Research on Tax Coordination Pathways of the Greater Bay Area from the Perspective of Regional Economic Integration

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Abstract:As regional economic integration in the Greater Bay Area is still advance, the impact of tax system disparities has become more and more prominent, necessitating urgent resolution of tax differences within the region. Tax coordination is used as a critical factor in regional economic integration. This study first compares the tax systems, analyzing differences in strategic tax elements-including taxpayers, tax bases, tax calculation methods, tax rates-as well as variations in tax administration. Building on this foundation, it examines the role and significance of tax coordination in advancing regional economic integration within the Greater Bay Area. Subsequently, drawing on international experiences in tax coordination, it derives implications for tax harmonization in the Greater Bay Area. Finally, it proposes pathways for tax coordination in the Greater Bay Area, addressing both direct and indirect taxes. For each category, it outlines approaches concerning tax bases, tax rates, and tax administration.

Keyword: Regional Economic Integration; Tax System Differences; Tax Coordination

1. Introduction

Advancing the development of the Guangdong-Hong Kong-Macao Greater Bay Area is a key strategy for China to build a new pattern of all-round opening higher. Within the framework of regional economic integration, the Greater Bay Area has progressively dismantled market segmentation and barriers to factor mobility, driving technological innovation, industrial chain integration, and multi-sector collaboration, thereby enhancing the region's overall vitality and international competitiveness. However, coordination challenges stemming from institutional differences have become more prominent, with tax system disparities emerging as a critical factor constraining the efficient flow of factors and deep market integration. Hong Kong operates a low-tax, narrow-tax-base model, Macao's tax system exhibits industry-oriented characteristics, while the Mainland implements a composite tax system. Disparities among the three regions in taxpayer identification, tax scope, tax bases, tax rate structures, and tax administration mechanisms result in high tax compliance costs and complex accounting for cross-border enterprises. These disparities create “tax barriers” that hinder the free flow and efficient allocation of factors such as capital, technology, and talent, adversely affecting the establishment of a unified market and the advancement of integration. Therefore, promoting tax coordination has become a key pathway to fostering high-quality integrated development in the Guangdong-Hong Kong-Macao Greater Bay Area. Building upon an analysis of tax system disparities and coordination needs, this paper draws on international experience to explore tax coordination pathways tailored to the Greater Bay Area's realities. Focusing on major tax categories such as direct and indirect taxes, it aims to provide theoretical references and practical guidance for enhancing the region's overall competitiveness and governance effectiveness.

2. Tax System Differences in the Guangdong-Hong Kong-Macao Greater Bay Area

The Guangdong-Hong Kong-Macao Greater Bay Area encompasses three tax jurisdictions: the Mainland, Hong Kong, and Macao. Due to differences in their tax systems, these three regions exhibit significant variations in tax types, rates, tax bases, and collection mechanisms, creating “tax barriers” in the process of regional economic integration.

2.1 Differences in Tax Regulations Among

Guangdong, Hong Kong, and Macao

Tax types vary across regions. Some taxes are levied in mainland China, Hong Kong, and Macau, but under different names. For example, the mainland calls it "property tax," Hong Kong refers to it as "property duty," and Macau terms it "property tax." Beyond nomenclature, differences exist in the scope and subjects of taxation. Regarding direct taxes, the mainland levies individual income tax and corporate income tax, while Hong Kong imposes salaries tax and profits tax, and Macau collects occupational tax and supplementary income tax. Additionally, the mainland collects indirect taxes such as value-added tax and consumption tax, whereas Hong Kong does not have a value-added tax. Both Hong Kong and Macau levy gambling taxes, but their taxable subjects differ.

Differences in Tax Bases Significant disparities exist in tax bases among Guangdong, Hong Kong, and Macau. Taking personal income tax as an example: Hong Kong's salaries tax employs both progressive and standard tax rates, with the Inland Revenue Department levying the lower amount; Macao's occupational tax uses a progressive rate structure with an exemption threshold. Regarding corporate income tax: Mainland China taxes based on taxable income; Hong Kong taxes only profits sourced locally; Macao taxes based on actual profits with an exemption threshold.

Tax rates vary significantly. Tax rates represent the most tangible manifestation of tax system differences. Regarding corporate income tax, the mainland's standard rate is 25%, with preferential rates applied to small and micro enterprises and high-tech enterprises; Hong Kong's standard rate is 16.5%; and Macau's rate is 12%, with a zero-rate policy for enterprises with annual revenues below MOP 600,000. In comparison, the corporate income tax burden on mainland enterprises is relatively heavier. For personal income tax, the mainland employs a progressive tax rate ranging from 3% to 45%. Hong Kong's salaries tax uses a progressive rate from 2% to 17% or a flat rate of 15% on net income. Macau's employment tax has a maximum rate of 12% and includes tax exemptions. The level of tax rates and the method of progression directly impact taxpayers' actual tax burdens and cross-border economic decisions.

Differences exist in taxpayer identification. The criteria for identifying taxpayers vary across Guangdong, Hong Kong, and Macao. The Mainland imposes taxation on global or domestic income based on residency status, while Hong Kong and Macao both adopt the territorial source principle. These discrepancies may result in cross-border taxpayers facing dual residency determinations, creating risks of double taxation.

2.2 Differences in Taxation and Regulatory Procedures Across Regions within the Guangdong-Hong Kong-Macao Greater Bay Area

The Guangdong-Hong Kong-Macao Greater Bay Area faces systemic differences in tax administration bodies, tax collection methods, tax procedures, timelines, and dispute resolution mechanisms. These disparities not only hinder tax collection efficiency but also create cross-border coordination challenges, significantly increasing the risk of double taxation.

Differences in Tax Administration Structures. In mainland China, the State Taxation Administration and its local branches implement a vertical management system with local coordination. The Hong Kong Inland Revenue Department is responsible for enforcing and collecting taxes but lacks authority to interpret tax laws. In Macau, the Secretary for Finance oversees taxation matters, with no independent tax bureau established. These variations in institutional setup and functional divisions among the three regions result in complex communication tiers and higher coordination costs during cross-border tax cooperation.

Differences in Tax Collection Methods. Mainland China primarily employs a combination of withholding and self-declaration for individual income tax; Hong Kong implements a taxpayer self-declaration system for most tax categories; Macao relies mainly on taxpayer self-declaration for all taxes except employment tax, which is withheld at source. These variations in tax collection methods require cross-border taxpayers to adapt to different reporting procedures across jurisdictions, increasing compliance challenges.

Differences in Taxation Procedures. Mainland China's taxation procedures involve multiple stages including declaration, audit, and payment, resulting in a relatively complex process. In Hong Kong, the Inland Revenue Department issues tax returns; taxpayers complete them, after which the tax authority assesses the tax and issues an assessment notice. Taxpayers then pay accordingly, streamlining the process. Macau, meanwhile, issues tax notices and payment notices; after reviewing the information, it determines the tax liability. The varying degrees of complexity in these procedures impact both the taxpayer experience and administrative efficiency.

Differences in tax payment timing. Mainland China withholds monthly advance payments on salary income, which must be settled within seven days of the following month, with annual reconciliation to refund overpayments or collect underpayments. Hong Kong salaries tax is levied annually based on the tax year. Macau occupational tax is typically withheld by the payer at the time of salary disbursement. The lack of uniformity in tax payment schedules creates inconveniences for cross-border workers and enterprises in cash flow management and tax planning.

Differences in dispute resolution methods. The Mainland resolves disputes through administrative reconsideration and administrative litigation; Hong Kong has a Board of Review for Inland Revenue and allows appeals to the courts; Macao employs both administrative appeals and judicial litigation. These differing mechanisms result in complex and protracted cross-border dispute resolution pathways, increasing uncertainty for taxpayers.

3. The Necessity of Tax Coordination in the Guangdong-Hong Kong-Macao Greater Bay Area

Significant disparities exist among Guangdong, Hong Kong, and Macao in tax categories, tax bases, rate structures, taxpayer identification, and tax administration mechanisms. As regional economic integration deepens, these differences have evolved from latent institutional frictions into 'tax barriers' that constrain regional economic development.

First, significant tax system differences substantially increase the tax compliance costs and uncertainties associated with cross-border operations and investments. For instance, differing criteria for determining taxpayer residency across the three jurisdictions expose cross-border workers and enterprises to double taxation risks, directly hindering the free flow and efficient allocation of production factors such as capital, technology, and talent.

Secondly, the disparity between tax rates and tax bases distorts resource allocation. The contrast between Hong Kong and Macao's low tax rates and the relatively high tax rates in mainland China may induce enterprises to allocate industries based on tax incentives rather than market efficiency, which affects the formation of the regional industrial division system based on comparative advantages in the Greater Bay Area.

Furthermore, the absence of a tax administration collaboration mechanism has led to difficulties in managing cross-border tax sources and hindered information sharing. This not only facilitates tax leakage but also constrains the enhancement of overall governance effectiveness. Therefore, to eliminate institutional barriers, promote the efficient flow of factors, and achieve deeper market integration, advancing tax coordination has become an urgent requirement for the high-quality integrated development of the Greater Bay Area.

4. Pathways to improve Tax Coordination in the Guangdong-Hong Kong-Macao Greater Bay Area

4.1 Suggestions for Coordinating and Optimizing Enterprise Income Tax in Guangdong-Hong Kong-Macao Greater Bay Area

To strengthen the coordination of tax jurisdiction and establish a tax administration framework centered on source-based taxation, supplemented by the residence principle.Within the Guangdong-Hong Kong-Macao Greater Bay Area, gradually establish the principle of tax jurisdiction based primarily on the source of income. Promote the convergence of the Mainland's corporate income tax system with the territorial source principle adopted by Hong Kong and Macao, thereby reducing double taxation issues arising from conflicts in tax jurisdiction at their source. For specific types of cross-border income (such as dividends and interest), mechanisms like limited tax rates and tax sharing—drawing from the OECD Model Tax Convention—can be adopted to balance the tax interests of all three regions and prevent double taxation at the institutional design level.

To promote convergence in tax base recognition standards and formulate the Guidelines for

Cross-Border Income Tax Base Recognition in the Guangdong-Hong Kong-Macao Greater Bay Area.The unified definition of the tax base is the core foundation for coordinating corporate income tax.Drawing on the practical experience of the EU's "Common Consolidated Corporate Tax Base" initiative,the Guangdong-Hong Kong-Macau Greater Bay Area should advance tax base coordination in two stages: In the first phase, the focus is on promoting the adoption of unified tax accounting standards in the three regions, covers key items such as depreciation of fixed assets, additional deduction of R&D expenses, and amortization of intangible assets.In the second phase, explore the introduction of a formula-based allocation method based on factor distribution,the unified profits of enterprises operating across regions should be reasonably allocated based on factors such as their in the Guangdong-Hong Kong-Macau Greater Bay Area asset size, number of employees, and sales revenue,thereby ensuring profits are attributed to the actual location where value is created. This tax coordination path not only helps to eliminate the spaces for tax arbitrage arising from differences in the tax base at the source, enhancing tax administration transparency and certainty, but also on the premise of respecting the tax rate autonomy of the Guangdong-Hong Kong-Macau Greater Bay Area., achieve a fair and reasonable allocation of the tax base, laying a solid institutional foundation for building a unified, open, competitive, and orderly market environment in the Guangdong-Hong Kong-Macau Greater Bay Area.

To establish a comprehensive consultation and dispute resolution mechanism , the “Guangdong-Hong Kong-Macao Tax Cooperation Committee.”will be set up. Drawing on the EU Arbitration Convention and the OECD Tax Dispute Resolution Mechanism, promote the establishment of the “Guangdong-Hong Kong-Macao Tax Cooperation Committee” comprising tax authorities from the three regions. This committee should establish a “pre-ruling mechanism” to determine the tax treatment for enterprises engaged in cross-border operations; create an “expedited dispute resolution channel” for joint adjudication of complex disputes such as dual residency and transfer pricing; and implement a “regular consultation mechanism” to promptly address new issues arising during policy implementation.

To standardize tax incentive policies, establish a filing and evaluation mechanism for tax incentives in the Greater Bay Area. Coordinate among Guangdong, Hong Kong, and Macau, especially regarding industrial tax incentives in the mainland, establish a performance evaluation mechanism for tax incentives, and regularly assess the effectiveness of various preferential policies and their cross-border impacts. Gradually clean up and standardize regional policies with significant tax haven effects. Simultaneously, establish a “Tax Policy Coordination Group” under the framework of the Guangdong-Hong Kong-Macao Tripartite Finance Joint Conference to coordinate support policies for key industries (such as technological innovation and green finance) across the three regions. This will foster policy synergy, prevent policy competition, curb harmful tax competition, and guide the rational allocation of resources based on genuine industrial strengths rather than mere tax arbitrage.

4.2 Suggestions for the Coordination and Optimization of Personal Income Tax in Guangdong-Hong Kong-Macao Greater Bay Area

To improve the tax incentive mechanism for cross-border workers, we will promote the "Hong Kong people pay Hong Kong taxes, Macao people pay Macao taxes" policy. Building on the practical experience of Qianhai and Hengqin, we will implement a "tax burden differential subsidy" policy for eligible individuals in the Guangdong-Hong Kong-Macao Greater Bay Area who work across borders (such as high-end and scarce talents). This means local governments will subsidize the portion of actual tax burden exceeding Hong Kong and Macao standards. Alternatively, we will explore applying a unified personal income tax rate of up to 15% to cross-border talents, with guarantees through local legislation or regional agreements, to enhance policy stability and attractiveness.

To establish a unified and efficient tax administration service system, we will develop the "Greater Bay Area Personal Income Tax One-Stop Service Platform". This initiative promotes collaboration among tax authorities in Guangdong, Hong Kong, and Macao to create an intelligent tax platform integrating identity verification, income declaration, tax calculation, and multilingual services. The platform will enable encrypted data sharing and automatic pre-filling functions across the three regions. For cross-border workers, it provides a streamlined "one-time authentication, one-click declaration, and one-stop completion" service to simplify tax filing procedures. Additionally, we will explore establishing a tax administration coordination mechanism based on primary workplace jurisdiction to prevent duplicate taxation.

To standardize resident identification criteria and establish a mutual recognition mechanism for residence days, Guangdong, Hong Kong, and Macao will jointly develop the "Greater Bay Area Cross-border Tax Resident Identification and Residence Day Calculation Mutual Recognition Arrangement". This framework will specify detailed calculation rules for the 183-day threshold, including criteria for counting days on the entry date and deducting short-term departures. The region will implement a "Greater Bay Area Residence Day Information Exchange System" based on immigration records, enabling automatic comparison and mutual recognition of residence data across the three regions. This initiative aims to fundamentally resolve disputes over double taxation status caused by inconsistent residence duration determinations.

4.3 Suggestions for Indirect Tax Coordination and Optimization in Guangdong-Hong Kong-Macao Greater Bay Area

Establish a VAT coordination mechanism to advance phased alignment of the VAT system. In the short term, prioritize optimizing the tax refund process for mainland exports to Hong Kong and Macao, implementing a "fast-track export tax rebate channel" and paperless processing. In the medium-to-long term, conduct in-depth research on the feasibility of introducing VAT in Hong Kong and Macao, considering pilot implementation in specific sectors like finance and telecommunications. Simultaneously, study international best practices to explore establishing a destination-based VAT settlement mechanism, including creating a "Greater Bay Area VAT Settlement Center" to handle tax revenue distribution and cross-regional transaction settlements.

To coordinate policies for specific taxes like consumption tax, we will establish a "shared tax base with flexible rates" system. This involves gradually narrowing the consumption tax rate gaps for tobacco, alcohol, and fuel within the Guangdong-Hong Kong-Macao Greater Bay Area, reducing tax arbitrage opportunities, and curbing cross-border smuggling. We will study establishing a "Guangdong-Hong Kong-Macao Greater Bay Area Consumption Tax Rate Coordination Range" by setting minimum and maximum rate standards, allowing autonomous adjustments within this framework. Regarding tax base, we will standardize taxation for goods with significant resource consumption and environmental impact. For luxury items, the three regions may retain autonomy based on their economic development levels and consumption patterns.

Strengthen the tax administration collaboration system by establishing the "Greater Bay Area Indirect Tax Data Collaborative Governance Platform". Promote the development of a blockchain and big data-based indirect tax administration platform to enable real-time exchange and trusted sharing of tax-related information such as electronic invoices, customs declarations, and payment vouchers among Guangdong, Hong Kong, and Macao. Establish a cross-border transaction risk identification mechanism to implement coordinated management of emerging sectors like cross-border e-commerce and digital services. Regularly conduct joint training and technical exchanges to enhance the cross-border tax administration capabilities of personnel across the three regions, collectively building an efficient, transparent, and secure indirect tax administration environment.

5. Conclusion

This study demonstrates that tax system disparities in the Guangdong-Hong Kong-Macao Greater Bay Area have become a critical barrier to regional integration. By harmonizing personal income tax, corporate income tax, and indirect taxes, and establishing a unified tax administration mechanism with policy alignment systems, we can effectively eliminate tax barriers, facilitate efficient resource mobility, and provide institutional safeguards for building a globally competitive collaborative development framework in the Greater Bay Area.

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