

China Individual Income Tax

FEB 2008



REMINDER - ANNUAL INDIVIDUAL INCOME TAX FILING DEADLINE

Since 2006, individuals working in the PRC may need to file annual Individual Income Tax (“IIT”) returns to the relevant tax authorities if any of the conditions explained in the paragraph under the heading of “Who Should File” is applicable. This newsletter aims at providing you with information about this annual IIT filing requirement. Please act quickly since the deadline for filing annual IIT return for year 2007 is approaching!

Background

A tax notice, Guoshuifa (2006) no. 162 (“the Notice”), issued on 6 November 2006, sets out the specific requirements for certain individuals to file their annual IIT returns on a self-assessment basis.

The annual filing requirement is not a replacement of the existing monthly filing and tax withholding obligations. Notably, employers are still required to report, withhold and pay IIT of their employees on a monthly basis.

Who should file

The annual filing requirements apply to both PRC nationals and expatriates, with some exceptions. The annual tax filing is required in any of the following situations:

1. Individuals with an annual income of more than RMB 120,000;
2. Individuals deriving income from 2 or more sources within the PRC;
3. Individuals deriving income from outside the PRC;
4. Individuals with an income taxable in the PRC, but with no tax withholding agent;
5. Other situations as specified by relevant authorities.

As mentioned above, the Notice provides for certain exceptions to the above general cases: not all expatriates working in the PRC are required to file annual IIT returns. Notably, individuals who are in the situations described in items 1 or 3 above, but have spent less than one full calendar year in the PRC (for more than 30 consecutive days on a single trip or more than 90 cumulative days during a calendar year), are not required to perform the annual IIT filing.

Which income items should be reported

It is crucial to know what kind of income should or should not be included in the annual IIT filing, since this will affect whether an individual has “an annual income of RMB 120,000 or more”. The following types of income must be included in the annual IIT filing:

1. Salaries and wages,
2. Income from production and business operations by self-employed individuals,
3. Income from contractual operations by individuals,
4. Labor service income,
5. Payments received for an article or a book,
6. Royalties,
7. Interests and dividends,
8. Income from property leasing,
9. Income from property transfer,
10. Exceptional income (such as a lottery prize),
11. Other incomes as specified by the Finance Department of the State Council.

Ways to file annual IIT returns

Individuals can submit their annual IIT return via the following methods:

1. Using the Internet,
2. By registered mail to the local tax bureau where they are registered,
3. In person to the tax bureau where they are registered.

Filing deadline

The annual IIT return must be filed no later than 31 March of the following year. The tax bureaus in Shenzhen, Beijing, Guangzhou and Shanghai have confirmed that the deadline for 2007 is 31 March 2008.

Penalties

Individuals who fail to submit their annual IIT returns to the relevant tax bureaus on or before the deadline could be fined up to RMB 10,000.

Exchange rate

Expatriates may receive all or part of their remuneration in foreign currencies. When filing monthly / annual IIT in the PRC, their remuneration has to be converted into RMB. Earnings that are denominated in foreign currencies must be converted into RMB by using the historical month end exchange rates (e.g. an individual's salary denominated in USD for July 2007 should be converted into RMB by using the USD/RMB exchange rate on 31 July 2007 as announced by the People's Bank of China). The annual earnings declared will be a sum of all earnings after conversion into RMB.



Contacts

Beijing

Thierry LABARRE

Managing Partner Mainland China

Tel: (+86) (0) 10 8518 9780

Email: Thierry.labarre@mazars.com.cn

Guangzhou

Benoît STOS

Managing Director

Tel: (+86) (0) 20 3833 0235

Email: benoit.stos@mazars.com.cn

Shanghai

Julie LAULUSA

Partner

Tel: (+86) (0) 21 6859 8060

Email: julie.laulusa@mazars.com.cn

Hong Kong

Alexander MAK

Managing Director

Tel: (+852) 2909 5660

Email: alexander.mak@mazars.com.hk

This China Tax Newsletter is issued in summary form exclusively for the information of Mazars clients, and other interlocutors interested in our services, and should not be used or relied upon as a substitute for detailed advice or as a basis for formulating business decisions.

