People’s Republic of China:  
Guangdong Local Tax Authorities Enforce Tax Inspection Administration through Exchange of Information

Summary

Further to our recent GES newsflash discussing the intensified administration on People’s Republic of China (PRC) Individual Income Tax (IIT) in China, more tax inspection cases have been recently reported in such connection.

One of the news reports that, through the channel of exchange of information and nearly six months’ effort, the local tax authorities of Guangdong province have successfully collected underpaid IIT liabilities together with late payment interests and penalty in a total amount of RMB40 million in relation to expatriate individuals. The State Administration of Taxation (SAT) encourages the tax authorities in China to fully leverage the right of information exchange empowered by the relevant tax treaties to strengthen the administration on IIT reporting of expatriates.

Key implications

Tax Inspection Cases Unveiled – The inspection started from a joint venture (JV) in steel industry located in Guangdong, where the in-charge local tax bureau considered the taxable incomes of four expatriate individuals reported by the JV are apparently lower than the comparables in similar industry. With no convincing explanations from the JV, the local tax authority escalated the case to SAT. SAT subsequently sent a request to the counterpart tax authority in the expatriates’ home country for the information on income that the expatriates received from the parent company as well as the record of their tax filing in the home country. From the information provided, it was noted that the taxable income the JV reported for the four expatriates in China only accounts for 35% of the total taxable income of the expatriate employees.

The local tax authority suspected that the same underreporting situation may also exist in other expatriate individuals of the company, and therefore carried out a more thorough IIT inspection on the rest of expatriate individuals. This inspection case ends up in a tax collection, surcharges, and penalty up to RMB8 million from 11 expatriate individuals.

Tax Audit and Inspection Spread to the Whole Industry – Inspired by this case, the local tax bureau of Guangdong province requires its subordinate local tax bureaus to expand the tax audit and inspection through exchange of information to the whole industry. Their joint efforts finally lead to a collection of underpaid IIT from expatriates, together with interests and penalty in a total amount of about RMB40 million.

Deloitte’s view

The mentioned case, once again, echoes what has been mentioned in Circular 50 that one of the key focuses of the China tax authority in the current tax collection and administration is the IIT compliance of expatriates.

It seems that the noncompliance resulted from underreporting of overseas income is now of particular interest of the China tax authority and they are by all means finding ways to trace the record and recover the tax underpaid.

As such, it is anticipated that more intensifying administrative measures will be put in place and the IIT administration in relation to the expatriate individuals will continue to be the focus of the China tax authorities.

Companies having expatriate individuals working in China should therefore be alert of such trend, timely review their current IIT compliance especially for expatriates, and take necessary ratification steps to reduce noncompliance risks. Professional advice should be consulted where it is necessary.

—  Gus Kang (Beijing)  
Partner  
Deloitte People’s Republic of China  
+ 86 (10) 8520 7600  
gukang@deloitte.com.cn

Huan Wang (Beijing)  
Partner  
Deloitte People’s Republic of China  
+ 86 (10) 8520 7510  
huawang@deloitte.com.cn
Isabel Liu (Shenzhen)
Director
Deloitte People’s Republic of China
+86 (755) 3353 8382
isliu@deloitte.com.cn

Vincent Lo (Shenzhen)
Partner
Deloitte People’s Republic of China
+86 (755) 3353 8588
vinlo@deloitte.com.cn

Tony Jasper (Shanghai)
Partner
Deloitte People’s Republic of China
+86 (21) 6141 1228
tojasper@deloitte.com

Stephen Green (Hong Kong)
Partner/Principal
Deloitte People’s Republic of China
+(852) 2238 7178
stephengreen@deloitte.com.cn

Mona Mak (Hong Kong)
Partner/Principal
Deloitte People’s Republic of China
+(852) 2852 1051
monmak@deloitte.com.hk

Joyce W. Xu (Shanghai)
Partner
Deloitte People’s Republic of China
+86 (21) 6141 1178
joycewxu@deloitte.com.cn

Mark Ni (Shanghai)
Partner
Deloitte People’s Republic of China
+86 (21) 6141 1458
mni@deloitte.com.cn

Sandy Cheung (Shanghai)
Partner
Deloitte People’s Republic of China
+86 (21) 6141 1156
sancheung@deloitte.com.cn

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