

## Research on Taxation of Talent Flow in Guangdong-Hong Kong-Macao Bay Area

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### Abstract

to promote the construction of Guangdong-Hong Kong-Macao Bay area, the flow of talents is a very important factor. The personal income tax policy is closely related to the flow of talents. Due to the different systems within the Guangdong-Hong Kong-Macao Bay area, there are differences in the tax system structure, tax rate setting, tax scope and tax preference, which restrict the flow of talents. In order to speed up the integration development of the Guangdong-Hong Kong-Macao Bay area, it is necessary for the region to strengthen tax cooperation on the flow of talents, carry out tax coordination, break the tax bottleneck, and provide policy support and management guarantee for the flow of talents in the region.

### Keywords

Guangdong-Hong Kong-Macao Bay area, talent flow, individual income tax, tax coordination.

### 1. Introduction

The Guangdong-Hong Kong-Macao Bay area is currently one of the most open and economically active regions in China, and the construction of the Grand-Baie Bay area has risen to the level of the national development strategy. To promote the construction of Guangdong-Hong Kong-Macao Bay area, the flow of talents is a very important factor. Differences in tax systems will restrict the flow of talent within the Guangdong-Hong Kong-Macao Bay area. In order to realize the integrated and coordinated development of Guangdong-Hong Kong-Macao Bay area, promote the free flow of talents in the region, realize the optimal allocation of human resources, strengthen the tax coordination among the three places, and break the tax bottleneck of the flow of talents in the region, it is worth studying.

### 2. The Restriction of Tax Policy on the Flow of Talents

In the bay area needs a large number of domestic and foreign high-end talents and a shortage of talents, but the tax bottleneck that restricts the free flow of talents in the bay area needs to be solved. The Guangdong-Hong Kong-Macao Bay area includes two special administrative regions, Hong Kong and Macao, as well as nine cities in the "Pearl River Delta". Hong Kong and Macao enjoy a high degree of autonomy, although they are the same sovereign state as the mainland, however, there are great differences between China and the mainland in tax structure, tax rate setting and tax scope, especially in individual income tax policy and administration, which has become an important factor restricting the flow of talents in Guangdong-Hong Kong-Macao Bay area.

(1)The difference of tax content leads to the complexity of individual income attribution

The mainland adopts a comprehensive and classified individual income tax system, which taxes income from wages and salaries as well as other classified income such as income from

business operations, income from services and income from property In Hong Kong, profits tax and salaries tax are the main taxes levied on personal income; in Macao, Supplementary Income Tax and occupational tax are the main taxes levied. The 11 items of individual income tax in the mainland correspond to the categories of taxes applicable in Hong Kong and Macao (tax items) . The different tax laws applicable to the same income category in the three places have caused difficulties for individuals in measuring the tax burden among the three places. For example, income from Labor remuneration in the mainland is subject to the Employment Tax and supplementary income tax in Macao and profits tax in Hong Kong, while the director's fees are subject to salaries tax in Hong Kong. This kind of income in the same category corresponds to different taxes in different jurisdictions, or even to a number of different tax cases, making it difficult for taxpayers to judge the nature of their income and tax burden in different places.

(2) differences in tax jurisdiction are liable to double taxation

In respect of tax jurisdiction, the mainland adopts the principle of combining personal jurisdiction with territorial jurisdiction, and adopts the double standard of Resident Jurisdiction and jurisdiction of the place of origin of income, to Levy tax on the income of eligible resident taxpayers and on the income of non-resident taxpayers originating in the mainland. Hong Kong and Macao are both subject to the principle of source of income, and income from outside Hong Kong and Macao is not subject to tax in Hong Kong and Macao. Differences in tax jurisdictions are liable to double taxation in Grand-Baie. There are frequent cross-boundary movements of people in the region. When Hong Kong and Macao residents are identified as mainland resident taxpayers, double taxation is inevitable. This increases the burden on people travelling and restricts the movement of Talents.

(3) the difference in tax rates constrains the free flow of talent

The seven-level progressive tax rate of 3% to 45% shall be applied to the comprehensive income from the mainland. The salaries tax in Hong Kong is in excess of the progressive tax rate of 2% to 17% , but the standard tax rate is 15% . Macao's occupation tax, the use of excessive progressive tax rates, the highest tax rate of only 12% . Different tax levels and tax brackets result in different tax burdens on talents in the three places. In March 2019, the Ministry of Finance and the State Administration of Taxation of the People's Republic of China issued the notice on preferential policies for individual income tax in the guangdong-hong kong-macao Bay area, the policy stipulates that the Guangdong Province and Shenzhen Municipality May, in accordance with the difference in the individual income tax burden between the mainland and Hong Kong, provide subsidies to overseas workers working in the bay area, including high-end talents from Hong Kong, Macao and Taiwan, as well as talents in short supply, and exempt such subsidies from individual income tax. But this policy only targets high-end talent and the shortage of talent, other talent can not enjoy, the tax burden between the three places is still difficult to balance.

### **3. Proposals on Tax Co-ordination to Facilitate Talent Flow in the Guangdong-Hong Kong-Macao Bay Area**

(1) we will adopt new models of tax cooperation

It is suggested that the experience of tax coordination on goods and services be used for reference to innovate the new mode of tax cooperation between Guangdong, Hong Kong and Macao. After the signing of the agreement between the mainland and the Mainland and Hong Kong Closer Economic Partnership Arrangement, the tariff thresholds of the three places were further lowered, trade barriers were gradually removed, and goods from Hong Kong and Macao were able to enter the mainland market freely, the mainland of China has provided a vast market space for Hong Kong and Macao. CEPA and its subsequent supplementary

agreements are the result of tax coordination in the facilitation of trade in goods and services between the three places, and have achieved remarkable results. Tax Cooperation is an effective way to promote the free flow of resources and improve the efficiency of resource allocation. The effective allocation of human resources will lead other factors of production to flow along with it. Therefore, it is proposed to draw on the experience of tax co-ordination among the three places on goods and services, promote the establishment of a tax co-operation framework among the three places on the free flow of human resources, and explore new models of tax co-operation first, effective promotion of the free flow of human resources among the three places.

### (2)to harmonize regional tax system differences

The development of regional economic integration depends not only on the natural integration of economy, but also on the active coordination and cooperation among the economies in the region. With the frequent flow of talent factors in Guangdong, Hong Kong and Macao, the integration of tax system differences has become an important way and means to attract talents. Although the mainland, Hong Kong and Macao have made some achievements in tax coordination, many policy definitions are still relatively fuzzy. Therefore, it is necessary to continue to gradually harmonize the tax system differences among the three places so as to achieve tax convergence in Grand-Baie. It is proposed to further implement the Individual Income Tax Subsidy Policy for senior talents from Hong Kong, Macao and Taiwan as well as other overseas countries in the Guangdong-hong Kong-macao Bay area, and to expand the regional scope and applicable population of the "Hong Kong people tax" and "Macao people tax" , the scope of policy implementation can be appropriately relaxed. Through unifying the comprehensive individual income tax burden in Grand-Baie, we can promote the fairness of tax system and promote the gathering of talents both at home and abroad. In addition, in the context of tax reduction and burden reduction in China, it is proposed that the mainland learn from Hong Kong's practice of simple tax system, low tax rate and strict collection and management, and further deepen the reform of individual income tax by combining comprehensive and classified methods, to further activate the role of talent in promoting economic growth. The reform includes a comprehensive collection of regular personal income, such as wages and salaries, and a higher standard of deduction and a wider range of credit for the income of highly educated and skilled personnel Other non-labor income such as interest, dividend, bonus and accidental income shall be classified and collected to adjust the high tax burden caused by the high marginal tax rate of the wage and salary income tax of the high-income people, and to maximize the embodiment of tax fairness. These reforms could be piloted in the Grand-Baie region and, when completed, could be rolled out in other parts of the country.

### (3)to coordinate regional differences in collection and management

Under the special systems of the mainland, Hong Kong and Macao, it is difficult to unify tax policies completely, which requires that tax collection and management can be explored in the same way and the differences in collection and management can be eliminated as far as possible, to reduce the impact of different tax types, different tax rates, different tax preferences and other policy differences on the flow of talent. First of all, it is proposed to establish a high-level tax coordination body in the three places, through top-level design and step-by-step implementation, to establish a unified management mechanism in the area of individual income tax, so as to break the rules of territorial handling of tax-related matters and improve the efficiency of collection and payment, provide a good environment for the flow of talents. Secondly, it is proposed to establish a mechanism for the exchange of tax information and to explore the establishment of a tax collection and management system for natural persons in the bay area, including sole proprietorships, partnerships and individual industrial and commercial households, in the area of information exchange among natural

persons, collecting and managing tax information of the same caliber in Guangdong, Hong Kong and Macao. At the same time, the registration of tax information of natural persons from Guangdong, Hong Kong and Macao will be added to the individual income tax APP of the mainland, further enhancing information interaction and tax cooperation among the three places. Thirdly, it is suggested to make full use of "internet + ", big data and other information means, build electronic tax bureau of Guangdong, Hong Kong and Macao, establish tax information sharing platform, and share real-time tax information on financial, foreign exchange, equity and other transactions. Through the information platform to collect information of individuals in the region, especially wages and salaries, labor remuneration and other information, to form a comprehensive and effective personal income information monitoring, analysis, evaluation system.

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