Tax Incentives in the Greater Bay Area and Free Trade Zones/Port in Southern China

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Pursuant to a co-operation framework agreement entered into in July 2017, Hong Kong, Macau and nine municipalities in the Guangdong Province of Mainland China including Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing have strategically integrated to form the Greater Bay Area (“GBA”), with a view to develop the region as a world-class economic, business and technology hub.

In addition, several free trade zones/port (“FTZs/FTP”) have been set up in Southern China, including Qianhai FTZ (in Shenzhen), Hengqin FTZ (in Zhuhai) and Hainan FTP.

In order to boost the business investments in the GBA and the said FTZs/FTP, the Chinese authorities have introduced some tax incentives, which are discussed below:

(I) Individual income tax (“IIT”) incentives

The IIT rates in Mainland China (which range from 3% to 45%) are in general higher than those in Hong Kong (the progressive rates range from 2% to 17% and the standard rate is 15%). With a view to attract more talents to work in the GBA and Hainan FTP, the Chinese government has introduced the following IIT incentives:

(a) Reduction of tax rate (applicable to Qianhai FTZ, Hengqin FTZ and Hainan FTP)

Companies in Mainland China are in general subject to the Mainland Chinese CIT at the rate of 25%. However, the tax rate can potentially be reduced to 15% if companies registered and operated in Qianhai FTZ, Hengqin FTZ and Hainan FTP are engaged in certain encouraged industries, provided that certain other conditions can also be met. In general:

(b) Exemption of tax (applicable to Hainan FTP)

For enterprise established in Hainan FTP engaging in tourism, modern services and new high-technology industries, its income derived from new foreign direct investment is exempt from payment of the Mainland Chinese CIT, provided that the following conditions are met:

(i) The income is derived from a newly established branch in a foreign jurisdiction, or it regards dividends repatriated from its foreign investee/subsidiary in which the enterprise has a shareholding of least 20%; and

(ii) The CIT rate of the foreign jurisdiction in which the foreign investment is made is not less than 5%.

(c) Accelerated depreciation/amortisation (applicable to Hainan FTP)

The purchase costs of fixed assets (excluding building and real property) and intangible assets of up to RMB 5 million may be fully written off in the year of purchase while those amount exceeding RMB 5 million may be depreciated/amortised at an accelerated rate.

Conclusion

It may be tax beneficial for particular corporates and individuals to have its business registered and operated in the GBA/FTZs/FTP. Having said that, one is suggested to conduct research on whether all the conditions for entitlement to the tax incentives can be met.