TAX NEWS CHINA

2026 (No. 2 issue)

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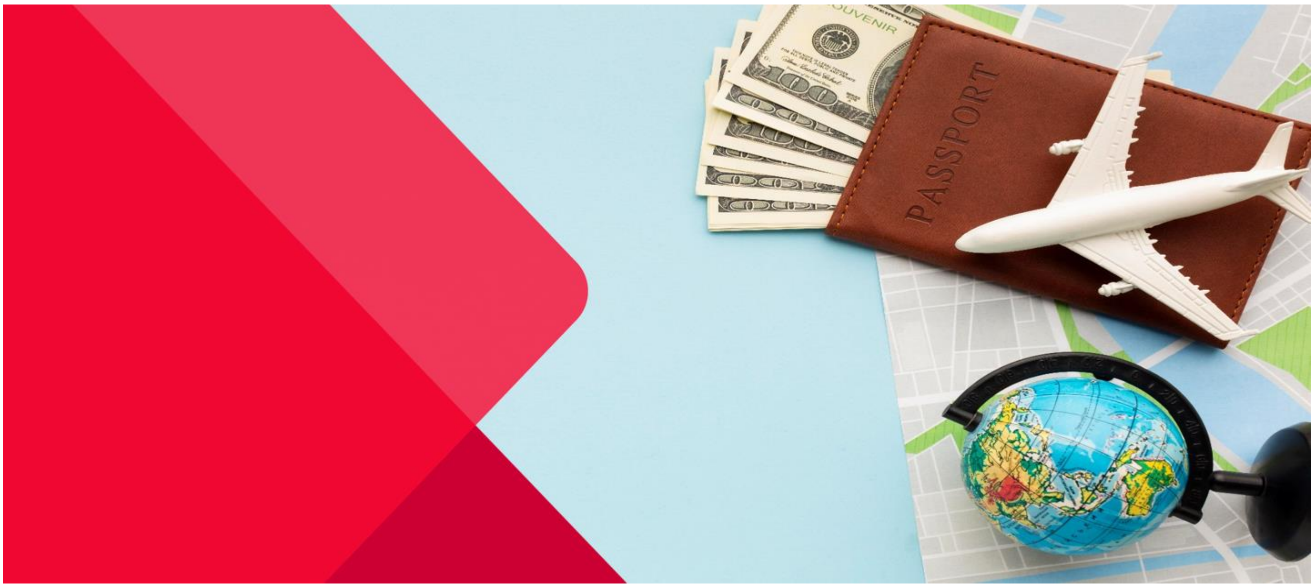

Tax compliance | Offshore income self-assessment

In brief

- The Chinese tax authorities are urging taxpayers nationwide to voluntarily self-assess and declare any unreported offshore income earned between 2022 and 2024. The offshore income includes, but is not limited to, employment compensation, investment gains, rental income, and proceeds from share transfers.
- Employers and employees are expected to review their records, identify any discrepancies, and take appropriate corrective actions. As a result, the burden of proof now rests squarely on taxpayers to demonstrate full compliance.
- With the combined oversight of the international Common Reporting Standard (CRS) and China's domestic "*Golden Tax*" system, this represents a critical moment for taxpayers and withholding agents to proactively address potential tax risks and reinforce cross-border mobility practices.

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In detail

The self-assessment is not mandatory, but it provides an opportunity for taxpayers to benefit from leniency through voluntary correction. It addresses key topics that are most relevant to taxpayers, including China tax residency, offshore income, tax obligations, and related consequences.

With the growing interplay between the international Common Reporting Standard (CRS)—adopted by over 100 tax jurisdictions, including China, Hong Kong SAR, and Macau SAR—and China's domestic "*Golden Tax*" system, tax oversight has become significantly more effective than ever before. Authorities now have a much broader access to offshore financial data thanks to CRS (see our Newsletter No. 8, 2025).

What was once a widely held belief—"*offshore funds are safe if not repatriated*"—no longer holds true in today's transparent and interconnected global tax environment.

» Tax residency per connection, not passport

Individuals who habitually reside in China due to household registration, family ties, or primary economic interests, or who do not have a domicile in China but have stayed in China for a cumulative total of more than 183 days in a calendar year, are deemed tax residents and within the scope of this self-assessment.

Attention: Cancelling Chinese household registration or obtaining foreign permanent residency does not automatically alter Chinese tax residency status.

» Non-repatriated income included

The self-assessment is expected to cover a three-year period, from 2022 to 2024. All offshore income earned during this timeframe should be included, regardless of whether it has been repatriated to China or not. Offshore income includes, but is not limited to, employment compensation, investment gains, rental income, and proceeds from share transfers.

» Consequences (non-intentional vs. intentional)

Under current tax policies, the statute of limitation and consequences may differ for taxpayers who fail to pay or underpay tax either non-intentionally or intentionally. The differences are summarized as follows:

Scenario	Statute of limitation	Consequences
Omission / error (non-intentional)	Limited to 3 ~ 5 years.	• Tax owed + surcharge (0.05% daily). • No fine.
Tax evasion (intentional)	Unlimited period.	• Tax due + surcharge (0.05% daily). • Fine (50% to 500%). • Criminal liability in serious cases. • Listed as a tax offender on official record. • Joint penalty by other government agencies.

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Tax management for employees

Self-assessment serves as a financial "*health check*". It offers taxpayers the remarkable opportunity to manage and protect their wealth.

» Resolving historical risks

The self-assessment serves as a useful financial review, helping taxpayers evaluate and manage their offshore income and related obligations.

» Activating tax credit mechanisms

Income tax paid overseas may be credited against the tax payable in China upon presentation of compliant documentation. Voluntary corrections during this period typically involve only tax payments and surcharges, helping to avoid penalties or further liabilities.

» Establishing wealth management framework

This is a good time to review global assets and income flows. A full review can support sustainable compliance and long-term planning, including education, retirement, and investment goals.

Tax management for employers

For enterprises with cross-border staffing arrangements, this self-assessment directly addresses their statutory obligations as a withholding agent, constituting a critical component of corporate compliance management.

» Statutory tax obligations

- Where remuneration is paid or borne by a Chinese enterprise, the employer is required to withhold and remit personal income tax on offshore income, regardless of whether it is taxed overseas. This is a mandatory obligation.
- Where remuneration is entirely paid or borne by an overseas entity, the Chinese employer must submit employee details to the tax authorities by 28 February of the following year.
- Failure to meet these obligations, resulting in employee tax evasion, may lead to recovery of unpaid taxes from the employer, along with penalties, causing financial and reputational damage.

» HR compliance management

Companies are encouraged to use this self-assessment opportunity to strengthen compliance processes and support talent attraction efforts. Recommended actions include:

- Establishing a structured tax review process covering pre-assignment assessments, withholding procedures, and ongoing compliance tracking.
- Providing employees with professional assistance for tax filing, particularly for complex tasks such as claiming foreign tax credits, to improve satisfaction and reduce shared risks.
- Enhancing employer branding through transparent tax-related benefits, contributing to stronger talent retention.

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WTS China's observation

Under the global tax transparency system created by CRS and big data, active compliance is the only safe and sensible choice. For individuals, it brings peace of mind about their wealth. For businesses, it is a chance to build stronger management foundation.

The following table sets out an action path. Corporate and individual taxpayers are advised to make use of this self-assessment opportunity and complete their review as soon as possible.

Parties	Key actions	Objective
Individuals (employees)	1. **Residency review:** Determine whether one qualifies as a Chinese tax resident based on domicile or residence. 2. **Income review:** Review offshore income earned between 2022 and 2024. 3. **Tax filing:** Consider corrective tax filings via online APPs or at a tax bureau. 4. **Professional advice:** For complex income structures, involving multi-jurisdictional tax implications or substantial amounts, consult specialist firms for an advice.	Reduce historical risks & avoid penalties.
Enterprises (employers)	1. **Statutory obligations:** Verify the compliance status of withholding obligations for employees. 2. **Process review:** Verify the robustness of internal controls over remuneration disbursement and tax filings. 3. **Communication:** Proactively inform employees of this self-assessment opportunity. Providing them with necessary assistance in collecting overseas documentation or understanding tax credit policies. 4. **Risk management:** Integrate tax compliance management into the company's overall compliance and risk management framework.	Fulfil legal obligations & reduce corporate risk.

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