



The State Council approves preferential policies for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone

Regulations discussed in this issue:

- Announcement on the preferential policies for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Notice of Guohan (2012) No. 58 issued by the State Council ('Guohan No. 58')

Background

The Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone ('Qianhai Cooperation Zone' or 'Qianhai') is a 15 square kilometre area located in western Shenzhen, on the east coast of the Pearl River Delta adjacent to Hong Kong and Macau. Plans for Qianhai's development envision four modern service industries, including finance, modern logistics, information service, and science and technology services, along with other professional service sectors.

Following the State Council's agreement in principle on *'The Overall Development Plan for the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone'* in 2010, it officially approved preferential policies to facilitate the development of the zone on 27 June, 2012.

Qianhai development policies

Guohan No.58 grants pilot development policies to Qianhai Cooperation Zone more preferential than those applied to Shenzhen Special Economic Zone in the financial, legal services, human resources, education, medical and telecommunication sectors. The key preferential pilot policies available at Qianhai Cooperation Zone are as follows:

Development Area	Policies
Financial sector	<ul style="list-style-type: none"> • Includes encouragement for Hong Kong-based banking institutions to grant RMB loans for enterprises and projects in Qianhai • Support for enterprises and financial institutions registered in Qianhai with respect to the issuance in Hong Kong of RMB bonds designed for construction and development of Qianhai • Promotion of the establishment of an equity investment parent fund in Qianhai.
Legal services	<ul style="list-style-type: none"> • Includes exploring the potential for the establishment of Qianhai branches by Hong Kong arbitration institutions • Explores the joint operation of law firms in Mainland China and Hong Kong.
Human resources	<ul style="list-style-type: none"> • Includes allowing professionals in Hong Kong to practice in Qianhai • Allows Hong Kong professionals with Chinese Institute of Certified Public Accountants (CICPA) qualifications to become partners of accounting firms in the Mainland China, using Qianhai as a pilot district.
Education and medical sector	<ul style="list-style-type: none"> • Allows for qualified Hong Kong service providers to establish wholly-owned international schools or hospitals in Qianhai.
Telecommunications sector	<ul style="list-style-type: none"> • Includes promoting the establishment of joint ventures between Hong Kong/Macao telecommunications operators and mainland operators in Qianhai to provide services • Support local telecommunications operators in offering preferential telecommunication tariff schemes, etc.

Financial and taxation policies of Qianhai

Guohan No.58 emphasises that under the prevailing national tax reform framework, Qianhai will play a pilot role in exploration of tax reform in the modern service industry. Key preferential tax incentives will include:

- A reduced Corporate Income Tax (CIT) rate of 15 percent for qualified companies newly incorporated in Qianhai (Note 1)
- The excess of China Individual Income Tax (IIT) over the personal income tax on employment income in an individual's home jurisdiction will be subsidised for highly skilled individuals or those whose skills are in shortage in Qianhai. The subsidies will be exempt from China IIT (Note 2)
- Exemption of Business Tax (BT) for income derived from international transportation insurance services provided to companies registered in Qianhai by insurance corporations registered in Shenzhen.

Notes:

1. Qualified companies must fall within the scope of the “*Permitted Industry Catalogue and Preferential Catalogue for Qianhai*”.

Said *Catalogue* will be formulated by National Development and Reform Commission and the Ministry of Finance in conjunction with other authorities concerned

2. As understood, excess IIT will be subsidised by the Shenzhen municipal government in a ‘levy first, refund later’ fashion. Detailed criteria and implementation rules remain to be clarified.

Other tax incentives include:

- BT on net basis will be levied on qualified modern logistics enterprises registered in Qianhai, following the prevailing national preferential policy for pilot logistics enterprises
- Income derived from offshore outsourcing services by enterprises registered in Qianhai will be exempt from BT
- Qualified advanced technology enterprises will enjoy a reduced CIT rate of 15 percent, and its employee education expenses will be deductible up to eight percent of total salaries in calculating the CIT.

KPMG observations

As we have learned from the Qianhai Administrative Bureau (the statutory department performing administrative activities and public services in Qianhai), the approval and registration of enterprises in Qianhai has already commenced, although the formulation of the relevant detailed implementation rules for Qianhai is still in process. Many companies have already been registered in Qianhai and are currently operating on a trial basis. Qianhai China Life Insurance Co., Ltd, the first national financial institution headquartered in Qianhai, has received a one-off award of RMB 20,000,000 from the Shenzhen municipal government.

In particular, please note that preferential policies in Qianhai are aimed at attracting new and incremental investments to the area, rather than mere relocation of existing enterprises, especially companies incorporated in other districts of Shenzhen. For example, the relocation of a logistics company from Luohu District, Shenzhen to Qianhai may not qualify for CIT incentives. But if the company remains the operation in Luohu District, and subsequently establishes another qualified project in Qianhai, it may enjoy CIT incentives for the Qianhai part.

In addition, the way in which IIT incentives for highly skilled individuals and individuals whose skills are in shortage will be implemented is still pending further clarification. For instance, it remains unclear how to define highly skilled individuals and skills in shortage, as well as how to calculate the home jurisdiction tax liability for highly skilled individuals from overseas. In the case of an American expatriate living, working, and paying Salaries tax in Hong Kong, it remains a question whether ‘home jurisdiction’ refers to nationality or the physical place of work.

It is reported that Qianhai Cooperation Zone will be developed in units, with 22 development units planned initially. Although the construction and developments of the entire zone may take several years to complete, enterprises, which are interested in investing, should pay close attention to its progress, and proactively approach the Qianhai Administrative Bureau as early as possible. KPMG, as one of the first batch of companies to sign a cooperation agreement with the Qianhai Administrative Bureau, would be happy to provide assistance where needed.

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