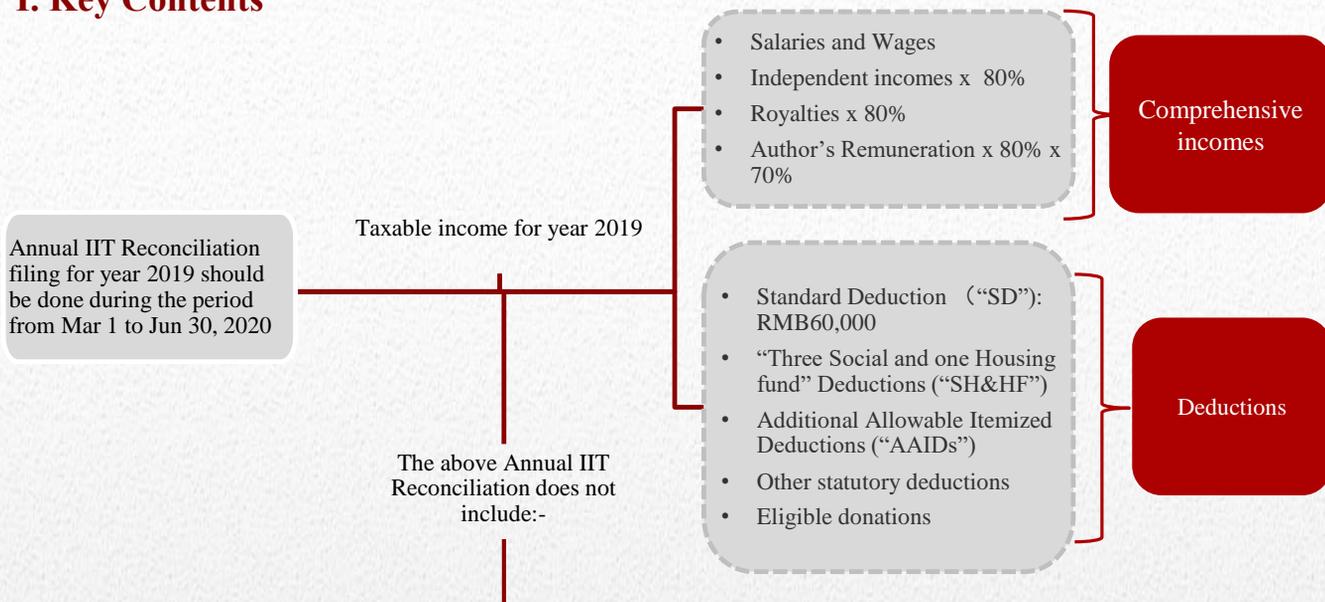


Individual Income Tax (“IIT”) Highlights in 2019 – First Annual IIT Reconciliation Filing

I. Key Contents



- ① Years other than 2019
- ② Incomes from lease of property
- ③ Based on tax circulars, certain type of incomes chosen by taxpayers to separate from annual comprehensive income (e.g. annual bonus would be treated as a stand-alone income and taxed at a preferential tax rate).

The final tax to be paid (or refunded) for year 2019 = [(Comprehensive income – RMB60,000 - “Three social insurances and one housing fund” deductions - AAIDs – Other statutory – eligible donation) x Applicable annual tax rate - Quick Reckoning Deduction] – Pre-paid taxes on monthly basis in 2019

II. Taxpayers who are required to proceed Annual IIT reconciliation filing

In the following situations, taxpayers are required to proceed Annual IIT Reconciliation Filing	Tax filing methods
<p>Prepaid taxes in year 2019 is greater than Annual tax payable; and taxpayers decide to apply for a tax refund.</p> <ul style="list-style-type: none"> The annual comprehensive income of 2019 does not exceed RMB60,000, however, taxes have been paid within year 2019; The withholding rate applicable to independent incomes, author’s remuneration and royalties during the year is higher than the applicable annual tax rate of annual comprehensive income; When the taxes are pre-paid during the year, deductions like SD, SF&HF deductions, AAIDs, other statutory deductions and eligible donations are not considered as deductions or not deducted in full; or Other preferential tax treatments entitled by taxpayers while not available or entitled in full. 	<ul style="list-style-type: none"> Individual taxpayers do it by themselves; Withholding agents who pay wages and salaries or independent incomes continuously. Through authorized tax professional firms
<p>Annual comprehensive income for year 2019 exceeds RMB120,000; and The tax to be paid exceeds RMB400.</p> <ul style="list-style-type: none"> If comprehensive incomes are generated from more than one entity, the tax rate applicable to those combined comprehensive incomes would result in a final tax payable higher than pre-paid taxes within year 2019. 	

In the following situations, taxpayers are NOT required to proceed Annual IIT Reconciliation Filing

- Taxpayers’ annual comprehensive income does not exceed RMB120,000;
- Tax to be paid does not exceed RMB400;
- No discrepancy between pre-paid taxes and annual tax payable; or
- Taxpayers don’t apply for tax refund.





If China taxes paid by non-resident individual are incorrect,

- During past years prior to year 2019, China taxes could be rectified through annual self-reporting process for under-reporting incomes. No late payment surcharges would be imposed; However,
- Effective from year 2019, annual IIT reconciliation filing is not a proper way through which China taxes could be rectified. Instead, China taxes for under-reported income can only be filed with late payment surcharges.

III. Special Concerns

If comprehensive incomes are generated from more than one entity:

- In the situation that comprehensive incomes are generated from more than one entity, and the balance of annual comprehensive over AAIDs exceeds RMB60,000.
- **Affected groups:** *Part-time persons, those who change their employers within the year, and those who generated comprehensive incomes other than salaries and wages.*

Additional taxes are required to be paid:

- Those whose incomes are under-reported;
- The amount of AAIDs is over-deducted;
- The amount of SD is deducted twice for those who generate incomes from more than one entity;
- If comprehensive incomes are generated from more than one entity, the tax rate applicable to those combined comprehensive incomes would result in a final tax payable higher than pre-paid taxes;
- The withholding unit failed to file China taxes for its payees.
- Preferential tax treatments are entitled by taxpayers in a wrong way.
- **Affected groups:** *those who generated comprehensive incomes other than salaries and wages, and those whose AAIDs are altered within the year.*

Taxes are required to be refunded:

- The AAIDs are under-deducted.
- The salaries and wages are not paid in a flat way for the whole year. A lower level of salaries and wages has been paid in the later period.
- There are independent incomes, author's remuneration and royalties and their withholding tax rates are higher;
- There is a medical expense occurred during the year and the amount of which exceeds RMB15,000;
- There are eligible donations within the year;
- **Affected groups:** *those who generated independent income, author's remunerations and royalties; those who have medical expenditure and eligible donations within the year.*

Taxpayers are allowed to authorize their withholding unit:

- Employees are allowed to authorize their Chinese employers to assist in completing Annual IIT reconciliation filing. If employees are willing to do so, they should sign the authorization letter before April 30 of the following year, and provide the relevant income data in due course.
- **Affected groups:** *Human Resource personnel; taxpayers who are willing to make such authorization.*

IV. Issues to be further clarified

Tax refund issue for non-resident individuals leaving China

- The tax law stipulates that the tax refund can only be returned to the taxpayer's personal bank account within Chinese territory. If the non-resident individuals have exited from China while need to apply for a tax refund, to which account should their tax funds be remitted?

Key Contact

If you have any questions in the first Annual IIT reconciliation filing, please do not hesitate to contact us. We will give you a clear answer at once.

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