

Research on the Coordinated Development of Tax Policies in the Economic Integration of the Greater Bay Area

Zeng Bei

Dongguan City College, Dongguan, Guangdong, China

Abstract: This study focuses on the coordinated development of tax policies within the economic integration process of the Greater Bay Area. The aim is to identify effective tax policy pathways that promote regional economic integration. Utilizing a combination of literature review and theoretical analysis, the research delves into the current state of tax policies through the lenses of cooperation and coordination. Adhering to the principle of "seeking common ground while reserving differences," the study explores the feasibility of reducing tax disparities among the three regions through a unified dialogue platform and strategies for improving cross-border tax dispute resolution mechanisms. Additionally, it analyzes how to collectively address new developments in international taxation. The findings indicate that formulating tax policies centered on cooperation and coordination can effectively advance economic integration in the Greater Bay Area, enhance regional competitiveness, and provide a robust tax policy foundation for sustainable and stable regional economic growth on the international tax stage.

Keywords: Greater Bay Area; Tax Policy Coordination; Economic Integration; Cross-Border Taxation; International Taxation

1. Introduction

1.1 Research Background and Significance

The Guangdong-Hong Kong-Macao Greater Bay Area (GBA) is one of the most open and economically vibrant regions in China, holding a significant strategic position in the national development framework. It includes Hong Kong SAR, Macao SAR, and nine cities in Guangdong Province, covering an area of 56,000 square kilometers with a population of approximately 86 million by the end of 2024.

With the advancement of the Belt and Road Initiative and profound adjustments in the global economic landscape, the economic integration of the GBA is accelerating. In this context, tax policy, as an essential economic regulation tool, plays a crucial role in promoting the free flow of regional factors, industrial collaboration, and overall economic competitiveness.

Internally, the three regions exhibit significant differences in tax policies due to variations in political systems, economic development levels, and tax regimes. Hong Kong operates a simple, low-tax system, primarily taxing profits, salaries, and property at rates of 16.5% (corporations) and 15% (individuals). Macao relies mainly on direct taxes, with rates for the Complementary Income Tax ranging from 3% to 12% depending on income brackets. Guangdong adheres to the mainland tax system, offering a broader range of taxes, with a corporate income tax rate of 25%. These disparities hinder efficient resource allocation across the region. Externally, the complex international tax environment, such as disputes over tax jurisdiction in the digital economy and the implementation of a global minimum tax, poses further challenges to the GBA's economic development. Thus, studying the coordinated development of tax policies in the GBA is urgent for eliminating internal tax barriers, enhancing its international tax voice, and achieving high-quality economic integration.

1.2 Review of Domestic and International Research

International scholars began exploring tax coordination in regional economic integration early on. Musgrave (1959) proposed the theory of fiscal federalism, emphasizing that tax policies should be reasonably allocated based on the functions of different government levels, providing a theoretical foundation for regional tax coordination. In practice, the EU's tax

integration efforts have garnered attention, with studies showing that the EU has gradually narrowed tax differences among member states through a series of tax directives, promoting the free flow of goods, services, and capital within the region. However, EU tax coordination faces challenges such as the conflict over member states' tax sovereignty and inconsistencies in policy implementation.

In China, numerous studies have been conducted on tax policy coordination in the GBA. Li Linmu et al. (2019) analyzed tax coordination issues from theoretical frameworks and practical pathways, advocating for a multi-tiered tax coordination mechanism respectful of the three regions' tax disparities. Chen Jie (2019) identified the inadequacy of mechanisms for resolving cross-border tax disputes as a significant barrier to tax collaboration. However, existing research primarily emphasizes theoretical analyses and policy recommendations, lacking specific implementation pathways and effect evaluations for tax policy coordination. Furthermore, there is a need for in-depth studies that propose targeted strategies for the GBA in light of new international tax trends.

1.3 Research Methodology and Innovations

This study employs a combination of literature review and theoretical analysis methods. By extensively collecting relevant literature, it outlines the theoretical foundations of regional economic integration and tax policy coordination while analyzing the current state and issues of tax policies in the GBA. Additionally, normative analysis is applied, focusing on cooperation and coordination themes to provide tax policy planning recommendations.

The innovations of this study are threefold: First, it adopts a novel perspective by situating GBA tax policy coordination within the context of new international tax developments, considering both internal regional coordination and external international competition. Second, it innovates content by proposing the establishment of a diversified dispute resolution system for cross-border tax issues, including mechanisms for cross-border tax arbitration and strengthened tax information exchange. Third, it employs case analysis to draw on the successful experiences and lessons from international regional tax coordination,

such as in the EU, providing practical references for GBA tax policy collaboration.

2. Theoretical Foundations of Economic Integration and Tax Policy Coordination in the GBA

2.1 Theories of Economic Integration

Economic integration theories include customs union theory, common market theory, and optimal currency area theory. The customs union theory, proposed by Viner (1950), argues that customs unions achieve trade liberalization by eliminating tariffs and non-tariff barriers among members, resulting in trade creation and diversion effects. Although there are no customs barriers in the GBA, similar factors in tax policies impede regional trade. Common market theory emphasizes the free movement of production factors based on customs unions. Tax policy differences affect the movement of labor and capital within the GBA, such as personal income tax variations impacting skilled labor mobility and corporate income tax differences influencing investment decisions. The optimal currency area theory focuses on the impact of monetary integration on regional economies; while the GBA has not yet achieved monetary integration, coordinated tax policies can enhance currency circulation efficiency, laying the groundwork for potential future monetary cooperation.

2.2 Theories of Tax Policy Coordination

Tax policy coordination theories are grounded in public economics and game theory. From a public economics perspective, tax policy coordination aims to achieve optimal allocation of public resources. In the GBA, tax coordination can guide resources toward advantageous industries and regions, enhancing overall economic efficiency. For instance, implementing uniform tax incentives for technological innovation industries can consolidate innovation resources in the GBA. Analyzing from a game theory perspective, the three regions engage in a strategic game regarding tax policy formulation. If they act independently to maximize their interests, excessive tax competition may occur, reducing overall regional welfare. However, through tax policy coordination, the regions can engage in cooperative strategies to achieve win-win scenarios, such as improving tax

administration efficiency and reducing tax evasion through enhanced inter-regional cooperation.

3. Analysis of the Current Tax Policy in the GBA

3.1 Characteristics of Tax Policies in the GBA

Hong Kong's tax policy is characterized by simplicity and low tax burdens. It taxes profits sourced in Hong Kong while generally exempting foreign income, which attracts multinational companies to establish regional headquarters. Salaries tax operates on a progressive scale, with rates ranging from 2% to 17%, along with various exemptions to ease the tax burden on residents. Macao's tax policies emphasize support for local industries, offering tax incentives for small and medium-sized enterprises in the Complementary Income Tax, while levying lower rates on professional tax. Guangdong's tax policies align closely with the national tax system, providing a 15% corporate income tax rate for high-tech enterprises and allowing additional deductions for R&D expenses. Additionally, Guangdong implements a unified tax policy for value-added and consumption taxes.

3.2 Impact of Existing Tax Policies on Economic Integration

The differences in existing tax policies have both positive and negative impacts on economic integration in the GBA. On the positive side, the low tax burden policies in Hong Kong and Macao attract significant foreign investment and high-end talent, bringing advanced technologies and management practices to the GBA. For instance, as an international financial hub, Hong Kong has attracted numerous international financial institutions, boosting the region's financial industry. Conversely, tax disparities can distort resource allocation across the region. Due to differences in corporate income tax rates, some companies may establish operations in lower-tax regions, neglecting actual industrial development needs. In terms of cross-border trade, disparities in value-added and transaction taxes increase transaction costs, hindering the liberalization of trade. Moreover, differences in tax administration create compliance costs for

cross-border enterprises, as they must adapt to varying tax declaration and audit requirements.

4. Recommendations for Coordinating Tax Policies in the Economic Integration of the Guangdong-Hong Kong-Macao Greater Bay Area

4.1 Establishing Tax Directions and Priorities Focused on Cooperation and Coordination

In the economic integration of the Greater Bay Area (GBA), tax policies should primarily support the coordination and cooperation of regional industries. Firstly, for strategic emerging industries such as next-generation information technology, biomedicine, and new energy vehicles, the three regions should collaboratively develop tax incentives, including temporary corporate income tax exemptions or accelerated depreciation for companies in these sectors. Additionally, unified tax support must be provided for cross-border industrial chains, implementing comprehensive tax incentives that cover the entire process from raw material procurement to production and sales, such as VAT exemptions on transportation income for cross-border logistics companies to reduce logistics costs and enhance supply chain competitiveness. Lastly, tax subsidies or credits should be offered for the movement of high-end talent across the region to address tax disparities faced by professionals and optimize talent allocation.

4.2 Building a Unified Dialogue Platform to Collaborate on International Tax Developments

Establishing a unified dialogue and cooperation platform is essential for addressing tax policy differences in the Guangdong-Hong Kong-Macao region and responding to new international tax developments. This platform will eliminate tax information barriers among the three areas, providing timely and accurate channels for tax information exchange among stakeholders. By creating a database of the latest tax policies, tax authorities, businesses, and research institutions can easily access consistent information. Furthermore, organizing regular online and offline policy discussions and seminars will enhance interaction among experts, scholars, and policymakers to explore cross-border tax management and optimize related tax policies, thereby improving overall economic efficiency in the GBA.

4.3 Reducing Regional Tax Disparities and Improving Cross-Border Tax Dispute Resolution Mechanisms

To narrow tax disparities within the Greater Bay Area, comprehensive strategies are required. Gradual harmonization of corporate income tax incentives through negotiations can encourage the

three regions to establish common standards and unified tax rates, especially in high-tech industries. Additionally, pilot programs for a unified VAT rate in specific sectors, such as cross-border services, could be implemented to alleviate the tax burden on cross-border transactions. To enhance cross-border tax dispute resolution mechanisms, a cross-border tax arbitration system should be established, providing professional legal consulting assistance for tax disputes to help businesses understand tax policies and dispute resolution procedures, thereby reducing litigation costs. These actions can effectively strengthen the integrity of the regional tax legal framework, enhancing the capacity for tax coordination and cooperation in the Greater Bay Area.

5. Conclusion

This study has thoroughly examined the collaborative development of tax policies within the economic integration process of the GBA. By analyzing the research background and significance, the importance of tax policy coordination for economic development in the GBA is highlighted. Theoretical foundations were established, outlining relevant theories of economic integration and tax policy coordination to support further research.

An analysis of the current tax policy landscape in the GBA revealed distinct characteristics and the impact of existing policies on economic integration. Based on themes of cooperation and coordination, recommendations for tax policy planning were proposed, focusing on promoting collaborative industrial development, unifying tax administration standards, and enhancing tax coordination mechanisms.

In establishing a unified dialogue and collaboration platform, the necessity, objectives, operational mechanisms, and participants were articulated. Specific strategies and pathways for mitigating regional tax disparities and improving dispute resolution mechanisms were outlined.

Acknowledgements

2023 Dongguan City University Youth Teacher Development Fund Project "Research on Tax Cooperation and Coordination under the

Economic Integration of Guangdong Hong Kong Macao Greater Bay Area" (Project No.: 2023QJY011R).

References

- [1] State Taxation Administration of Guangdong Province. "Advancing Tax Coordination in the Guangdong-Hong Kong-Macao Greater Bay Area." *China Taxation News*, February 15, 2023.
- [2] State Taxation Administration of Guangdong Province. "Leveraging Taxation to Facilitate the Development of the Guangdong-Hong Kong-Macao Greater Bay Area." *China Taxation News*, May 21, 2024.
- [3] Guangdong Development and Reform Commission. "Shenzhen's Promotion of Tax Service Integration in the Greater Bay Area to Enhance Cross-Border Tax Practices and Facilitate Investment—Experience from Guangdong's Business Environment Reform Series, No. 25." August 30, 2022.
- [4] Xu Hailong. "Tax Cooperation and Coordination in the Guangdong-Hong Kong-Macao Greater Bay Area." *Journal of Taxation Economic Research*, 2020, 25(5): 42-47.
- [5] Graduate Student Union of Finance and Taxation Institute. "Academic Salon: Exploration of Tax Coordination Mechanisms in the Guangdong-Hong Kong-Macao Greater Bay Area." March 14, 2019.
- [6] Li Linmu, Wang Chong, Li Jianjun. "Tax Coordination in the Guangdong-Hong Kong-Macao Greater Bay Area: Theoretical Framework and Practical Pathways." *Tax Research*, 2019 (4): 32-38.
- [7] Chen Jie. "Challenges and Solutions for Tax Coordination in the Guangdong-Hong Kong-Macao Greater Bay Area." *Tax Research*, 2019 (4): 39-44.
- [8] Zhang Yang. "Research on Collaborative Tax Policies in the Guangdong-Hong Kong-Macao Greater Bay Area." Master's Thesis, Guangdong University of Foreign Studies, 2020.