

China alert

Tax and regulatory developments

TAX

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Strengthening collection and administration of individual income tax on employment income

In Brief

- The State Administration of Taxation (SAT) is stepping up efforts to monitor compliance with individual income tax rules on employment income.

Regulation discussed in this issue:

Notice on the Strengthening Collection and Administration of Individual Income Tax on Employment Income Using Corporate Salary Expense Details, Guoshuihan [2009] No. 259, issued by the State Administration of Taxation on 15 May 2009 (Circular 259)

With the issuance of Guoshuihan [2009] No. 259 (Circular 259), local tax bureaus will be selecting at least 10 percent of the taxpayers in their charge to analyse the amount of individual income tax withheld by employers against salary expense details the employers provided. The employer will be audited when discrepancies are relatively large.

During an audit, some areas of focus will be:

- Correct classification of salary expenses
- Correct tax treatment of benefits-in-kind
- Correct amount of remuneration reported.

KPMG observations

Tax audits on individual income tax compliance are becoming more frequent. In some locations, local tax bureaus have requested taxpayers to perform self-audits and confirm compliance or report any issues.

To prepare for such audits, taxpayers should review their tax compliance status and take appropriate remedial actions where appropriate. Generally, tax bureaus are more lenient when corrective actions are voluntary.

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