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## RSM Tax Advisory (Hong Kong) Limited

羅申美稅務諮詢有限公司

Welcome to Tax Flash – RSM Tax Advisory (Hong Kong) Limited’s  
Newsletter Covering Technical Development in Taxation

### APPLICATION OF RESIDENCE PERMIT FOR HONG KONG, MACAO AND TAIWAN RESIDENTS

*On 6 August 2018, the General Office of the State Council has released the “Measures for Application of Residence Permits for Hong Kong, Macao & Taiwan Residents” (港澳台居民居住证申领发放办法 (“the Measures”). Under the Measures, Hong Kong, Macao and Taiwan residents who live in the Mainland for not less than six months with stable job (or education for students) and accommodation can apply for residence permits which will facilitate their work, study and life in the Mainland (“the Mainland” or “the PRC”). The Measures took effect from 1 September 2018.*

*With this residence permit, it would imply that the individual is staying in the PRC for more than 183 days in a year and thus would be treated as a tax resident under the revised PRC Individual Income Tax (“IIT”) Law. The residence permits for Hong Kong, Macao and Taiwan residents provide rights and convenience to the applicants in the PRC, but at the same time increase the individual’s obligations in the PRC. With the rights and obligations coming together, both the costs and benefits should be considered before obtaining this PRC residence permit. Please refer to our July Newsletter for an overview of the revised IIT Law. With the revised PRC IIT Law coming into effect on January 1, 2019, the revised Implementation Regulations on IIT Law and the revised Double Tax Agreement between the PRC and Hong Kong should be issued in the coming months.*

*Residence permit is not household registration (hukou 戶口) and so having a residence permit does not mean having the full benefits as a PRC citizen. Under the household registration system, each PRC citizen is issued with a household register under supervision of the Ministry of Public Security. Each city in China administers its own hukou application and registration processes. The hukou registration determines access to housing, education and medical treatment locally in each city.*

*In this Tax Flash, we will provide you on the details and benefits of applying this residence permit.*

## Application Details

<p><b>Criteria</b></p>	<p>An applicant requires to live in the PRC for more than six months in a year in the PRC and fulfills one of the following:</p> <ol style="list-style-type: none"> <li>1. Have a legitimate and stable job in the PRC;</li> <li>2. Have a legitimate and stable residence in the PRC; or</li> <li>3. Studying in the PRC continuously.</li> </ol>
<p><b>Documents /information required for the application</b></p>	<ol style="list-style-type: none"> <li>1. Completed Residence Permit application form;</li> <li>2. Recent photo receipt issued by a Photo Studio;</li> <li>3. Finger print of the applicant;</li> <li>4. Valid Mainland Travel Permit for Hong Kong, Macao and Taiwan Residents; and</li> <li>5. Proof of the applicant's residential address, employment and study in the PRC. It should be submitted to a PRC Police Station or Resident Permit issuing authorities. The supporting documents include the following: <ul style="list-style-type: none"> <li><i>Residential address proof</i> – lease agreement, property ownership certificate, property sales and purchase agreement or a residential proof issued by the landlord, employer or school.</li> <li><i>Employment proof</i> – business license of the employer, labour contract, a letter issued by the employer declaring the employer-employee relationship or other documents that can verify the employment in the PRC.</li> <li><i>Studying proof</i> – student card or other documents issued by the school to verify the student identity.</li> </ul> </li> </ol>
<p><b>Information included in the residence permit (In card format)</b></p>	<ol style="list-style-type: none"> <li>1. Name</li> <li>2. Gender</li> <li>3. Date of birth</li> <li>4. Residential address</li> <li>5. Residence permit number</li> <li>6. Photo</li> <li>7. Finger print information</li> <li>8. Validity period of the residence permit</li> <li>9. Issuing authority</li> <li>10. Number of issuance of the residence permit</li> <li>11. Mainland Travel Permit for Hong Kong and Macao and Taiwan Residents number</li> </ol>

<b>Estimated application time</b>	20 working days
<b>Validity period</b>	5 years
<b>Benefits of applying the residence permit</b>	<p><u>Three categories of rights:</u></p> <ol style="list-style-type: none"> <li>1. Work in the PRC without applying work permit</li> <li>2. Participate in social security scheme</li> <li>3. Pay, withdraw and use the Housing Provident Fund</li> </ol> <p><u>Six basic public services</u></p> <ol style="list-style-type: none"> <li>1. Free education</li> <li>2. Basic public employment services</li> <li>3. Basic public hygiene services</li> <li>4. Public cultural and sports services</li> <li>5. Legal assistance and other legal services</li> <li>6. Other basic public services provided by the Country and place of residence</li> </ol> <p><u>Nine facilitation measures</u></p> <ol style="list-style-type: none"> <li>1. Transportation, such as taking domestic flights, trains, etc</li> <li>2. Hotel accommodation</li> <li>3. Financial services, such as banking, insurance, securities and futures transaction, etc</li> <li>4. Enjoy same treatments as Mainland residents in various kinds of consumer activities, such as shopping, purchasing entry tickets for parks and cultural and sports facilities, participating in cultural and entertainment activities, etc</li> <li>5. Apply for vehicle registration in place of residence</li> <li>6. Apply for vehicle driving permits in place of residence</li> <li>7. Apply for vocational qualification, examinations and certificates in place of residence</li> <li>8. Apply for birth registration services in place of residence</li> <li>9. Other facilitation measures provided by the Country and place of residence</li> </ol>

## 1. Points to note

Nowadays, real-name authentication mechanism is widely used in the PRC day-to-day life. The newly introduced residence permit has the same 18-digit serial number as the PRC identity card which provides convenience to the Hong Kong, Macao and Taiwan residents who are living or working in the PRC. With this residence permit, application / renewal of PRC work permit is no longer required. Hong Kong, Macao and Taiwan residents can participate and enjoy the benefits of the PRC social insurance scheme and housing provident fund scheme as well as other public services in the PRC. Before the introduction of the residence permits, both overseas employees and Hong Kong, Macao and Taiwan employees working in the PRC are required to participate in the PRC social insurance scheme, but cannot enjoy the benefits of the scheme.

From a tax perspective, Hong Kong, Macao and Taiwan residents who have this PRC residence permits are currently still treated as foreigners. The individual monthly standard deduction for calculating PRC individual income tax (“IIT”) remains to be RMB4,800 per month (up to 30 September 2018). Nevertheless, starting from 1 October 2018, the monthly standard deduction will be RMB5,000, which is the same for PRC residents and foreign individuals. The additional standard deduction previously enjoyed by foreigners is no longer available.

On this note, please be reminded that according to the revised IIT Law (effective from 1 January 2019), individuals having foreign citizenship or residence status with no domicile in the PRC who ordinarily reside in the PRC for more than 183 days in a year of assessment would be treated as PRC tax residents. PRC tax residents will be subject to PRC IIT on both their PRC and non-PRC sourced income. This would imply that Hong Kong, Macao and Taiwan residents who are having this PRC residence permits would be treated as PRC tax residents and his/her worldwide income will be subject to PRC IIT starting from 1 January 2019.

Currently, the Implementation Rules on IIT Law provides tax exemption on non-PRC source income to foreigners who do not have a domicile in the PRC but reside in the PRC for more than 1 year but less than 5 years. For these qualified foreigners, only PRC sourced income will be subject to PRC IIT. The State Council is considering offering the same tax exemption to foreigners (and Hong Kong, Macao and Taiwan residents) in the revised Implementation Rules on IIT Law that will be issued.

With the introduction of the residence permit for Hong Kong, Macao and Taiwan residents, more rights and benefits can be enjoyed in the PRC bringing convenience to the daily life in the PRC for individuals having this residence permit. These rights and benefits do come at a cost and for those who have obtained the residence permit, additional obligation in the PRC arises. Individuals who are contemplating to apply for this residence permit should consider both the cost and benefit of obtaining such PRC residence permit and should stay alert for updates on the development from a tax perspective. We shall provide further updates on changes to the revised Implementation Regulations and revised Double Tax Agreement between the PRC and Hong Kong once they are released.

## RSM Tax Advisory (Hong Kong) Limited

RSM Hong Kong's dedicated and experienced tax specialists can:

- Advise on tax efficient holding and operational structures for new cross-border investment, including the formation of Hong Kong and Chinese business entities
- Review existing cross-border investment structures, advise on identified deficiencies, quantify any potential exposure from such deficiencies, and further advise on restructuring approach and procedures
- Assist clients to discuss and clarify matters with tax officials, including transfer pricing and advance rulings
- Act as client representative in tax audits and tax investigations
- Provide transaction support services on mergers and acquisitions, including tax due diligence, deal structure advice, tax health checks, related human resources arrangements and other tax compliance and consultation services
- Advise on human resources and structuring employment arrangements in a tax-efficient manner
- Advise on tax equalization schemes
- Provide tax compliance services for individual and corporate clients in Hong Kong and China

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