### What are the challenges ahead?

- Possible expansion of taxation basis?
- Increasing complexities with filing annual reconciliation return
- Enforcing a “national” tax treatment
  - No more “step-up” in personal deductions
  - Possible revocation of certain tax concessions for expatriates
- Complex individual income tax compliance requirements
- Additional administrative burden for companies

### What are the potential implications?

- **Foreign employees** could incur a larger tax bill given uncertainties with whether:
  - The “five-year” exemption rule on foreign income will continue?
  - Itemised deductions to be introduced under the new regime will replace existing tax concessions for expatriates?
  - Offshore investment income will be brought into the Chinese taxation net?
- **Employers** who hire foreign employees in China will likely face additional costs from the:
  - Loss of foreign talent as a result of the larger tax bill and inability to obtain tax equalisation
  - Need to factor in foreign employees’ larger tax bill in post-reform remuneration structure
  - Potential increase in compliance costs

### How to prepare for a “soft landing”?

- **Foreign employees**
  - Understand the pre and post IIT reform implications (tax and other related issues)
  - Carry out discussions with your employer
- **Employers**
  - Understand the pre and post IIT reform implications (tax and other related issues)
  - Identify the employees that will be impacted
  - Quantify incremental tax costs and formulate response strategy
  - Communicate with employees
  - Adjust administrative, corporate, tax and other related policies

### How can KPMG help?

- Facilitate dialogue between government authorities and employers/employees regarding the IIT reform
- Formulate pre-reform strategies
  - Analyse the implications of the IIT reform both qualitatively and quantitatively
  - Recommend further action points
- Post-reform implementation
  - Review and redesign relevant policies
  - Draft employee guidelines and employer administrative policies
  - Develop and deliver training programs
- Provide continuous support with technology-enabled solutions

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