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# Annual Tax Reconciliation (ATR) of Individual Income Tax for Y2022

Prepared by Kelly Dong

International HR & Payroll Services

28<sup>th</sup> February 2023



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**01**



# Overview of ATR 2022

## What is the ATR for 2022?

According to regulations, when year 2022 is over, **resident taxpayers** need to summarize their **comprehensive income** derived in the period from 1<sup>st</sup> January to 31<sup>st</sup> December 2022, and calculate their final tax payable amount according to the prescribed calculation method, and then subtract the prepaid tax in year 2022 to obtain an amount of tax refund or repayment, and then report to tax authorities to complete the annual settlement.

## The Purpose of ATR

- ❖ The ATR can better protect the legitimate rights and interests of taxpayers.
- ❖ The ATR can more accurately calculate the individual income tax payable of taxpayer's annual comprehensive income.

## The Subject of ATR



### China Tax Resident:

- ❖ Having domicile in China
- ❖ No domicile in China and has cumulatively resided in China for 183 days or more in year 2022

### Non-tax resident transfer to tax resident:

A non-China domiciled taxpayer who previously assessed as non- tax resident (residing in China less than 183 days cumulatively in 2022 ) at the beginning of 2022 extends his/ her residence period in China and finally becomes a tax resident.

**Note:** Non-tax resident doesn't be required to do the ATR

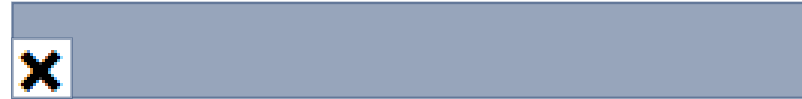
# The Scope of ATR

## In Scope



- Salary Income
- Personal Service Income
- Royalties Income
- Author's Remuneration Income

## Out of scope

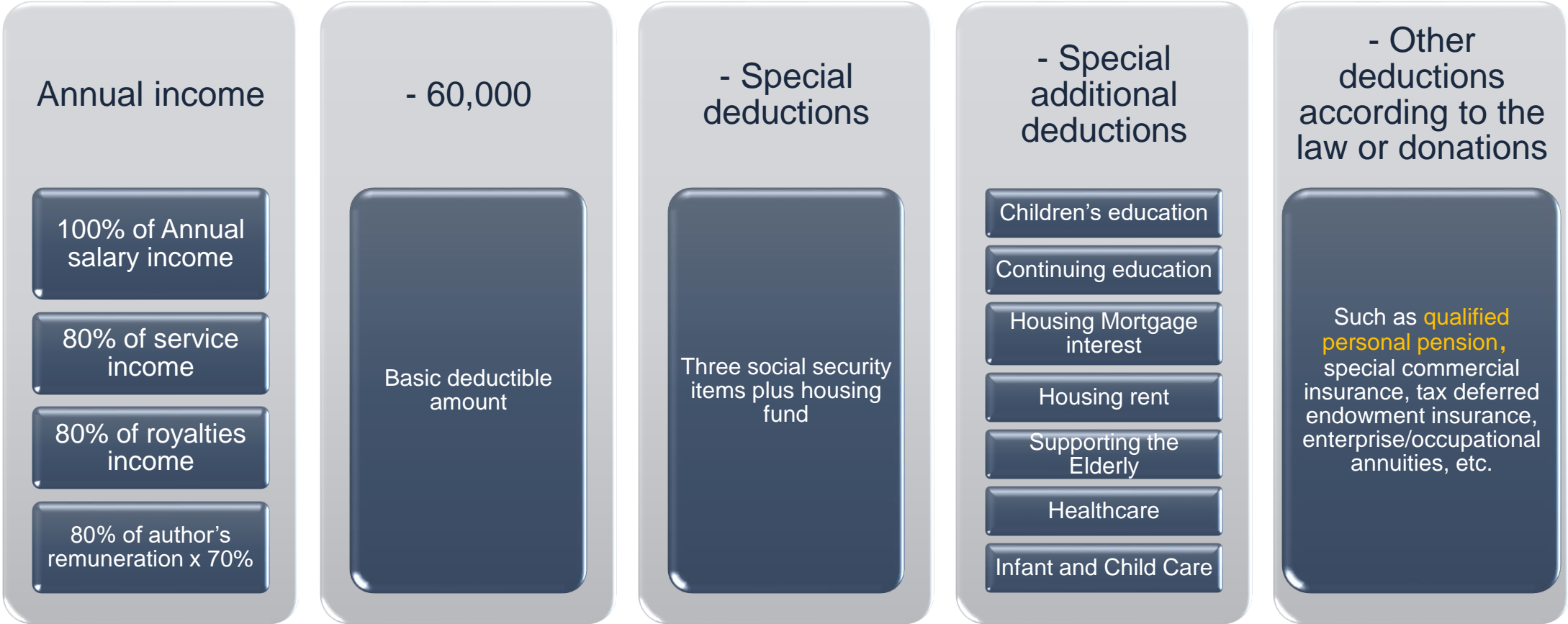


- Classified income, including the income from interest, dividends and bonuses, the income from lease of property, transfer of property and contingent income
- Stock incentive of listed companies
- The annual bonus which chose to use the special tax treatment for bonus separately
- The one-time compensation income obtained by termination, retirement ahead of schedule and internal recuperation.

**Note:** Annual bonus which chose to use the special tax treatment for bonus separately could be recalculated into comprehensive income in the annual final settlement (ATR) (According to *Notice No. 42 [2021]*, the preferential IIT treatments on tax residents' annual bonus shall be extended till **December 31, 2023.**)

# The Calculation Formula

## The Taxable Amount of Comprehensive Income



## Final Tax amount to be refunded or repaid

=(The Taxable Income of Comprehensive Income \* Applicable Tax Rate - Quick Deduction) - Prepaid Tax Amount in 2022

IIT Rate Table (Applicable to Comprehensive Income):

IIT Withholding Rates Table for Resident Individuals			
Level	Taxable income amount subject to cumulative withholding (CNY)	Withholding rate	Quick deduction(CNY)
1	≤ 36,000	3%	0
2	36,000-144,000	10%	2,520
3	144,000-300,000	20%	16,920
4	300,000-420,000	25%	31,920
5	420,000-660,000	30%	52,920
6	660,000-960,000	35%	85,920
7	> 960,000	45%	181,920





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02



**Who need to complete the ATR ?**



## Taxpayers who are **not required** to do ATR

- ❖ Where it is necessary to make a supplementary payment, but the comprehensive income does not exceed CNY 120,000 in the year;
- ❖ Where the tax amount to be repaid does not exceed CNY 400 (**Not applicable: The withholding agent who has not withheld the IIT in accordance with the law, the taxpayer can't be exempted of the ATR**);
- ❖ Where the prepaid tax amount is consistent with the annual tax payable;
- ❖ Abandon of the tax refund.



## Taxpayers who are **required** to do the ATR

1. Where the prepaid tax amount is more than the annual tax payable and the taxpayer is willing to apply for tax refund:
  - 1) The taxpayer's comprehensive income amount does not exceed CNY 60,000 in 2022 but has prepaid the IIT;
  - 2) There are eligible special additional deductions or qualified personal pension deduction which should be enjoyed in 2022, but the taxpayer has not declared for deduction;
  - 3) No income in some months due to employment/resigning in the middle of the year which will cause some deductions will not be fully deducted for the whole tax year;
  - 4) Incomes only derived from personal service, author's remuneration or royalties and no employer, which is required to deal with pre-tax deductions via the ATR;
  - 5) Where the applicable withholding tax rate for personal service income, author's remuneration and royalties during the year 2022 is higher than the applicable tax rate for comprehensive income;
  - 6) The taxpayers who not declare or not fully enjoy the comprehensive income tax preference when paying taxes in advance, such as the IIT preference for the disabled, etc.;
  - 7) Eligible donations for which the taxpayer has not declared for deduction ;
  - 8) Other special situations need to apply the tax refunds.

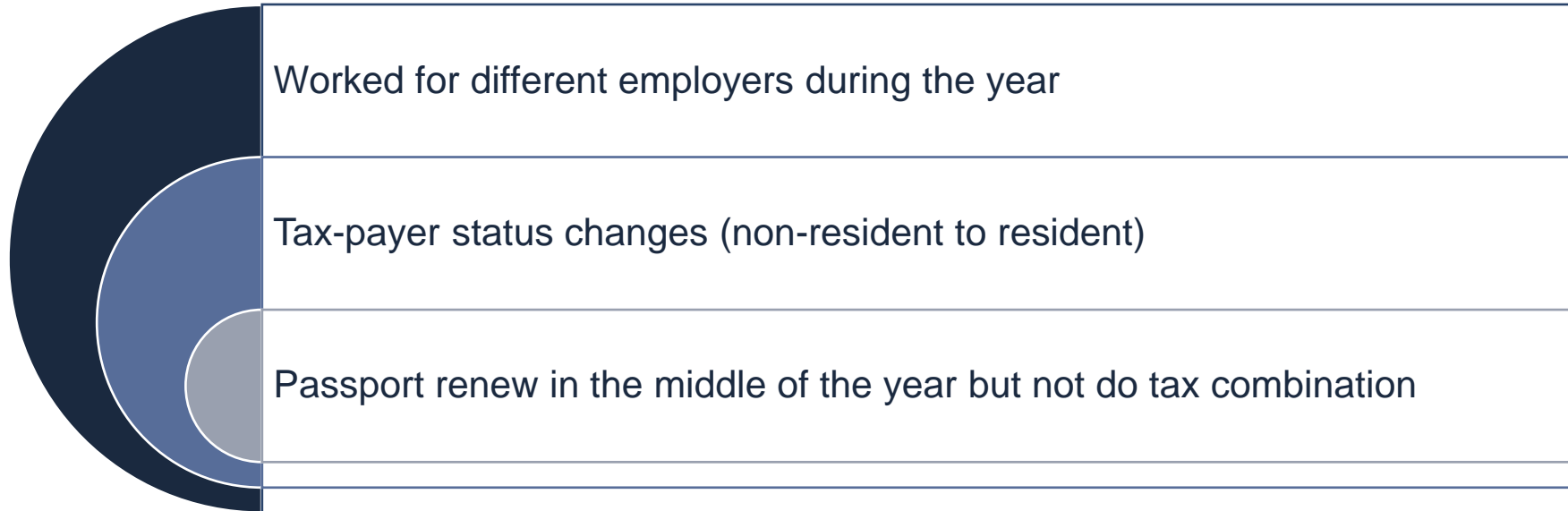


## Taxpayers who are **required** to do the ATR

2. Where the comprehensive income exceeds CNY120,000 in the year and the amount of tax to be repaid exceeds CNY400:
  - 1) Where the taxpayer has derived comprehensive income from two or more sources, when he/she prepaid the tax, the standard deduction (CNY5000 /month ) was deducted repeatedly ;
  - 2) Except the salaries, the taxpayers also have incomes from personal services, author's remuneration or royalties. And the comprehensive income amount raise into a higher tax rate bracket, which resulting the prepaid tax amount less than the annual tax payable amount;
  - 3) Other special situations that require to make up the tax.



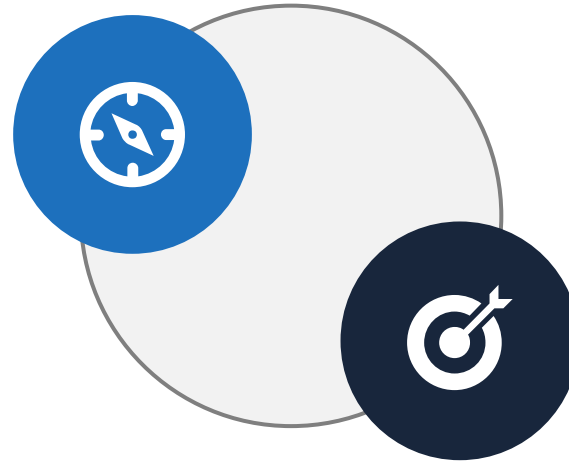
## Main reasons may lead the gap between the prepaid tax amount and the payable tax amount for a foreigner



**Note:** Normally the total annual income which shall be declared monthly can't be changed during the ATR, if the total annual income need to be changed, a tax correction shall apply rather than the ATR.

## How can I know whether I satisfy the conditions of exemption from the ATR or not?

- ❖ You may ask your employer to assist. The employer has the liability to notify the employee about his/her IIT withholding information.



- ❖ You may check it by yourself via IIT app or website . Once the ATR started, the tax authorities will provide the taxpayer with the pre-filling service of declaration items through tax APP according to certain rules. If the taxpayer carefully checks and confirms the pre-filled income, prepaid tax and other declaration items, the system will automatically calculate the tax that should be repaid or refunded. Then taxpayers can know whether they need to do the ATR.

# Different tax calculation methods (salary & bonus) between resident taxpayer and non-resident taxpayer

## Resident Taxpayer

### Monthly salary income:

Accumulative IIT calculation, prepaid, comprehensive income

### Annual bonus:

- The individual could choose to apply the special tax treatment for annual bonus (once per year) and calculate it separately before 31 Dec 2023.
- After 1st Jan 2024, the annual bonus shall be combined into the comprehensive income to calculate IIT.

## Non-resident Taxpayer

### Monthly salary income:

- Calculate and withholding IIT on monthly basis

### Annual bonus/bonus:

- The bonus shall not be aggregated with other salaries of the current month
- Such amount shall be apportioned over six months for tax computation purpose with no deduction
- Once per year



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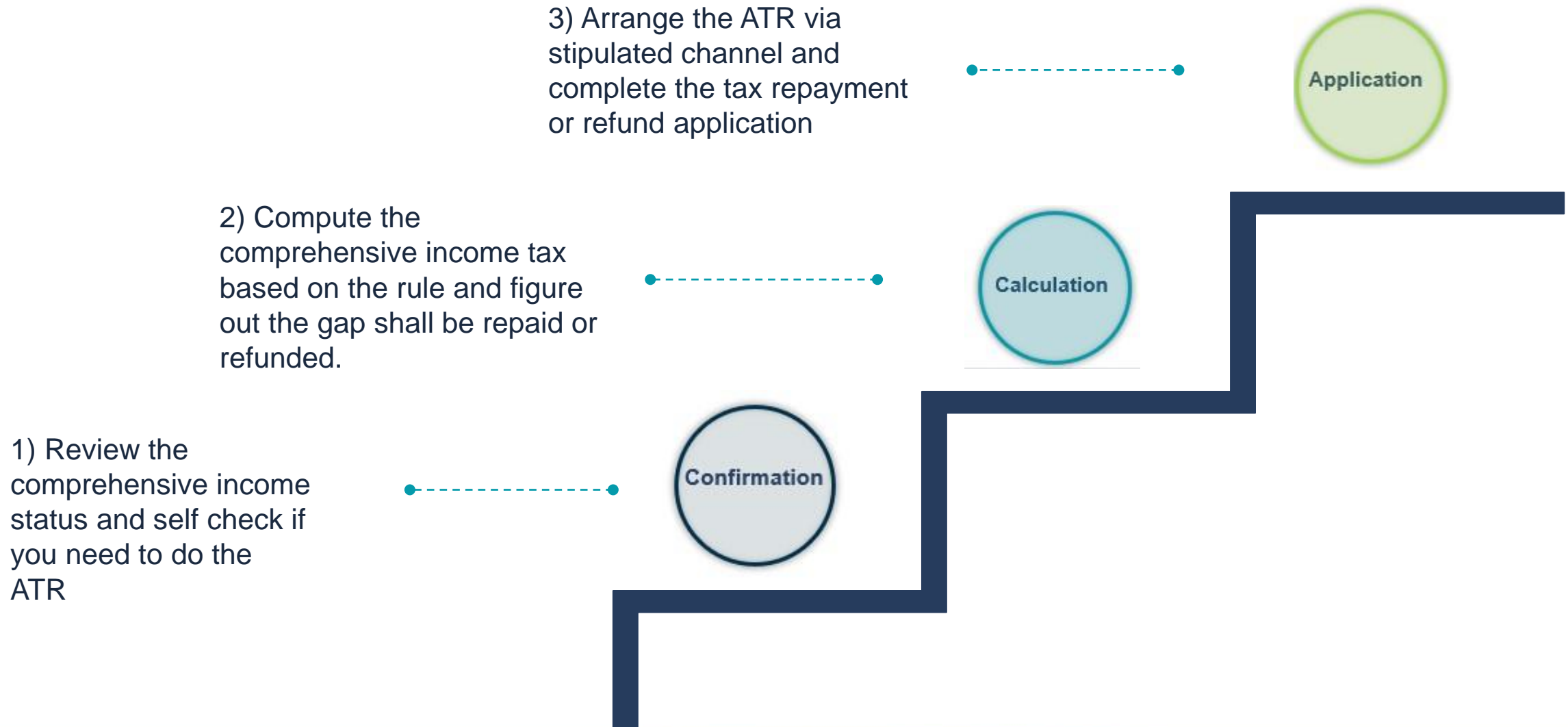
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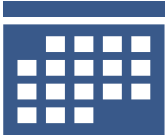


# ATR Filing Procedures & Case Studies



## General procedure of ATR





## Timeframe of handling the ATR 2022

- ❖ Handling timeframe for the ATR 2022 for normal cases:

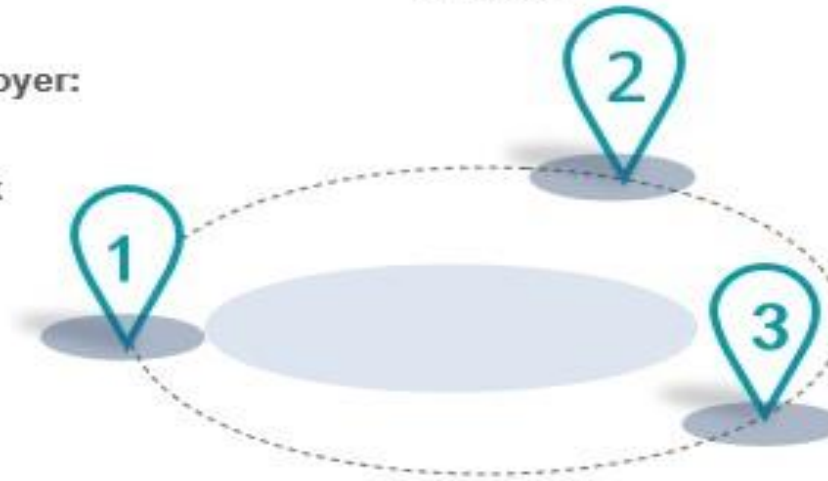
**1<sup>st</sup> March 2023 to 30<sup>th</sup> June 2023**

- ❖ If a non-domicile taxpayer leaves China before 1<sup>st</sup> March 2023, he/she need to handle the ATR before leaving China.

## The declaration place of the ATR

The one with an employer:

- ❖ The in-charged tax bureau where the employer located



The one with two or above employments at the same time:

- ❖ Choose one tax bureau location where the employers located

The one with no employer:

- ❖ Where Hukou located or the residence place, or the place where the main income source came from

## The Handling method of the ATR

- ❖ Making the ATR by taxpayers themselves;
- ❖ Entrusting his/her employer (including the employer which withholds and pays IIT on his/her income from personal service under the cumulative withholding method.
- ❖ Entrusting a specialized tax-related service agency or any other organization or individual (hereinafter referred to as the "agent") to do the ATR on behalf of the taxpayer, under which the agent shall enter into a power of attorney with the taxpayer.



## Method-Handling by employer

If the employee (including interns) requests the employer to do the ATR on behalf of the him/her, the employer shall handle it or at least provides guidance on how to handle it via website or IIT app to the employee.

If the employer will handle the ATR for its employees:

- ❖ The taxpayer shall confirm with the employer in writing or electronically by 30th April 2023. And the taxpayer should also provide supplementary information and materials on his/her comprehensive income derived from any parties other than the employer, and relevant deductions and other enjoyable tax beneficial if any, etc.

The taxpayer shall be responsible for the veracity, accuracy and completeness of the information submitted. And the employer is not allowed to make annual settlement on behalf of employee if there is no writing or electrical confirmation of the entrustment.

## Handling channels

Taxpayers could do the ATR through the online tax platform ,including online website of tax services and IIT APP on mobile phone ; where it is inconvenient to make the ATR via the aforesaid channels, taxpayers may make the ATR by mail or at the tax service office.



## Payment methods



### Tax Refund

Taxpayer shall provide a qualified bank account opened in China. Upon the examination by the tax authorities, pursuant to the relevant provisions on Treasury administration, tax refund shall be processed at the locality of the tax authority where accepts the annual final settlement declaration



### Tax Repayment

Taxpayer could pay tax repayment through online banking, by card payment at the tax office's POS terminal, at a bank counter or via a non-banking payment organization etc.

# Simple declaration for tax refund



For the individual whose annual comprehensive income is less than 60,000 but prepaid IIT during the year of 2022. The tax authority would accept a simple declaration way to get the tax refund via tax app.

Taxpayers can quickly apply for tax refund through the tax App by confirming the prepaid tax and filling in their own bank account information; but if taxpayers have questions about the data in the pre filling service, they can also choose the standard declaration form for ATR.



## Retention of tax return information and materials



**5 years!**

A taxpayer and the withholding agent who handles ATR on behalf of taxpayer are required to retain the annual settlement declaration form as well as the relevant materials on the taxpayer's comprehensive income, deductions, tax paid or tax incentives for five years commencing from the date of expiry of the annual settlement period.

Organizations which offer equity (stock) incentives (including equity incentives given by a domestic enterprise to its employees with the equity in an overseas enterprise as the subject matter), cash incentives for commercialization of service technological achievements etc. shall report and file the same for record pursuant to the relevant provisions.

## Management Measures of ATR 2022



- ❖ For taxpayers who need to make up tax in the ATR, if they didn't declare and make up tax after the end of the annual final settlement period, the tax authority will charge an overdue fine according to law and mark it in their personal income tax record. (If a taxpayer makes an overpayment or underpayment in the annual settlement due to the wrong filling of the declaration information, and the taxpayer takes the initiative or corrects in time after being reminded by the tax authority, the taxpayer may be exempted from punishment in accordance with the principle of "no punishment for the first violation".)

## Management measures of ATR 2022

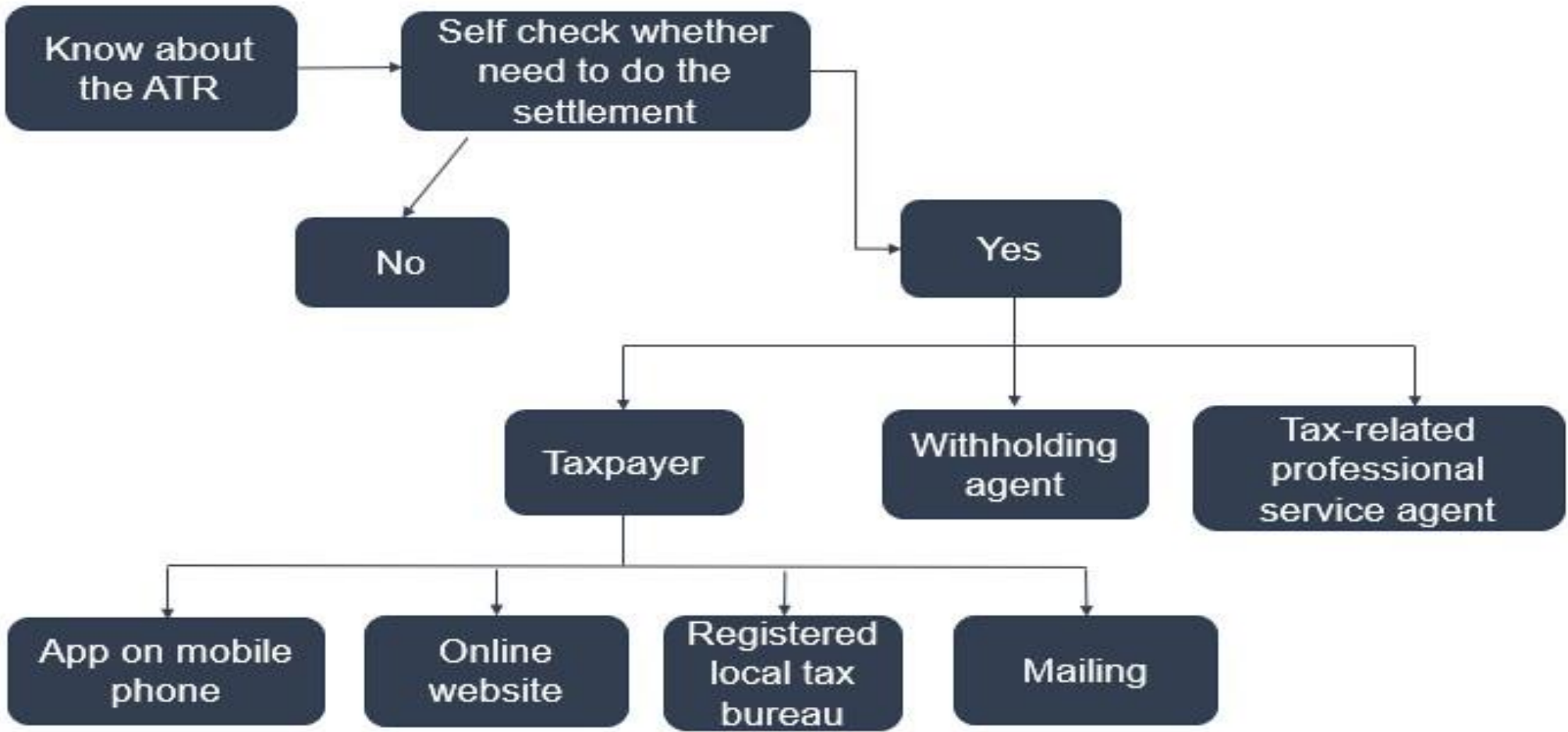
- ❖ For those cases which involved a large tax amount, the tax authority will remind, supervise and urge the rectification of those who have not corrected or not corrected in place after reminder, and tax authority will interview and warn if the taxpayers still have not corrected or not corrected in place, and if they still do not cooperate with the rectification after the interview and warning, tax authority will file a case for inspection according to law, and select some cases with serious circumstances and bad impacts for public exposure.

**Note:** For taxpayers who apply for annual tax refund in ATR 2022, if they need to handle the final tax supplement for previous years but fail to do so, or if there are doubts in their final tax declaration for previous years but fail to correct or explain the situation after being notified by the tax authority, according to law they need to apply for tax refund after handling the final tax supplement for previous years, correcting the declaration or explaining the relevant situation

## Annual settlement services

- ❖ This year tax authorities extended the appointment service, taxpayers who need to handle the ATR **from March 1st to March 20th** can log on the IIT account of mobile APP **after February 16th** to make an appointment for any day of above period according to their own situation. From March 21st to June 30th, taxpayers can handle the ATR at any time without making an appointment.
- ❖ For taxpayers who satisfy the tax refund criteria and have relatively heavy living burden, tax authorities shall provide them with priority in tax refund services.
- ❖ People with mobility problem and other special groups, the taxpayer may submit an application and the tax authorities may provide personalized annual settlement services.
- ❖ After the ATR, a competent tax authority will be determined for taxpayers who fail to handle the ATR on time, so that taxpayers could find the competent tax authority to provide tax related service for them when they handle the ATR later.

## A flow chart of the ATR



## Case study



### ✓ Case 1.

- Chinese employee- Mr. Zhang hired by Company A (WFOE in China) since Y2020 .In Y2022, his annual salary income was CNY70,000, special deduction was CNY 14,000, additional special deduction was CNY24,000, and he had no prepaid salary IIT payment in monthly tax declaration
- In Jan 2022,he got annual bonus CNY30,000, and used special tax treatment, the corresponding IIT was CNY900
- No other incomes

### ✓ Solution

The total taxable amount of salary income=  $70,000-60,000-14,000-24,000=-28,000$

The taxable amount of comprehensive income= The total taxable income of salary income +Annual bonus= $-28,000+30,000=2,000$

IIT shall be paid= $2,000*3%=60$

**IIT refund=900-60=840**



✓ **Case 2.**

- In Year 2022, Chinese employee- Mr. Wang got salary income CNY 120,000, personal service income CNY 50,000, total special deduction and additional special deduction was CNY 38,850, the prepaid salary IIT was CNY 634.5, and service IIT is CNY 10,000

✓ **Solution**

The taxable amount of comprehensive income= $120,000+50,000*80\%-60,000-38850=61,150$

IIT shall be paid= $61,150*10\%-2520=3,595$

**IIT refund= $634.5+10,000-3595=7,039.5$**



### ✓ **Case 3.**

- A foreign employee-Amy was hired by Company A (a WOFE in China), who was declared as tax resident at the beginning of 2022. However, due to some reasons, Amy terminated the employment relationship with Company A and started to work with Company B from 15<sup>th</sup> Nov. 2022.
- Amy only has one position and all her salary is due to her positions in China.
- Her January to 14<sup>th</sup> Nov. salary income in Company A was CNY 525,000.
- Her 15<sup>th</sup> Nov. to December salary income in Company B was CNY 200,000.
- No other deductions.

### ✓ **Solution**

IIT in Company A=(525,000-55,000)\*30%-52,920=88,080

IIT in Company B=(200,000-10,000)\*20%-16,920=21,080

Annual Income in Y2022=525,000+200,000=725,000

IIT shall be paid=(725,000-60,000)\*35%-85,920=146,830

**IIT repayment=146,830-88,080-21,080=37,670**





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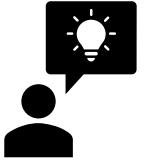


**04**



**Summary, Q & A**

# Summary



## The difficulties of the ATR

- The whole procedure is complex especially when apply for the tax refunds.
- The forms are hard to complete if the individual can't understand the regulations and requirements well.
- The tax liability and related calculation rules are complex especially the individual has both China and overseas income.
- It may hard for non-domicile individual to understand his/her tax liability in different situations.
- It will have punishment risk if don't do ATR or do it wrongly as lack of tax knowledge

## DSA's suggestions

- Setup reasonable payroll structure or conduct tax planning in advance.
- Declare IIT in each month properly to avoid making adjustment via ATR, as it will be time consuming to adjust tax via ATR.
- Have good understanding about China individual income tax law and regulations to avoid any incompliance operations.
- Pay attention to the tax status of non-domicile individual and arrange proper declarations.
- Follow the latest tax notice and guidance

# How can DSA help you?





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# Our Firm



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Dezan Shira & Associates is a pan-Asia, multi-disciplinary professional services firm, providing market entry, legal, accounting, tax, HR, technology and operational advisory to international investors. Operational throughout China, ASEAN and India, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining, and growing their business operations in the region.

Originally incorporated in Hong Kong in 1992, Dezan Shira & Associates is now in its third decade of operations. With three decades of on-the-ground experience and a large team of lawyers, tax experts and auditors, in addition to researchers and business analysts - we are your partner for growth in Asia.

We support our clients from our 29 offices throughout China, Hong Kong, India, Russia, Singapore and Vietnam and Indonesia, as well as from our 'Asian Alliance' partner offices in Bangladesh, Malaysia, the Philippines, and Thailand. Together, we makeup one of the largest integrated providers of corporate services in the region, with more than 35 offices and 500 professionals in Asia.

We also serve our corporate clients and partners beyond Asia. Our firm maintains liaison offices in the United States, Europe, and Russia, and advises throughout China's Belt & Road Initiative regions. As members of accounting, tax, and legal professional alliances, we support our multi-jurisdictional clients with one-stop-shop access to services in more than 155 countries globally.

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# Individual Income Tax (IIT) compliance service

## □ Service



Annual Tax Return (ATR) for employer and employee



Expatriate arrival tax briefing and tax clearance



Tax registration, filing and consulting



Other tax compliance services subject to local legislation requirements

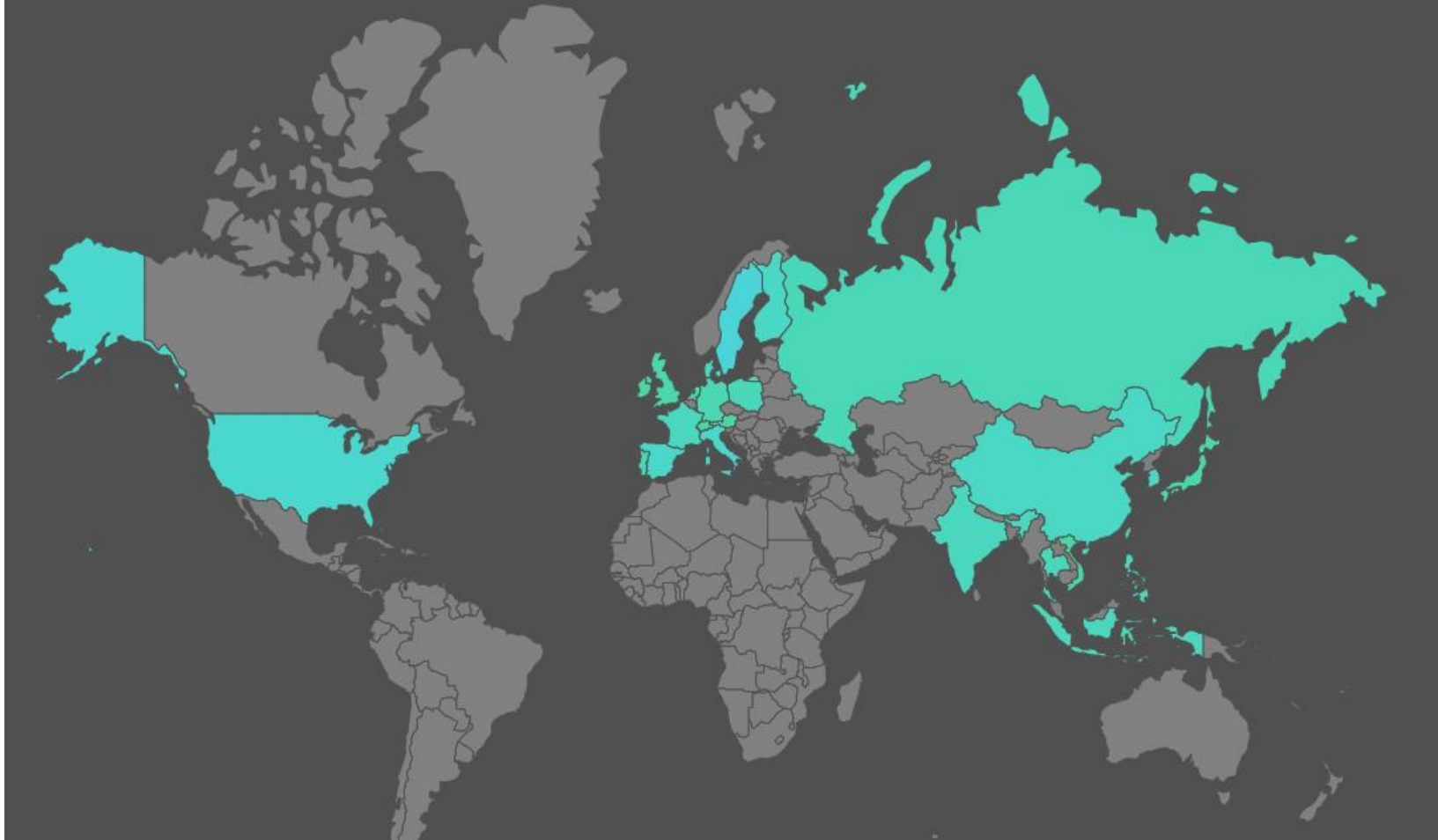


DSA will provide service from its local offices in Hong Kong, Singapore, Vietnam, Indonesia and India; meanwhile work with its local vendors in more countries or regions



# Individual Income Tax (IIT) compliance service

## ☐ Country & region coverage



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# Any questions?





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