

GMS Flash Alert

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People's Republic of China - Preferential IIT Policy Subsidy Computation

To implement Circular 31's preferential individual income tax (IIT) policy to attract foreign high-end and urgently-needed talent to the Greater Bay Area,¹ on 22 June 2019, the Department of Finance of Guangdong Province and the Guangdong Provincial Tax Authority in the People's Republic of China (PRC or China) jointly issued Circular 2 setting out the general framework for determining eligibility and extent of the IIT subsidy available.²

(For prior coverage of the preferential policy see [GMS Flash Alert 2019-068](#), 4 April 2019.)

WHY THIS MATTERS

The GBA's preferential tax policy is causing many companies to review their business plans as well as their deployment of personnel to/within the GBA with the aim of facilitating overall business development and company growth.

The second table below shows how the tax burdens for qualified foreign talent that work in the GBA will be effectively reduced. If these individuals' IIT is borne by the companies, the subsidies will effectively reduce companies' labour costs.

Main Points

Circular 2 takes retroactive effect from 1 January 2019 for a trial period of one year, and is subject to review and change after completion of the trial period.

Specific Subsidy Standards and Computation Methods

- The municipal governments of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, and Zhaoqing in the GBA's Pearl River Delta ("the Nine Cities") will offer a fiscal subsidy to individuals with qualified foreign high-end talent and urgently-needed talent working in the Nine Cities. The subsidy is calculated as the

difference between one's IIT paid on eligible personal income and 15 percent of the taxable value of the same eligible income ("IIT differential") as follows:

$$\text{Subsidy amount} = \text{Amount of IIT paid on eligible personal income} - \text{the taxable value of eligible personal income} \times 15\%$$

- The subsidy is exempt from PRC IIT.
- The total amount of subsidy due to a qualified talent is computed based on the aggregate value of the IIT differential on each eligible personal income category (salaries and wages, personal independent service income, author's remuneration income and royalty income will be grouped as one category - comprehensive income for PRC residents), and paid once a year.

Personal Income Eligible for Subsidy

The subsidy will be calculated on the IIT differentials assessed on the following types of "eligible personal income":

- Salary and wages;
- Independent personal services income;
- Author's remuneration;
- Royalties;
- Income from business operations;
- Subsidies awarded to individuals who participate in selected talent programmes or projects.

Talent Mobility within GBA

Qualified talent that derive eligible personal income from two or more locations within the GBA should apply to the Department of Finance of each city for a proportion of the IIT differentials due from income tax paid in that city.

Definition of Talent

Foreign high-end talent and urgently-needed talent that meet all of the basic criteria below as well as one of the other criteria are qualified to apply for the subsidy:

Basic Criteria

- Permanent residents of Hong Kong SAR or Macau SAR; Hong Kong residents who are part of the Hong Kong Admission Schemes for talent, professionals and entrepreneurs; residents of the Taiwan region; foreigners; returnees with overseas education background and who obtained foreign permanent residence status, and overseas Chinese;
- Working in one of the Nine Cities and paying IIT in accordance with the PRC IIT law and regulations;
- Abiding by laws and regulations, and complying with ethics and integrity requirements related to scientific research.

Other Criteria

- Persons selected by key national, provincial, or municipal talent programmes; persons in possession of the “Superior Talent Card” issued by the Guangdong provincial authority; persons in possession of the Type A Foreigner’s Work Permit, or the Confirmation Letter of High-level Foreign Talent status; and other high-level foreign talent recognised at the national, provincial, or municipal level;
- Scientific research and development team members that are part of key national, provincial, or municipal innovation platforms; and scientific research and development team members at colleges, research institutions, hospitals, or other related organisations;
- Core technical or skilled personnel or outstanding management personnel employed or establishing businesses in key industries or sectors in Guangdong province;
- Other urgently-needed talent with special expertise recognised by the Nine Cities.

Principles of Declaration and Recognition

Foreign high-end talent and urgently-needed talent must apply for recognition of their status and eligibility for the subsidy voluntarily and objectively. Detailed standards and operational measures will be subject to local practice to be adopted by authorities in the Nine Cities.

Authorities for High-end Talent Assessment	The Department of Science and Technology (the Administration of Foreign Experts Affairs) of each of the Nine Cities
Authorities for Urgently-needed Talent Assessment	The Human Resources and Social Security Department
Authorities for Subsidy Application, Assessment and Distribution	<ul style="list-style-type: none"> • The Department of Finance is the authority in charge of subsidy application, assessment and distribution. • The Department of Finance will lead the subsidy assessment process in conjunction with the Department of Science and Technology (the Administration of Foreign Experts Affairs), the Human Resources and Social Security Department and relevant tax authorities.
Application	<p>The application should be submitted to the local Department of Finance by:</p> <ul style="list-style-type: none"> • the individual applicant; or • the person’s employer (recommended).

Standards for Identifying Talent in Each City and Measures for Subsidy Distribution

The Nine Cities shall formulate, in light of actual conditions of the locality, local standards for talent identification and measures for subsidy distribution, and submit their standards and measures to the Provincial Department of Finance, the Provincial Department of Science and Technology (the Provincial Administration of Foreign Experts Affairs), and the Provincial Human Resources and Social Security Department for records by the end of July 2019.

These provincial authorities and the Guangdong Provincial Tax Authority will assist the Nine Cities to identify talent and distribute subsidies in a unified manner.

Consequences for Violations and False Declarations

If an applicant is found to have violated laws or regulations, made false declarations, or committed other infractions, the individual's enjoyment of the preferential IIT policy will be cancelled, and financial subsidies that have already been issued will be retracted. If a person is suspected of committing a crime, the individual will be transferred to the judicial authorities for criminal investigation in accordance with relevant laws.

Other Matters

Yue Caifa [2012] No. 93 – *Announcement on Interim Administrative Measures for the Individual Income Tax Differential Subsidy for Permanent Residents of Hong Kong SAR or Macau SAR working in Zhuhai Hengqin New District*, issued by the Department of Finance of Guangdong Province will be repealed effective 1 January 2019.

KPMG NOTE

Observations

General framework for talent identification confirmed and detailed implementation rules are required to move the application process forward – Circular 2 is designed to accelerate the implementation of the preferential IIT policy set out in Circular 31. It provides the framework for defining talent and the principles for declaration, both of which reflect the preferential policy's requirement that foreign high-end talent and urgently-needed talent must be working or operating a start-up in the GBA.

As indicated in Circular 2, those who have met the basic criteria and also who are in possession of the Superior Talent Card or the Foreigner's Work Permit are qualified to apply for the subsidy.

The following types of foreign high-end talent (**not an inclusive list**) are eligible to apply for the Permit³:

- Talent that have worked at the headquarters of Fortune 500 companies (refer to "World's Largest 500 Companies" selected by Fortune magazine in the previous year) as senior management staff or key members of the technological R&D, vice general manager or above or key technical in-charge person of the secondary companies or the regional headquarters; or
- Talent that has ever held senior management positions in international well-known financial institutions or accounting firms; or
- Talent that holds senior management or technical positions in the global or regional headquarters of Fortune 500 companies, national high-tech enterprises (identified by science and technology departments at or above the provincial level) or large-sized enterprises; or
- Talent that has annual average salary income no less than six times the average annual salary income in the locality in the previous year. For example, the average annual salary income for year 2018 in Guangzhou is RMB 111,839, and the average annual salary income for year 2018 in Shenzhen is RMB 110,304.

The following is a non-inclusive list of types of talent eligible to apply for the Card:⁴

- Talent that serve as professional and technical staff or hold management positions at senior or above level in Fortune 500 companies in the past three years, well-known multinational corporations or financial institutions;

Talent that serve as senior management staff, or as middle-level or above management staff at the regional headquarters of foreign, Hong Kong, Macao or Taiwan invested enterprises, or hold high-level R&D positions in foreign, Hong Kong, Macao or Taiwan invested R&D institutions.

The types of talent listed above are not the only one eligible to apply for the Permit and Card. For details, please refer to:

- 1 Notice on Full Implementation of Permit System for Foreigners Working in China (Wai Zhuan Fa [2017] No. 40)
- 2 Notice by the People's Government of Guangdong Province Concerning the Issuance of the Measures for the Implementation of the Guangdong Superior Talent Card (for Trial Implementation) (Yue Fu [2018] No.96).

At this stage, it is suggested companies review whether any foreign employees have obtained the Card or the Permit, or who are qualified for either the Card or the Permit, and then prepare these employees to apply for the subsidies. Other foreign employees need to wait for clarification from the Nine Cities of whether they can be included as urgently-needed talent under the cities' definitions.

Detailed implementation rules are required to move the application process forward – Detailed guidance is needed on the types of industries and areas that will be considered as “key performers” for the Guangdong province. Input is also needed from each of the Nine Cities with regard to their criteria for identifying other urgently-needed individuals with special skills. The policies and measures that the municipalities will submit by the end of July are expected to address these issues. The policies will also elaborate on the specific application procedures, required documents, timeline, and other issues.

Simple calculation and significant tax relief – Circular 2 clarifies the calculation of the subsidy, which is based on IIT paid in excess of 15 percent of taxable income. This simple calculation method will help reduce application costs and make the assessment process easier for relevant governmental departments.

In the table below, we have selected the annual salary income levels of RMB 0.72 million, 0.96 million, and 1.2 million respectively and compared the effective tax rates before and after enjoyment of the GBA's tax subsidies. We have also compared the effective tax rates between Hong Kong SAR and mainland China under the same annual salary income level.

Annual Salaries and Wages Income (RMB)	PRC Individual Income Tax Rate before Enjoying the GBA Subsidies (Effective Tax Rate)	PRC Individual Income Tax Rate after Enjoying the GBA Subsidies (Effective Tax Rate)	Hong Kong SAR Salaries Tax Rate (Effective Tax Rate)
720,000	20.15%	13.75%	12.03%
960,000	23.86%	14.06%	13.27%
1,200,000	27.59%	14.25%	14.02%

Notes:

1. The effective income tax rate estimates for salaries and wages in mainland China are based on assumptions for persons who are PRC tax residents, and the 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 2019/20 “Single / Separated / Divorced / Widowed” marital status tax rate table, and the estimates only consider the basic allowance – other allowances, deductions and tax reductions have not been taken into consideration.

3. We assume that the employees bear the taxes by themselves. Also, the exchange rate used for this calculation was RMB 1 = HKD 1.1308.

The comparison shows that the tax subsidies significantly reduce the tax burden in mainland China, basically bringing the expected tax burden in line with those in Hong Kong SAR. In this way, the tax burden for qualified foreign talent that works in the GBA will be effectively reduced. If these individuals’ IIT is borne by the companies, the subsidies will effectively reduce the companies’ labour cost.

Summary

In summary, KPMG in China suggests that companies consider the following aspects with regard to business development in the GBA:

- Pay close attention to policy updates and development trends in the GBA.
- Communicate with relevant government authorities in a timely manner to fully understand the content, requirements, and potential impact of policies.
- Consider how overall operational planning and rearrangements in the GBA can support business strategy, including:
 - understand and analyse the relevant preferential policies that apply to companies in the GBA, and select suitable locations to establish business operations;
 - review and reorganise the company’s business structure and operational model and optimise value chain;
 - review and reorganise personnel arrangements, compensation packages, and apply for GBA’s preferential policies to attract and retain talent required at minimal cost to the company;
 - seek out domestic business development and foreign investment opportunities and help ensure any tax planning will be carried out in a compliant manner.

KPMG will continue to update you on the latest GBA policy developments and share our observations and insights through alerts and workshops.

FOOTNOTES:

1. [Caishui \[2019\] No. 31 \(“Circular 31”\) – Notice on Preferential Individual Income Tax Policy for the Guangdong-Hong Kong-Macau Greater Bay Area](#), jointly issued by the Ministry of Finance and the State Administration of Taxation of the People’s Republic of China on 14 March 2019.
2. [Yue Caishui \[2019\] No. 2– Notice on the Implementation of Preferential Individual Income Tax Policy for the Guangdong-Hong Kong-Macau Greater Bay Area](#).
3. For detailed information about the Permit, please refer to the Notice on Full Implementation of Permit System for Foreigners Working in China (Wai Zhuan Fa [2017] No. 40).

FOOTNOTES (Cont.):

4. For detailed information about the Card, please refer to the Notice on the People's Government of Guangdong Province Concerning the Issuance of the Measures for the Implementation of the Guangdong Superior Talent Card (for Trial Implementation) (Yue Fu [2018] No.96).

RMB 1 = EUR 0.13

RMB 1 = USD 0.15

RMB 1 = GBP 0.12

RMB 1 = TWD 4.51

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