

# GMS Flash Alert

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## People's Republic of China - IIT Preferential Policy for High-end Talent

The Ministry of Finance and the State Taxation Administration of the People's Republic of China ("PRC" or "China") jointly issued Circular 31, a notice "About the individual income tax preferential treatment of individuals in the Greater Bay Area" on 14 March 2019 to promote and support the development of the Greater Bay Area (GBA) by attracting foreign high-end, urgently needed talent.<sup>1</sup> (For prior coverage of the preferential policy see [GMS Flash Alert 2019-012](#), 24 January 2019.)

### WHY THIS MATTERS

Circular 31 is the latest guidance implementing the government's strategy to attract talent to the GBA and repealing two earlier circulars. By offering preferential treatment for this particular geographic area in the PRC, the new rules could affect companies' tax cost forecasts and possibly their business expansion/relocation decisions, talent deployment/retention strategies and policies, as well as their tax reimbursement policies.

### Salient Points

Circular 31 is a five-year tax-preferential policy, effective from 1 January 2019 through 31 December 2023, to promote the GBA Initiative and to implement the "One Country, Two Systems" policy in a practical manner.

### Applicability

Circular 31 applies to foreign high-end talent and urgently needed talent, including persons from Hong Kong and Macao Special Administration Regions (SARs) and Taiwan regions, who are working in nine cities in the GBA's Pearl River Delta: Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing.

## Preferential Policies

The Guangdong province and the city of Shenzhen will provide subsidies to qualified overseas high-end talent and urgently needed talent based on the difference in individual income tax ("IIT") between mainland China and Hong Kong SAR. The subsidy is exempt from PRC IIT.

## Revocation of Other Policies

Circular 31 is retroactively effective on 1 January 2019, and simultaneously repeals two previous notices: the Notice on IIT Preferential Policies for the Guangdong Hengqin New Area (Caishui [2014] No. 23) and the Notice on IIT Preferential Policies for the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (Caishui [2014] No. 25).

## Definition of "Talent"

As there are no standard criteria for defining "talent" in China or elsewhere in the world, the definition of foreign high-end and urgently needed talent is subject to the detailed rules to be issued by the province of Guangdong and the city of Shenzhen based on local requirements and relevant policies.

In China, the Foreigners' Work Management Departments of the People's Governments of all provinces, autonomous regions and municipalities refer to the relevant provisions of Waizhuanfa [2017] No. 218 to issue R-type visas to foreign high-end and urgently needed talent. Whether the GBA's IIT-preferential policy will also refer to these standards to define "talent" remains to be seen.

## Tax Incentives

Appendix 1 compares the effective tax rates on monthly wage income between mainland China and Hong Kong SAR, to estimate the extent of the subsidies that may be provided under Circular 31.

## Policy Implementation

In principle, Circular 31 draws from the original IIT differential subsidy policies of Hengqin District, Zhuhai ("Zhuhai Hengqin") and Qianhai District, Shenzhen ("Shenzhen Qianhai"). See Appendix 2, IIT Subsidy Policies for Foreign Talent in those districts. However, the relevant application procedures, such as to the qualifying conditions and application procedures; methodology to be adopted for computing the tax differentials; and application process and timeline, are subject to the detailed rules of Guangdong province and Shenzhen.

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## KPMG NOTE

Circular 31 provides clarity on the tax treatment of the subsidy, by stipulating that subsidies provided under the policy will be exempt from PRC IIT. The circular's preferential policies and other preferential policies to be implemented for the GBA provide incentives for multinational companies to consider for establishing and expanding businesses in the GBA.

With the influx of overseas talent, the GBA's financial, transportation, tourism, and infrastructure industries, among others, are expected to develop rapidly, and could very well attract more and better medical and educational resources to the GBA to supplement the growth of the area.

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## Next Steps

The KPMG International member firm in the PRC will continue to pay close attention to the relevant circulars and GBA policies under the new IIT regime and to share our observations with GMS *Flash Alert* readers. Please feel free to contact us for the most recent news in relation to the IIT reform and other tax regulations.

Appendix 1 : Comparison of Effective IIT Tax Rates between Hong Kong SAR Residents and Mainland China Residents

Monthly Wage Income (RMB)	Hong Kong SAR Salaries Tax (Effective Tax Rate)	PRC Individual Income Tax (Effective Tax Rate)	Tax Rate Differential/Subsidy Rate
50,000	11%	18%	7%
80,000	13%	24%	11%
100,000	14%	28%	14%
120,000	15%	30%	15%
150,000	15%	33%	18%

Notes:

1. The effective income tax rate estimates for salaries and wages in mainland China are based on individual taxation rules for persons who are PRC tax residents. These estimates do not consider deductible items other than the standard deduction of RMB 60,000.
2. The Hong Kong SAR income tax rate estimates for salaries and wages are based on the 2018-19 "Single / Separated / Divorced / Widowed" marital status tax rate table. Relevant deductions, allowances and tax reductions have not been taken into consideration.
3. We assume that taxes are the responsibility of the employees themselves. Also, the exchange rate used for the calculation was 1 RMB = 1.1694 HKD.

Appendix 2: Introduction to IIT Subsidy Policies for Overseas Talent in Zhuhai Hengqin and Shenzhen Qianhai

	<b>Tax Burden Subsidy Policy for Hong Kong SAR and Macau SAR Residents in Zhuhai Hengqin</b>	<b>IIT Financial Subsidy Policy for Overseas Talent in Shenzhen Qianhai</b>
Applicable Individuals	Permanent residents of Hong Kong SAR and Macau SAR who work in Hengqin who are employed or are providing independent services	Qualified overseas high-end talent and urgently-needed talent
Business Restrictions	No	In line with the development requirements of Qianhai's industries
Applicable Income Category	All taxable income categories with regard to IIT	Income from wages and salaries, remuneration for independent services, authorial remuneration, royalties, and income from business operations as defined in the PRC IIT law
Calculation Methods for Preferential Subsidies	<p>The subsidy for the IIT difference between mainland China and Hong Kong SAR and Macau SAR can be calculated using either one of the following methods:</p> <ol style="list-style-type: none"> <li><b>Simple computation method:</b> Hong Kong SAR residents incur a tax rate of 15%, and Macau SAR residents incur a tax rate of 12%;</li> <li><b>Comprehensive computation method:</b> The subsidy can be calculated based on the category of taxable items, Hong Kong SAR or Macau SAR's tax laws, and by taking into account personal status, personal allowances, tax deduction items, cost and expenses, etc.</li> </ol> <p>The subsidy is exempt from PRC mainland China IIT.</p>	<p>The financial subsidy will cover the tax difference between IIT already paid in Qianhai and 15% of taxable income.</p> <p>The subsidy is exempt from PRC IIT.</p>

## FOOTNOTE:

[1 Notice Regarding Preferential Individual Income Tax Treatment for the Guangdong-Hong Kong-Macao Greater Bay Area \("the GBA"\) \(Cai Shui \[2019\] No.31\).](#)

## RELATED ARTICLE:

This article is excerpted, with permission, from "[New IIT-Preferential Policy for foreign High-end Talent and Urgently-Needed Talent Working in the GBA](#)" in *China Tax Alert* (Issue 9, March 2019), a publication of the KPMG International member firm in the People's Republic of China.

RMB 1 = EUR 0.13  
 RMB 1 = USD 0.15  
 RMB 1 = GBP 0.11  
 RMB 1 = TWD 4.59

## Contact us

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