

## BEWARE OF THE NEW INDIVIDUAL INCOME TAX SELF-REPORTING REQUIREMENTS

Clement Lam & Celia Hui [March 2007]

Further to the “Strengthening the Administration of the Individual Income Tax (“IIT”) Records of Foreigners” issued by the State Administration of Taxation (“SAT”) on 23<sup>rd</sup> January 2006, the SAT has further released the Guo Shui Fa (2006) No. 162, “Trial Notice on IIT Self-Reporting” (“the Notice”) on 6<sup>th</sup> November 2006.



Apart from the ordinary monthly IIT tax filing, individuals satisfying any one of the following conditions are required to “self-report” their income to local tax bureaus within a specific time limit, effective from 1<sup>st</sup> January 2006.

Conditions	Additional Requirement	Time Limit
a. Having annual personal income of more than RMB120,000	Complete an annual IIT self-reporting return by themselves or through their withholding agents (e.g. employers)	Within 3 months after the end of relevant year
b. Having salary or wages from two or more sources within China	Complete an annual IIT self-reporting return by themselves or through their withholding agents (e.g. employers)	Within 7 days after the end of the relevant month
c. Having income from outside China	Complete an annual IIT self-reporting return by themselves or through their withholding agents (e.g. employers)	Within 30 days after the end of the relevant month
d. Having taxable income but no withholding agent in China	Complete an annual IIT self-reporting return by themselves	Within 7 days after the end of the relevant month

There are a few limited exceptions to the above-said conditions. Article 4 of the Notice states that individuals “staying in China for less than one full year” will not be affected by category (a) or (c) of Section 2.1 above. To qualify as “staying in China for less than one full year”, the individual must be absent from China for more than 30 consecutive days in one time or more than 90 cumulative days in the relevant calendar year.

The detailed procedures of filing the new annual IIT self-reporting return vary among cities in China. For example, on-line filing is allowed in Beijing and Guangzhou. In Shanghai, the information has to be stored in a diskette and submitted to the tax bureau. Other cities may require taxpayer to file the return in person, by courier or other methods as determined by the related local tax bureau.

This new filing system is intended to intensify and regulate the IIT reporting requirements particularly for foreign individuals working in China. The additional information enables the Chinese tax bureau to reconcile the monthly returns filed by employers with what the individuals themselves report in order to identify any discrepancies. The database can be shared among government agencies, such as the police, courts, administrative bureau of industry and commerce, banks, finance bureau, labor bureau, audit bureau, and foreign exchange administrative bureau, as well as customs and immigration. This can help to keep track of the tax and other compliance positions of foreign nationals working in China.

It is also worth mentioning that if a taxpayer fails to file the IIT self-reporting return within the stipulated time limit, the tax bureau may impose a maximum penalty of RMB10,000. Individuals are suggested to seek professional advices to review their remuneration package, tax positions and filing status in China to ensure that they are complying with the current reporting requirements.