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The new China Individual Income Tax (IIT) Law and its impacts on overseas Chinese

Main changes under the new IIT Law

The fifth session of the 13th National People's Congress Standing Committee passed the revisions to the China Individual Income Tax (IIT) Law on 31 August 2018. The effective date of the New IIT Law is 1 January 2019. We only discussed the issues which may have impacts on Chinese nationals who have overseas income and their Chinese employers in this flyer.

Employer:

1. **More strict registration requirement:** Chinese employer needs to register outbound employees' information before the end of February of the following year.
2. **Increased employer obligations:**
 - ▶ Assist employee with Annual Tax Reconciliation (ATR) filing
 - ▶ Provide compensation and tax statement to employees for ATR filing purposes
 - ▶ Provide employees with necessary ATR filing guidance

Employee:

Chinese nationals are generally considered Chinese tax residents for IIT purpose. Chinese residents in general are subject to IIT on their worldwide income.

1. **New tax calculation formula and filing forms:** Chinese tax residents who have overseas income are required to file ATR form B and several schedules to report global income to China (except several specific scenarios). The tax calculations became more complex.
2. **More requirements for foreign tax credit claim:** Foreign tax credit is allowed on form B. But more documents (e.g. foreign tax payment certificate) are required to enjoy the tax credit.
3. **Short filing and payment period:** The filing and payment period for ATR is 1 March to 30 June the following year with **NO** extension allowed.
4. **Counter filing** – Form B can be only lodged at the counter of the local tax authority.

Impacts on you

Employer	Employee
<ul style="list-style-type: none">▶ Employee tax compliance might impact employer compliance (i.e., payroll, corporate tax, etc)▶ If no proper planning ahead, overall company cost might increase▶ Tax budget▶ Employer/employee relationship and communication	<ul style="list-style-type: none">▶ Compliance risk▶ Under Common Reporting Standard (CRS), individual's overseas financial information is more transparent▶ Personal credit record impact

EY can help

Considerations	Client's Key Challenges	EY Services
Compliance	<ul style="list-style-type: none"> ▶ Both employers and employees should be compliant in home and host countries ▶ May also have corporate impact on the overseas company (i.e., PE) 	<ul style="list-style-type: none"> ▶ Home and host country employment and tax advisory services ▶ One stop home and host country tax compliance solution ▶ Secure online tool ▶ Dedicated mailbox/hotline service ▶ VIP 1 on 1 service
Cost Efficiency	<ul style="list-style-type: none"> ▶ Lack of efficient assignment policy and tax policy ▶ No consideration of overall global tax cost ▶ No consideration of personal and corporate overall costs ▶ Additional cost not considered with the law change 	<ul style="list-style-type: none"> ▶ Review and design tailor-made tax policy and procedure ▶ Communications with the employees for the company tax policy ▶ Cross boarder tax planning ▶ A full range of cost projection
Effective Practice	<ul style="list-style-type: none"> ▶ The current practice no longer suitable under the law change ▶ Lack of communication between employee and employer ▶ Low employee satisfaction rate ▶ Unnecessary administration process 	<ul style="list-style-type: none"> ▶ Health check of the current process and advise on the improvements ▶ Implementation of tax policy ▶ HR and Finance personnel communications on law changes and company tax policy ▶ Employee townhall meeting for the law change and individual and company obligations ▶ Program managing- track progress

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