMG International member firm in the People’s Republic of China.

## Contact us

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