Analysis of Inter-Regional Tax Cooperation Rule Alignment in the Greater Bay Area

Ke Xu *

School of Law, City University of Hong Kong, Hong Kong, China

* Corresponding Author Email: kexu3-c@my.cityu.edu.hk

Abstract. The central government has incorporated the development of the Greater Bay Area into the broader national development strategy. Improving the inter-regional tax cooperation system among the mainland, Hong Kong, and Macao is a crucial component of advancing judicial integration in the Greater Bay Area. This paper analyzes existing cases by interpreting key documents of central and local government, integrating the latest academic research, and examining the current tax cooperation arrangements with taxpayer information sharing mechanisms in the Greater Bay Area. It identifies challenges within the existing system: a final tax dispute resolution mechanism has yet to be established, a coordinated mechanism among the three regions' tax authorities is yet to be formed, and differences persist in tax procedures across the three regions. Finally, drawing on comparative law perspectives, this paper reviews existing inter-regional tax cooperation models in other countries. Considering the Greater Bay Area's unique circumstances, it proposes selectively adapting international experiences to enhance the tax cooperation framework. Key recommendations include establishing a unified tax filing system, promoting coordination among tax authorities in the three regions, and appropriately adopting the Mutual Agreement Procedure (MAP) arbitration process. By examining the challenges in inter-regional tax rule coordination within the Greater Bay Area, this paper aims to provide new perspectives and solutions for advancing judicial integration in the region.

Keywords: Tax cooperation, inter-regional taxation, Greater Bay Area, rule alignment.

1. Introduction

The Central Committee of the Communist Party of China issued the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, integrating the development of Hong Kong and Macao into the broader national development framework. As a crucial component of the Greater Bay Area's judicial integration process, establishing a sound inter-regional tax system within the Bay Area is an essential requirement for advancing the new practice of “One Country, Two Systems” [1,2]. While existing inter-regional tax cooperation mechanisms regulate double taxation prevention and tax information sharing, the tax authorities of Guangdong, Hong Kong, and Macao have yet to establish a systematic inter-regional tax dispute resolution mechanism. The absence of such a mechanism will hinder the progress of judicial integration in the Greater Bay Area. Current academic research on integrating inter-regional tax cooperation rules in the Greater Bay Area primarily yields the following outcomes: First, drawing on tax cooperation experiences from other regions, and offering insights for inter-regional tax collaboration from the perspective of comparative law approaches [3]. Second, based on the implementation of international tax cooperation agreements in judicial practice, proposing solutions from the perspective of data and case analysis [4,5]. Third, proposing feasible solutions for establishing inter-regional tax dispute resolution mechanisms from the perspective of improving existing systems and frameworks [6]. Based on this, this paper employs a doctrinal approach, case analysis, and comparative research methodologies. It synthesizes new requirements and cases from national development plans alongside the latest academic research and examines challenges in coordinating inter-regional tax rules within the Greater Bay Area. This paper can be provided.

2. Literature Review

Existing literature has primarily examined the issue of aligning inter-regional tax cooperation rules within the Greater Bay Area from the following perspectives.

By analyzing existing cross-border tax mechanisms, some scholars point out that the current system has only made progress in tax prevention mechanisms (such as preventing double taxation) and tax information sharing, but a definitive and systematic dispute resolution mechanism has yet to be established [7]. Drawing on specific cases and the historical context of Hong Kong and Macao's tax legislation alongside their low tax and tariff rates, some scholars analyze instances where mainland investors transfer funds to Hong Kong and Macao to obtain tax relief. They point out that the absence of a coordinated mechanism among tax authorities and gaps in the integration of tax rules across the three regions are the root causes of cross-border tax issues [8,9]. Some scholars explore feasible solutions for rule integration from a comparative law perspective, summarizing experiences from other jurisdictions—such as the U.S.A inter-state tax coordination mechanism—to offer approaches for inter-regional tax cooperation. However, they note that the U.S.A is a federal system, and whether its inter-state tax cooperation experience applies to the Guangdong-Hong Kong-Macao Greater Bay Area remains to be tested in practice [10]. Practitioners have conducted empirical research on the integration of inter-regional tax cooperation rules. By examining case details and analyzing the implementation of international tax cooperation agreements in regional tax practices, they propose solutions for establishing a tax coordination system grounded in regional cooperation agreements and bridged by existing international tax cooperation frameworks [6].

The Greater Bay Area represents a new practice of socialism with Chinese characteristics for a new era, possessing its own distinct characteristics. It should not directly replicate the U.S. inter-state tax coordination system. Therefore, this paper will selectively draw upon the experience of cross-system and cross-jurisdictional tax coordination rules from entities such as the North American Free Trade Agreement (NAFTA) and European Union (EU) member states. By integrating these insights with the current endowments of the Guangdong-Hong Kong-Macao Greater Bay Area, it aims to refine the institutional framework for coordinating inter-regional cooperation rules within the Greater Bay Area. Simultaneously, as tax law is a practice-oriented legal section, case analysis and research data from practitioners serve as crucial references for studying inter-regional tax rule coordination. This paper will therefore base its analysis on real-world cases to ensure the theoretical framework remains grounded in reality. Building upon this foundation, this paper will focus on examining the similarities and differences in the final resolution mechanisms for inter-regional tax disputes across various countries and regions worldwide. It will identify valuable experiences in inter-regional tax dispute resolution, such as the MAP arbitration process, aiming to provide new systematic approaches for resolving inter-regional tax disputes. Additionally, this paper will scrutinize the operation of existing tax cooperation mechanisms. By analyzing arrangements for preventing tax evasion and avoiding double taxation across three jurisdictions, it will identify gaps in rule coordination and deficiencies in tax authority collaboration within current frameworks. Based on these findings, targeted improvement measures will be proposed. Finally, this paper will selectively integrate the aforementioned academic outcomes based on their research value in addressing the issue of coordinating tax cooperation rules within the Greater Bay Area.

3. The Existing Inter-Regional Tax Cooperation Framework in the Greater Bay Area

3.1. Current Inter-Regional Tax Policy in the Greater Bay Area

3.1.1. Inter-regional tax cooperation arrangement signed Between Chinese mainland and Hong Kong

On August 21, 2006, the State Administration of Taxation of China and the Government of the Hong Kong Special Administrative Region signed a tax cooperation arrangement to avoid double taxation and prevent tax evasion. The arrangement first specifies the types of taxes subject to adjustment: individual income tax levied in the mainland, as well as corporate income tax on foreign enterprises and foreign-invested enterprises; and profits tax, salaries tax, and property tax levied in Hong Kong. Given the fundamental differences between the two jurisdictions' tax systems, the arrangement focuses solely on cross-border income involving residents of both places and cross-border investment enterprises. Secondly, it establishes typological tax regulations for income sources such as real estate gains, business profits, employment income, dividends, interest, and pensions. For different income sources, after tax obligations are fulfilled in one jurisdiction, the other jurisdiction grants corresponding tax exemptions or reductions. Specific tax procedures are formulated separately by the tax authorities of each jurisdiction. In principle, different income sources should be taxed separately in each jurisdiction [2,11]. This arrangement effectively balances the tax burden between the two jurisdictions and reduces the risk of double taxation. While separate tax procedures administered by each jurisdiction prevent tax evasion, differences in procedures create gaps in regulatory coordination. Additionally, the arrangement briefly addresses supplementary tax cooperation elements such as non-discriminatory treatment, mutual agreement procedures, and information exchange. Notably, the establishment of a tax information sharing mechanism between the two jurisdictions has yielded initial results and plays a significant role in preventing double taxation [12].

3.1.2. Inter-regional tax cooperation arrangement signed between Chinese mainland and macao

On December 27, 2003, the State Administration of Taxation of China and the Government of the Macao Special Administrative Region signed a tax cooperation arrangement to avoid double taxation and prevent tax evasion. Since 2003, this tax cooperation arrangement has undergone four protocols. The fourth protocol made significant revisions to the definition of persons, removing the original arrangement's separate definitions for residents of one party and residents of both parties. It unified the rules for residents of one party and residents of both parties, stipulating that the determination of residents of both parties should be made by the competent tax authorities of both parties based on actual circumstances, with corresponding tax benefits granted accordingly. This shift in resident definitions reflects the deepening economic and cultural exchanges between residents of both regions since the initial tax cooperation arrangement was signed. The original separate provisions for residents of one party and residents of both parties could no longer address emerging tax challenges. This updated language represents the arrangement's evolution with the times and serves as a powerful demonstration of the Greater Bay Area's efforts toward an integrated rule of law.

3.1.3. Inter-regional tax cooperation arrangement signed Between Hong Kong and Macao

In November 2019, the Hong Kong Special Administrative Region Government and the Macao Special Administrative Region Government signed an arrangement for the elimination of double taxation and the prevention of fiscal evasion. This arrangement closely mirrors the tax cooperation agreements between the Chinese mainland and Hong Kong, as well as between the Chinese mainland and Macao, in both structure and content. Its distinctive feature lies in its timing. Prior to the signing of the Hong Kong-Macao tax cooperation arrangement in 2019, local tax authorities levied taxes on the movement of personnel, enterprises, and capital between Hong Kong and Macao based solely on

their respective domestic regulations. This approach made it difficult to eradicate tax evasion and avoidance. Following the July 2017 signing of the Framework Agreement on the Development of the Guangdong-Hong Kong-Macao Greater Bay Area, tax cooperation negotiations between Hong Kong and Macao commenced, culminating in the successful signing of the agreement in November 2019. With this final piece in place, the tax cooperation arrangements between Hong Kong and Macao gained formal legal backing, marking the completion of the tax cooperation framework among the Chinese mainland, Hong Kong, and Macao.

3.2. Core Objectives and Measures of the Existing Cooperation System

In summary, the core objectives of the tax arrangements among the three regions are to avoid double taxation and prevent tax evasion. Double taxation and tax evasion represent two extremes of the same problem: stringent oversight tends to lead to double taxation, while lax oversight invites tax evasion [13]. Therefore, the Greater Bay Area tax cooperation framework leverages tax credit rules as a key mechanism to balance regulatory intensity while facilitating economic and trade flows.

The primary measure of tax credit rules is that after fulfilling tax obligations on taxable income earned in one jurisdiction, the other jurisdiction grants a certain amount of tax exemption or reduction based on the type of income source. Any amount exceeding this threshold is subject to taxation. This approach reflects the efforts of both jurisdictions to avoid double taxation while upholding the principle of tax compulsory to prevent the omission of relevant taxable income. Simultaneously, the application of tax reduction or exemption quotas is contingent upon the reporting of tax information. This measure maintains the incentive for taxpayers to report relevant tax amounts, thereby providing a safeguard for the establishment of a tax information sharing system [1].

3.3. Shortcomings of the Existing Tax Cooperation System

The aforementioned arrangements and subsequent amendments adopted a “whitelist” approach. Taking the Fourth Protocol between the Mainland and Macao as an example, it explicitly addresses areas where taxable income is clearly defined and there is no conflict between the two jurisdictions' regulations. However, it leaves unaddressed the gray areas where conflicts exist, merely providing a catch-all clause stating that “nothing in this Protocol shall prejudice the right of any Party to apply its domestic laws and measures concerning the avoidance of tax evasion” [14,15]. While the Guangdong-Hong Kong-Macao Greater Bay Area tax cooperation framework has made tangible progress in preventing double taxation and combating tax evasion, the absence of systematic rule alignment leaves persistent gray areas within the existing cooperative structure. Furthermore, this framework prioritizes establishing preventive cooperation norms—focusing primarily on how to forestall and avoid tax disputes—while neglecting the establishment of dispute resolution mechanisms [16]. While prevention-oriented approaches inherently offer advantages—reducing disputes at their source and aligning with tax efficiency principles—the absence of an inter-regional final dispute resolution mechanism remains a significant constraint on advancing judicial integration within the Greater Bay Area. Improving this final dispute resolution mechanism is also a crucial objective for establishing a robust inter-regional tax cooperation framework in the Greater Bay Area.

4. New Challenges Facing the Inter-regional Tax Cooperation Framework in the Greater Bay Area and Recommendations for Improving Its Rule Coordination Mechanism

4.1. New Challenges Facing the Existing Cooperation Framework

First, the Greater Bay Area has yet to establish a final inter-regional tax dispute resolution mechanism. As mentioned above, the existing framework has only made progress in tax prevention mechanisms and tax information sharing, but a final, systematic dispute resolution mechanism remains to be established. This stems from the Greater Bay Area tax cooperation framework's

emphasis on prevention over dispute resolution. Although the cooperation framework includes dispute coordination mechanisms such as consultation procedures, these serve as procedural dispute mediation tools lacking the possibility of compulsory enforcement [17]. The absence of provisions for a final dispute resolution mechanism and its corresponding procedures renders arbitration and litigation ineffective in resolving tax disputes.

Secondly, differences persist in tax procedures across the three regions. Hong Kong's tax system is characterized by lower rates and simplicity, while Macao's system features fewer tax categories and low rates. In comparison, the Chinese mainland's tax system and procedures are relatively more complex [18,19]. The taxation system of Chinese mainland centers on value-added tax (VAT) and corporate income tax, employing an annual settlement model supplemented by various tax incentives such as deductions for children's education expenses and subsidies for only-child. While information-sharing systems effectively mitigate issues arising from these procedural differences, these variations continue to create obstacles in fostering collaborative efforts among tax authorities.

Finally, a coordinated mechanism among tax authorities in the Guangdong-Hong Kong-Macao Greater Bay Area has yet to be established. With the rapid advancement of internet technology in Chinese mainland , government departments at all levels have leveraged the advantages of “Internet+” and big data platform development to create online government service platforms. Individual income tax filing, tax incentive applications, and VAT invoice issuance can all be processed through the application launched by the tax authorities. While Hong Kong and Macao are advancing the establishment of electronic platforms—such as the Hong Kong Inland Revenue Department's “eTax” online platform offering multi-tax filing services—offline tax filing via mailed paper tax forms remains prevalent [19,20]. Therefore, coordinating communication among the three regions' tax authorities to digitize paper tax data, thereby facilitating seamless tax data integration, presents a significant challenge to the existing cooperation framework.

4.2. Recommendations to Improve the Inter-regional Tax Cooperation Framework in the Greater Bay Area

Under the new circumstances, the foremost requirement for refining the inter-regional tax cooperation framework in the Greater Bay Area is the coordination and alignment of tax authorities. Tax law is a practice-oriented legal section, and tax authorities are central to advancing the joint development of the tax cooperation framework. Promoting coordination and alignment among tax authorities enables effective exchange of experiences in building digital tax platforms, drives the establishment of an integrated tax platform, thereby effectively advancing the unified management of tax data, and lays the groundwork for further developing a definitive tax dispute resolution system.

Secondly, promoting the establishment of a unified tax filing system is an essential requirement for advancing the inter-regional tax cooperation framework within the Greater Bay Area. Establishing a unified filing system does not imply that the three regions must amend their respective tax laws to achieve uniform tax regulations, because this would undermine the unique character of the Greater Bay Area as “one country, two systems, and three customs territories”. The unified filing system should be built upon the foundation of tax information sharing among the three regions, achieving joint database construction. Through the establishment of shared databases and cloud platforms, leveraging new technologies will better realize the core objectives of avoiding double taxation and preventing tax evasion.

Ultimately, within the framework of tax cooperation, the MAP arbitration process may be appropriately adopted as a final dispute resolution mechanism [21]. The MAP procedure is a dispute resolution mechanism based on the agreement of both contracting governments, initiated upon application by a private entity to conduct international tax arbitration with the competent tax authority of the other party. Its advantages lie in its status as a mature international tax dispute resolution mechanism, offering extensive precedents and experience for reference. Simultaneously, as an arbitration-based dispute resolution mechanism, it effectively addresses the allocation of responsibilities in cross-jurisdictional cases. While the MAP procedure, derived from the common

law system, may not be highly compatible with the civil law system prevalent in Chinese mainland, it still holds valuable lessons for adaptation. For instance, establishing a Greater Bay Area tax dispute arbitration system based on a unified tax filing framework could be considered [22]. This system would involve each disputing party appointing one arbitrator, with the Greater Bay Area Tax Dispute Arbitration Commission appointing a third arbitrator to form a three-member tribunal to adjudicate the tax dispute. Selectively drawing upon the MAP process could fully leverage the Greater Bay Area's unique characteristics of jurisdictional convergence, providing a solution for resolving tax disputes within the region.

5. Conclusion

This paper analyzes the existing inter-regional tax cooperation framework in the Greater Bay Area by interpreting key documents of central and local government, in conjunction with the latest academic research outcomes and the experience of establishing tax cooperation systems in other jurisdictions. It points out that the core objectives of the existing cooperation system are to avoid double taxation and prevent tax evasion and highlights the shortcomings of the “whitelist”. Based on this analysis, it examines the challenges facing existing cooperation frameworks under the new circumstances: absence of a final inter-regional tax dispute resolution mechanism, differences in taxation procedures, and absence of a coordinated mechanism among tax authorities. This paper conducts a comprehensive analysis of existing cases, taking real-world examples and the Greater Bay Area's endowments as benchmarks. From a comparative law perspective, it proposes that improving the coordination system for inter-regional tax cooperation in the Greater Bay Area can be advanced through the following three approaches: promoting the coordination and alignment of tax authorities, promoting the establishment of a unified tax filing system, and appropriately adopting MAP arbitration process. Furthermore, examining the alignment of rules for inter-regional tax cooperation within the Greater Bay Area represents a significant endeavor in exploring cross-jurisdictional tax cooperation frameworks. Due to space constraints, this paper cannot elaborate further on this topic. The author will continue to monitor new developments in research concerning the alignment of inter-regional tax cooperation rules, aiming to achieve fresh insights into tax cooperation and rule alignment systems within the framework of multilateral agreements.

References

[1] Sun Yaping, Li Bin. Research on Cross-Border Tax Dispute Resolution Mechanisms in the Guangdong-Hong Kong-Macao Greater Bay Area. Finance and Accounting Newsletter, 2022, (10): 142-147.

[2] Maman Libby, Feldman Yuval, Tyler Tom. Polarization and Voluntary Compliance: The Impact of Ideological Extremity on the Effectiveness of Self-Regulation. Regulation & Governance, 2025, 15.

[3] Alm James, Gerbrands Peter, Kirchler Erich. Using "responsive regulation" to reduce tax base erosion. Regulation & Governance, 2022, (16): 738-759.

[4] Zhu Yansheng. Several Measures to Improve China's Cross-Border Tax Dispute Resolution Mechanism. International Taxation, 2020, (05): 20-25.

[5] Boettner Robert. Enhanced Cooperation and European Tax Law. Common Market Law Review, 2022, (59): 1255-1257.

[6] Liu Fuyong, Wang Lili. A Comparative Study of Mutual Agreement Procedures in Tax Treaties Currently in Force in China. International Taxation, 2020, (11): 41-47.

[7] Guo Dexiang, Li Xiaoyu. Legal Safeguards for Cross-Border Flow of Personal Financial Data in China. Journal of Henan University of Economics, Law and Politics, 2022, 37(06): 80-88.

[8] Butler Jay. International Tax and Corporate Discretion. Harvard International Law Journal, 2025, (66): 76.

[9] Sarkar Shayak. Internal Revenue's External Borders. California Law Review, 2024, (112): 1645-1698.

[10] Zu Yige. Developing VAT treaties: international tax cooperation in times of global recovery. Legal Studies, 2022, (42): 159-177.

[11] Sterk Stewart E. Incentivizing Fair Housing. Boston University Law Review, 2021, (101): 1607-1665.

[12] Titus Afton. The role of the United Nations in ensuring equitable tax policies for developing countries. Journal of International Economic Law, 2025, (27): 624-631.

[13] Sasmal Sunayana, Zhang Dongzhe, Winters L Alan. Exempting Least Developed Countries from Border Carbon Adjustments: Simple Economically but Complex Legally. World Trade Review, 2024, (23): 408-431.

[14] Zeitzmann Sebastian. Enhanced Cooperation and European Tax Law. European Law Review, 2022, (47): 429-430.

[15] Shen Weiwei. A Comparative Study of Data Governance from the Perspective of Network Sovereignty. Journal of Law, 2024, 45 (04): 24-39.

[16] Picciotto Sol. Technocracy in the Era of Twitter: Between intergovernmentalism and supranational technocratic politics in global tax governance. Regulation & Governance, 2022, (16): 634-652.

[17] Cui Wei. Strategic Incentives for Adopting the Global Minimum Tax. Journal of Legal Analysis, 2024, (16): 211-234.

[18] Alschner Wolfgang, Elsig Manfred, Wuthrich Simon. Main Act or Side Show? Model Agreements by International Institutions and Their Reuse in Investment Treaty Texts. Journal of International Economic Law, 2022, (25): 592-610.

[19] Snape John. International Tax Policy: Between Competition and Cooperation. Cambridge Law Journal, 2020, (79): 192-195.

[20] Wang Wenqing, Liu Yujie, Wang Yinuo. Pathways for Improving China's Mutual Agreement Procedure Mechanism Based on OECD Data Comparisons. Taxation and Economics, 2025, (03): 41-48.

[21] Jacquemet Nicolas, Luchini Stephane, Malezieux Antoine. Does voting on tax fund destination imply a direct democracy effect? International Review of Law and Economics, 2021, (67): 14.

[22] Chaisse Julien. Tax, trade, and investment conundrum in Asia-Pacific regionalism. Asia Pacific Law Review, 2023, (31): 535-555.