

Framework agreement on Guangdong-Hong Kong-Macao Greater Bay Area (GBA) cooperation

2019 Work Plans highlights with Tax insights and Financial Services perspectives

Background

Two important Work Plans aimed at promoting closer cooperation between Guangdong, Hong Kong, and Macao were released in May this year. These are the first updates to the Guangdong-Hong Kong and Guangdong-Macao framework agreements since the release of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area on 18 February of this year, so their recommendations will be particularly relevant in the context of the GBA.

Following the format of the Outline Development Plan, the two documents outline nine major aspects covering more than 70 specific tasks. These reflect the nature of Guangdong-Hong Kong and Guangdong-Macao cooperation. Key areas include jointly developing an international innovation and technology hub, fostering cooperation in modern service industries and education, developing an international business environment, promoting a quality “living circle”, and participating in the Belt and Road Initiative.

For insights into financial services, please refer to the section on "Fostering cooperation in modern service industries". Areas of interest include cross-border finance, green finance, FinTech, electronic payments, insurance and the role of financial institutions. These are all development proposals discussed in the Outline Development Plan.

Key points

Cross-border finance

The Outline Development Plan explains that cross-border use of the Renminbi (RMB) within the GBA will be expanded gradually. The work plans issued this year put forward relevant suggestions on cross-border finance, including:

- exploring innovation in cross-border RMB business and expanding the cross-border use of RMB.
- supporting cooperation between credit reference agencies to provide cross-border investment, financing, innovation and business start-up services.

Guangdong-Hong Kong cooperation specifically involves:

- supporting the deepening of foreign exchange reform in pilot cities such as Guangzhou and Shenzhen.
- exploring ways to take forward cross-border distribution of wealth management products.

Guangdong-Macao cooperation specifically involves:

- supporting the development of specialised financial services in Macao
- facilitating Macao's development as a RMB clearing centre for Lusophone countries



Green finance

The Outline Development Plan argues that development of special financial products and services is a key focus area for green finance. The work plans recommend:

- Helping Guangdong businesses to issue RMB-denominated green bonds in Hong Kong and Macao.
- encouraging Hong Kong and Macao financial institutions to take part in the development of pilot zones for green finance reform in Guangzhou.
- exploring ways to allow Hong Kong and Macao investors to engage in carbon emissions trading in Mainland China through trading platforms in Guangdong.

Guangdong-Hong Kong cooperation specifically involves:

- facilitating policies that encourage innovation in green finance products and promote green credit and leasing.
- researching ways to streamline approval procedures and thus expedite the issuance of green bonds in Hong Kong by Guangdong businesses.

Guangdong-Macao cooperation specifically involves:

- considering setting up a green finance platform in Macao
- researching ways to promote green financing.

FinTech

FinTech has developed rapidly in Mainland China, Hong Kong and Macao in recent years. It is also one of the key areas for cooperation among the three jurisdictions. Both work plans specify the following areas of cooperation: promoting the use of FinTech, encouraging innovation, taking forward high-standard FinTech infrastructure development, improving policies and exploring mechanisms for cross-border joint regulatory supervision.

Electronic payments

Promoting the connectivity of electronic payment systems across the GBA is one of the objectives put forward in the Outline Development Plan. Both work plans refer to:

- promoting electronic payment for public services.
- promoting the mutual use of UnionPay cards.

Guangdong-Hong Kong cooperation also involves advancing the scheme whereby Hong Kong residents are allowed to open Category II and III personal clearing accounts with Mainland banks without being physical present.

Guangdong-Macao cooperation also involves promoting electronic payment tools such as UnionPay QuickPass.

Insurance

With rising income levels, Mainland Chinese residents have greater need for security and wealth management. Greater connectivity between financial markets within the GBA, as put forward in the Outline Development Plan, includes financial products, especially cross-border insurance transactions. The work plans involve supporting insurance firms in Guangdong, Hong Kong and Macao to jointly develop innovative cross-boundary motor and medical insurance products and to help cross-boundary policy holders in areas such as underwriting, investigations and claims.

Guangdong-Hong Kong cooperation also involves seeking approval for Hong Kong insurers to set up service centres in the Mainland cities of the GBA and to provide after-sales services to Hong Kong policy holders who live or work in the Mainland.

The role of financial institutions

The Outline Development Plan argues that closer connectivity of financial services between Guangdong, Hong Kong and Macao is a prerequisite for the GBA to develop into an international financial hub. The two work plans emphasise the following:

- support for Hong Kong and Macao-based financial and securities firms to provide financial services in Guangdong.
- the gradual lowering of asset entry thresholds for Hong Kong and Macao-based banks and insurers.
- extending measures implemented as part of the Guangdong Pilot Free Trade Zone to other cities in the GBA.

Measures specific to Guangdong-Hong Kong cooperation include striving for the lifting of shareholding caps for Hong Kong-funded financial institutions when setting up joint ventures in securities, futures and funds, as well as for investment advisors on the Mainland.



Guangdong-Macao cooperation involves:

- working towards raising shareholding caps for Macao investors in securities, futures and funds businesses.
- helping Macao set up a stock market using RMB as denomination and settlement currency.

Others

The Outline Development Plan also focuses on promoting the commercial application of technology, including measures to develop Hong Kong into a financing centre for high-tech industries in the GBA. In terms of capital raising, the plan highlights the need to:

- support qualified companies in innovative industries to raise capital through public listings in Hong Kong.
- support more Guangdong businesses to issue bonds in Hong Kong.

The Outline Development Plan also underlines the need to strengthen the role of Qianhai as an engine of cooperation and development. One aspect is to support the Qianhai Mercantile Exchange of Hong Kong Exchanges and Clearing to establish a spot commodities trading platform for domestic and foreign clients. Equally, new business models to serve the real economy are also mentioned in the work plans.

PwC tax insights

The work plans focus on the business environment and industry access, while mapping out cooperation between the Government of Guangdong Province and Hong Kong and Macao. Fiscal and tax issues are not directly covered, although cross-border finance and green finance are discussed. In our view, businesses making commercial decisions should take the following tax issues into consideration:

1) China Tax

- a) Green finance has developed into an emerging industry in recent years. Currently there are no specific measures to clarify its tax treatment in China. In practice, do the tax authorities simply rely on green finance products and services being labelled as such, or will they analyse the nature of these products and services before determining the appropriate tax treatments based on existing policies for the relevant financial service? Or will specific tax policies be introduced to clarify the tax determination and treatments for green credit, green leasing, green bonds and carbon emissions trading? Businesses engaged in these transactions or services should pay close attention to policy changes and maintain regular contact with the tax authorities to assess impact on financial statements or valuations;
- b) The work plan also entails innovation in cross-border finance and insurance services, including the development of cross-border motor and medical insurance products. Insurers and other financial institutions in Hong Kong and Macao which do not have offices in GBA and engage in businesses activities should pay close attention to any corporate income tax exposures that may arise from the sale of related cross-border financial products and insurance services in GBA. Businesses in GBA should conduct relevant tax analysis and communicate with the respective tax authorities when necessary to mitigate tax risks.
- c) Value-added tax (“VAT”) have been implemented to all industries and sectors in China. There are a variety of VAT treatments for different financial and wealth management products, including some specific preferential treatments. It is maintains how VAT policies would affect these new financial institutions (such as cross-border distribution of wealth management products and carbon emissions trading) and whether any incentive would be provided.

We will follow any new development closely and share our observations in due course.

2) Hong Kong Tax

- a) The question of whether dividends, interest and capital gains arising from the stocks and bonds issued by Chinese companies raising capital in Hong Kong are subject to Chinese withholding tax needs to be considered. If such income and profit are also subject to Hong Kong profits tax or taxes of overseas investors’ countries, the investors should consider whether Chinese withholding tax can be used to offset these taxes.
- b) The Hong Kong SAR Government has introduced a series of tax incentives and government grants to promote the development of bond issuance and green finance. Qualified companies of innovative industries in the Mainland, as well as Guangdong enterprises raising capital through public listing or issuing green bonds in Hong Kong, may be eligible for government grants or tax incentives when the relevant requirements are met.
- c) The Government proposes improved policies to promote the cross-border use of FinTech in Guangdong and Hong Kong. In addition to considering the impact of these policies on their business, enterprises should also pay attention to the tax issues resulting from cross-border trade, such as tax benefits and avoidance of double taxation.



3) Macao Tax

- a) The Macao SAR Government has established a series of preferential tax measures to further promote the development of specialised financial services, including exemption from complementary tax on income obtained from investing in treasury bonds and central corporate bonds issued in Macao, as well as exemption from stamp tax on issuing or acquiring relevant bonds. However, there is no corresponding preferential tax policy for private corporate bonds. Enterprises issuing bonds in Macao should pay attention to the latest development and conduct tax and cost analysis accordingly.
- b) The Macao SAR has entered into agreements on avoidance of double taxation with both China and Portugal. The income obtained or generated by Lusophone countries that has been taxed locally is also exempt from complementary tax by Macao unilaterally. In order to develop specialised financial services, financial institutions should carry out tax planning and make use of the existing agreements and policies to avoid potential double taxation.
- c) In order to promote specialised financial services, the Macao SAR Government has been investigating and formulating a Trust Law to promote Mainland China financial institutions' businesses related to Lusophone countries to be conducted in Macao intensively. The relevant tax treatments are to be clarified by the Government.

Reach out to us

For a deeper discussion of how this issue might affect your business, please contact:

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