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## How does the COVID-19 Affect IIT of Expats Working in China?

As you may know, the number of residence days of an expat in China is an important factor for determining whether he/she is a resident or a non-resident, and also directly affects the computation and declaration of the expat's individual income tax liability.

Due to the impact of the COVID-19 epidemic, many countries, including China, have implemented policies of temporary suspension of entry of foreign nationals. The implementation of these restriction policies may affect the determination of tax residency of foreign nationals working in China in year 2020.

For example, some foreigners working in China may be stranded overseas due to business trips or vacations and cannot return to work in China in time. On the other hand, some foreigners who come to China for short-term business visits and trade negotiations may not be able to leave China as planned due to the travel restrictions.

According to the "Individual Income Tax Law of the People's Republic of China" and its Implementation Regulations, foreigners residing in China for a total of 183 days or more within a tax year will be regarded as China tax residents for the tax year. On the contrary, if the residence of expats in China within a tax year is less than 183 days, the foreigners will be regarded as a non-China tax resident in the tax year.

China has adopted different individual income tax computation methods for tax residents and non-tax residents. Therefore, before calculating and declaring individual income tax for foreigners, pre-assessment of their tax residency status must be done. Generally, when filing individual income tax for foreign nationals for the first time at the beginning of each year, it is necessary to estimate the number of days the foreign employee will live in China for that year, determine the tax residence status of the foreign employee, and declare and pay individual income tax accordingly.

Due to the wide spread of COVID-19 epidemic and the implementation of the travel restriction policies, the actual residence of foreign employees may differ from the estimation made in early 2020.

According to the Announcement on Individual Income Tax Policies for Non-resident Individuals and Non-domiciled Individuals" issued by the Ministry of Finance and the State Taxation Administration of the People's Republic of China, if an expat pre-determined as non-China tax resident extends his/her residence period in China and eventually become a China tax resident, he/she shall do the annual tax reconciliation according to the relevant regulations of China tax resident after the end of the tax year. However, if the foreign national leaves China within the current year and no longer enters the country within the year, he may choose to do the annual tax reconciliation before leaving China.

On the contrary, if an expat pre-determined as China tax residents cuts his/her residence period in China and eventually becomes a non-China tax resident, the expat shall report to the competent tax authority to revise the individual income tax computation and declaration method from the date of failure to meet the resident conditions to January 15 of the following year. The expat shall recalculate the individual income tax payable and declare repayment of tax. If repayment is required, no overdue fine will be charged. If tax refund is involved, it shall be handled in accordance with the regulations.

Considering the impact of the COVID-19 epidemic, the individual income tax of foreigners may change. It is recommended to determine the estimated residence days and tax resident status of foreign employees in China in year 2020 based on the actual situation of foreign employees, change the individual income tax computation and declaration methods in time if necessary.

*If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at [www.kaizencpa.com](http://www.kaizencpa.com) or contact us through the following and talk to our professionals:*

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