PRC IIT Reform – Are you ready?
Implications for local employees and their employers

What are the challenges ahead?
- Introduction of “itemised deduction”
  - Need cooperation from employees to fulfil withholding agent obligation
  - Employer’s “competency” in managing the “itemised deductions” impacts employee engagement
- Additional administrative burden to the company
- Increasing complexity around filing annual reconciliation returns
- Complex individual income tax compliance requirements

What are the potential implications?
- Local employees needs to enhance their awareness of the compliance requirement:
  - Proactively cooperate with the employer to secure monthly itemised deductions
  - Inappropriate supporting documents for “itemised personal deduction” affect personal cashflow
  - Personal tax compliance status will impact personal credit rating
- Employers will likely have expanded withholding obligations:
  - Must accommodate employee’s request for claiming itemised personal deduction and process in the monthly withholding tax return
  - Potential need to collect and validate documentation supporting employee’s itemised deduction claim
  - Potential increase in administrative and compliance costs as withholding agent

How to prepare for a “soft landing”?
- Local employees
  - Understand the pre- and post-IIT reform implications (tax and other related issues)
  - Understand the requirements on collection and safekeeping of valid supporting documents
- Employers
  - Understand the pre- and post-IIT reform implications (tax and other related issues)
  - Provide adequate employee training on key changes and actions under the new IIT regime
  - Update existing SOP on monthly tax withholding filing, and supplement it with new administrative policy with respect to itemised deduction claims
  - Prepare forecast on incremental labour and administrative costs which could arise from the IIT reform

How can KPMG help?
- Formulate pre-reform strategies
  - Analyse implications of the IIT reform both qualitatively and quantitatively
  - Devise pre-reform action plan (e.g. analysis of implications, redesign existing policies and SOPs)
  - Assist with post-reform IIT cost forecasting
  - Consultation with senior employees to discuss the impact of IIT reform and planning opportunities
  - Design and deliver tailor-made IIT reform training courses to employees
- Post-reform implementation
  - Provide ongoing guidance and assistance
  - Use of technology-enabled solution to assist the employer with ongoing administration of itemised deduction claims for employees
  - Use of technology-enabled solution to automate the process of completing monthly withholding tax returns

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