



PRC Individual Income Tax Self Reporting Requirements

On 6 November 2006, the State Administration of Taxation issued Guo Shui Fa [2006] 162 ("Circular 162"), namely <<Trial Measures for Individual Income Tax ("IIT") Self Reporting>>. Circular 162 marks a big step forward in IIT administration and collection as it lays down specific requirements and procedures for certain groups of IIT payers to perform IIT self reporting.

Applicable Scope

Articles 2 and 3 of Circular 162 specify four different circumstances where IIT self reporting should be made by individuals:

1. where the individual derives annual income of more than RMB120,000;
2. where the individual derives salary and wages from two or more sources within China;
3. where the individual derives income from outside of China; or
4. where the individual derives taxable income but does not have a withholding agent.

Circular 162 contains limited exceptions to these general cases. Individuals "staying in China for less than one full year" will not be caught under item # 1 or # 3 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 or more than 90 cumulative days in the relevant calendar year.

What Income Items Should be Reported Under Circular 162?

A key question involves understanding exactly what income items should be included in determining whether an individual has derived an "annual income of more than RMB120,000". Eleven taxable income categories specified under the IIT law are included, namely:

1. Income derived from wages and salaries;
2. Income derived from production and business operations by industrial or commercial households;
3. Income derived from contractual or leasing operation of enterprises or institutions by individuals;
4. Income derived from remuneration for labour services;
5. Income derived from remuneration for manuscripts;
6. Income derived from royalties;
7. Income derived from interest or dividends;
8. Income derived from the leasing of property;
9. Income derived from sales of property;
10. Contingent income; and
11. Other kinds of income specified as taxable by the Finance department of the State Council.

On the other hand, the following categories of income appear to be excluded from the scope of Circular 162:

1. Nine income items specifically exempted from IIT under the IIT law including for example interest income from State bonds;
2. Income sourced from outside of China derived by an individual who has stayed in China for more than one full year but less than five full years; and
3. Basic pension, medical insurances, unemployment funds and residential funds contributed by employer and employee in China which fall under relevant PRC employee welfare regulations.

IIT Reporting Deadlines

Individuals who derive annual income of the specified kinds exceeding RMB120,000 a year (i.e. who fall under item # 1 of the applicable scope section) should make annual IIT reporting no later than 31 March of the subsequent year. Since this requirement is effective from 1 January 2006, the first IIT self reporting should be completed by 31 March 2007.

Individuals who derive income from outside of China (i.e. who fall under item # 3 of the applicable scope section) should make annual IIT reporting within 30 days of the subsequent year.

Individuals who derive salary and wages from two or more sources within China or who derive taxable income but do not have a withholding agent (i.e. who fall under item # 2 or # 4 of the applicable scope section) are required to perform IIT self-reporting within seven days after the month end.

PwC Observation

Frequent travellers to China (i.e. individuals who have not stayed in China for one full tax year) appear to be caught by Circular 162 (under item # 4 of the applicable scope section) if they do not have any withholding agent in China to report their IIT. This will commonly be the case.

There is some uncertainty whether expatriates staying in China for more than one full year but less than five full years are required to report non-employment income sourced from overseas such as personal investment incomes including interests, dividend, property, rental etc derived outside of China, which are not taxable in China. Further clarification on this point is necessary.

In the context of this China Tax / Business News Flash, China or the PRC refers to the People's Republic of China but excludes Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Region.

The information contained in this publication is for general guidance on matters of interest only and is not meant to be comprehensive. The application and impact of laws can vary widely based on the specific facts involved. Before taking any action, please ensure that you obtain advice specific to your circumstances from your usual PricewaterhouseCoopers client service team.

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