People’s Republic of China:  
New and Revised IIT Returns and Forms Enhance Information Reporting

Summary

China’s State Administration of Taxation (SAT) issued a bulletin (Bulletin 21) on April 27, 2013 in which it released nine new and revised individual income tax (IIT) returns and associated forms. Bulletin 21 will become effective on August 1, 2013.

Key implications

With the implementation of Bulletin 21, the number of IIT returns/forms is reduced to 12, nine of which are new or revised and three of which are unchanged. No changes have been made to the following returns:

- Annual Individual Income Tax Return (for individuals with annual income of RMB120,000 or more);
- Individual Income Tax Withholding Return on Income from the Transfer of Restricted Shares; and
- Individual Income Tax Consolidation Return on Income from the Transfer of Restricted Shares.

The new and revised returns and forms can be categorized as follows:

Category 1. Basic information registration forms – The two new forms (i.e., Forms A and B) are mainly for collecting basic information on a taxpayer when the withholding agent submits the withholding return (Form A) or when an individual taxpayer self reports (Form B). The information to be disclosed on the forms includes the length of the secondment/assignment, the individual’s Chinese and overseas positions, the source of the payment, the individual’s work permit number, and information on whether the individual is a tax resident of a country/region that has concluded a tax treaty with China.

After the initial submission of Forms A and B, only subsequent changes in the taxpayer’s information would need to be reported in the future.

Category 2. IIT withholding returns – Under this category, the two withholding tax returns to be filed by the withholding agent (i.e., one for monthly withholding and the other for the annual adjustment of monthly withholding applicable to certain specialized industries, such as mining, marine transportation, deep-sea fishing) are revised slightly by including a section for the breakdown of tax deductible items and amounts, etc.

Category 3. IIT self-declaration returns – There are five self-reporting returns that must be used by individual taxpayers and taxpayers engaged in production and business operations, sole proprietorships, or partnerships. These returns have been revised slightly to require more detailed information, such as a breakdown of deductible contributions to China’s mandatory social security schemes.

Deloitte’s view

The issuance of Bulletin 21 highlights the increased scrutiny on income reporting, information collection, and the administration of IIT compliance for all taxpayers, especially nondomiciled individuals working in China.

When a withholding agent prepares the initial IIT filing for a nondomiciled individual, it must include the taxpayer’s 18-digit registration ID, the length of the secondment/assignment, the expected departure date, the individual’s domestic and overseas positions, and the source of the payment (i.e., from which country or area the salary will be paid) on Form A. Affected companies should consider implementing a tracking system or seeking professional assistance to properly track information on expatriates who are working in China to ensure compliance with the information-reporting requirements.

When a nondomiciled individual self reports for IIT purposes in China, he or she must include the work permit number on Form B. This required inclusion represents the first time the work permit number has been linked with IIT reporting. Companies should ensure that work permit applications for expatriates working in China are submitted on a timely basis.

A nondomiciled individual also must indicate whether he or she is a tax resident of a country that has concluded a tax treaty with China, which signals SAT’s increasing scrutiny of claims for benefits under tax treaties. It is important for affected companies and individuals to ensure that proper documentation is maintained to support any claims for treaty relief.
The amount of tax-exempt income still must be provided in the monthly IIT withholding return, which can help the tax authorities in reviewing the reasonableness of the tax-exempt benefits (e.g., qualified housing rentals, meals, laundry) claimed by expatriates. Employers should take steps to ensure that tax-exempt benefits are structured properly to differentiate them from cash allowances and that the application of such benefits complies with the prevailing tax regulations and local practice. Meanwhile, relevant internal administrative procedures should be well documented and strictly followed to sustain eligibility for tax-exempt status.

The SAT is likely to be scrutinizing IIT returns and forms more closely. Companies with expatriate individuals working in China should review their current IIT compliance and take any steps necessary to ensure compliance and reduce any risk of noncompliance.

— 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

Vincent Lo (Hong Kong)
Partner
Deloitte People’s Republic of China
+(852) 2852 5835
vinlo@deloitte.com.cn

Tony Jasper (Hong Kong)
Partner
Deloitte People’s Republic of China
+(852) 2238 7499
tojasper@deloitte.com

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

Isabel Liu (Guangzhou and Shenzhen)
Director
Deloitte People’s Republic of China
+86 (755) 3353 8382
isliu@deloitte.com.cn

Feifei Li (Guangzhou and Shenzhen)
Director
Deloitte People’s Republic of China
+86 (755) 3353 8160
ffli@deloitte.com.cn

About Deloitte
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the regions of 200,000 professionals worldwide all committed to becoming the standard of excellence.

Disclaimer
This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the “Deloitte Network”) is, by means of this document, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.