



## Individual income tax incentives for GBA - Guangzhou implementation guidance

### Summary

- On 7 June 2021, several Guangzhou municipal authorities jointly issued implementation guidance (Suicaiguizi [2021] No. 1) for the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) preferential individual income tax (IIT) incentives for the years from 2020 to 2023. This will help businesses to access the incentives.

### Background

In 2019, the Ministry of Finance and the State Taxation Administration introduced Circular Cai Shui [2019] No. 31 setting out GBA preferential IIT policies which take the form of subsidies. Subsequently, the competent authorities in Guangdong and Guangzhou issued implementation guidance - Yue Cai Shui [2019] No. 2 and Suicaiguizi [2019] No. 5 (Circular No. 5). The two Circulars were implemented on a pilot basis from 1 January 2019 for a one year period, which was then extended in provincial-level implementation guidance from the Guangdong province finance department and other authorities at the end of 2020.

Now the Guangzhou municipal authorities have issued guidance in Suicaiguizi [2021] No. 1 (Circular No. 1, based on the expired Circular No. 5) to regulate incentives implementation in Guangzhou for the years from 2020 to 2023. For details of the GBA's preferential IIT policies, please refer to previous [KPMG Tax Alerts](#).

### Key Points

#### Major changes

- Compared with Circular No. 5, Circular No. 1 makes the following major changes:

Changes	Details
<b>Change #1: Lists of foreign individuals with high-end and urgently-needed skills enhanced</b>	
<b>Lists of foreign individuals with high-end and urgently-needed skills adjusted and improved</b>	<ul style="list-style-type: none"> <li>The "Guangzhou Vocational Education High-level Talents" category has been moved from the list of urgently-needed to the list of high-end skills.</li> <li>In the list of urgently-needed skills:               <ul style="list-style-type: none"> <li>✓ The "Integrated Circuit" industry has been added</li> <li>✓ The "Cultural Creativity" industry has been changed to to "Cultural and Sports Creativity" and 30 types of jobs have been added under this category</li> </ul> </li> </ul>
<b>Change #2: The implementation rules refined</b>	
<b>Timing and calculation rules added concerning subsidies for applicants where their identity changes</b>	<ul style="list-style-type: none"> <li>If an applicant obtains (or loses) overseas long-term residency or changes his/her nationality or residential identity and meets (or no longer meets) the identity criteria during a tax year, the applicant can begin enjoying (or will no longer enjoy) the subsidy from the following month.</li> <li>The formula to calculate the subsidy for that applicant is:            Fiscal subsidy = <math>\sum(\text{annual IIT difference by category} \times \text{ratio of taxes paid by category} \times \text{coefficient for the subsidy-entitled period})</math>            Coefficient for the subsidy-entitled period = <math>\text{taxable income during the entitled period} \div \text{annual taxable income}</math>  <i>Note: Applicants include Hong Kong SAR and Macau SAR permanent residents, Hong Kong SAR residents under the "Hong Kong Admission Schemes for Talent, Professionals and Entrepreneurs", Taiwan region residents, foreigners, returned students who have obtained overseas long-term residency, and overseas Chinese.</i> </li> </ul>

Changes	Details
<b>Change #2: The implementation rules refined (continued)</b>	
<b>Timing rules on the subsidy entitled to applicants who are qualified as “talent” added</b>	<ul style="list-style-type: none"> <li>For applicants who are qualified as “talent”, the timing of the subsidy entitled to them are: <ul style="list-style-type: none"> <li>✓ High-end foreigner: the effective or valid date as stated on the talent identification documents, confirmation letters, or certificates issued by the relevant authorities</li> <li>✓ Urgently-needed foreigner: the effective or valid date as stated on the practice qualification certificates, title certificates, skills certificates, academic qualifications, degree certificates or the employer’s confirmation regarding the position (the type of work)</li> </ul> </li> <li>If an applicant obtains the “talent” qualification during a tax year, then he/she may enjoy the subsidy for that year; otherwise not.</li> </ul>
<b>Calculation method for number of working days in Guangzhou (90 days or more) added</b>	<ul style="list-style-type: none"> <li>An applicant’s number of working days in Guangzhou include his actual working days in Guangzhou, as well as the number of days of public holiday, personal leave, business trips and training received within China and outside China during the applicant’s work period in Guangzhou.</li> <li>A day in which the applicant stays in Guangzhou for less than 24 hours shall be counted as a half day.</li> </ul>
<b>Rules for determining the amount of IIT already paid clarified</b>	<ul style="list-style-type: none"> <li>If an annual reconciliation filing is required, the amount of IIT that have been paid shall be determined based on the actual IIT paid during the entire year after the annual reconciliation filing is completed in the following year.</li> <li>If an annual reconciliation filing is not required, the amount of IIT that have been paid shall be determined based on the actual IIT paid (after the tax settlement and tax refund, if any) during the entire year.</li> </ul>
<b>Application period extended</b>	<ul style="list-style-type: none"> <li>The application for a tax year is accepted during the period from 1 July to 31 August of the following year.</li> </ul>
<b>Rules for retroactive application clarified</b>	<ul style="list-style-type: none"> <li>Retroactive application for the subsidy for the 2019 tax year will be accepted from 1 July 2021 to 31 August 2021.</li> <li>For subsidies for 2020 to 2022 years, if an applicant meets all the criteria but fails to submit the application by the stipulated deadline, the retroactive application is acceptable during the application period for the following year; if failure again, the application will not be accepted and the subsidy will not be granted.</li> <li>Retroactive application does not apply to the subsidy for the 2023 tax year.</li> </ul>
<b>Rules on handling objections added</b>	<ul style="list-style-type: none"> <li>If an applicant objects to the subsidy amount granted, he/she can submit an application for recalculation within 30 days after the subsidy amount announced.</li> </ul>
<b>The first-level review departments changed</b>	<ul style="list-style-type: none"> <li>The first-level review departments are changed from the Municipal Science and Technology Bureau and the Municipal Human Resources and Social Security Bureau to the District Science and Technology Bureau and the District Human Resources and Social Security Bureau. The two municipal bureaus are now responsible for the second-level review.</li> </ul>

### Validity of Circular No. 1

Circular No. 1 is effective from 1 January 2020 to 31 December 2023.

### **KPMG observations**



Drawing on implementation status in 2019, Circular No. 1 made improvements to the lists of foreign individuals with high-end and urgently-needed skills for the preferential IIT treatment on the basis of the expired Circular No. 5. We would suggest that businesses to consider the following points:

1. “Working in Guangzhou for a minimum of 90 days during a tax year” is a critical requirement for subsidy application. The authorities seem to be taking a strict approach starting from the application for the 2020 subsidy, while the travel diaries was not required in the application for the 2019 subsidy. As such, applicants working under dual-employment arrangements or those who frequently travel outside of Guangzhou should keep track of their travel days and summarise their working days in Guangzhou during the tax year concerned in order to assess whether they meet the requirements.
2. Applicants are recommended to get well prepared in advance (e.g. ensure to secure “talent” qualification” in the tax year concerned) to avoid missing the subsidy application for that year. It should be noted that a number of authorities have already tightened the application requirements for “talent” qualification.

3. Having PRC IIT filed and paid correctly is an important pre-requisite for the subsidy application. This requires employers and their employees to be familiar with the incentives and work together to ensure compliance. In dealing with 2019 subsidy applications, we observed that a number of obstacles exist hindering the applications to proceed. For instance, failing to file monthly/annual IIT returns properly and timely; employees were reluctant to assist employers to get the subsidy in the case where their IIT was borne by the employers. With all these considerations in mind, businesses need to engage with foreign employees and get all relevant documents prepared in advance, and get the IIT filing completed in compliance with regulations, to secure the success of the subsidy application.

**KPMG will continue to update you on the latest developments related to GBA policies in other cities, while providing our own observations and insights. If you have any questions, please contact us.**

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