



Dear Assignment/News/Business Editor,

Hong Kong Institute of CPAs' budget submission focuses on family needs and boosts business competitiveness

Proposals recommend tax policy initiatives and budget measures to support businesses and to help the community

(Hong Kong, 9 January 2014) – The Hong Kong Institute of CPAs' budget proposals call on the government to give more support to the community and to reinforce Hong Kong's standing as an international centre of finance and commerce.

Helping families

The Institute's submission asks the government to provide a range of measures to support the city's taxpayers. These measures include allowing taxpayers to claim the deduction for self-education, either for their own self-education expenses or for such expenses incurred by their dependants; increasing child allowances for the second and third child; offering a rental payment deduction of up to HK\$100,000 as an alternative to the home loan interest deduction; allowing deductions for voluntary MPF contributions with an annual cap of HK\$60,000; allowing deductions for private healthcare insurance premiums with an annual cap of HK\$12,000; widening the marginal tax bands from HK\$ 40,000 to HK\$50,000, providing a property rates waiver of up to HK\$2,500 per quarter, and providing an electricity subsidy of HK\$1,800 for the coming year.

Florence Chan, chair of the Institute's taxation faculty executive committee, says, "As lower and middle income families face continuing pressure from rising costs, we think that these measures would give them some additional breathing space, especially those with children and other dependants."

Strengthening business competitiveness

The Institute also recommends tax concessions to strengthen the business environment and Hong Kong's international competitiveness, such as reducing the corporate profits tax rate to 15 percent for companies with gross income of up to HK\$5 million; waiving the business registration fee; granting tax exemptions to certain Hong Kong-resident funds; extending concessions on outsourced research and development activities and intellectual property licensed to external parties, and relaxing the interest deduction rules for multi-national companies looking to use Hong Kong as their "cash pooling hub."

International developments and high-level tax policy committee

According to the Organization for Economic Co-operation and Development, the digital economy has created a borderless world where, through sophisticated tax planning, cross-border activities may go untaxed or be subject to disproportionately low levels of taxation. The OECD is looking to address this issue via its initiative on base erosion and profit shifting.

"Hong Kong needs to prepare itself for international developments, such as this, which could direct greater attention towards low-rate tax regimes. The city is not a tax haven and needs to be in a position to robustly put its perspective across in the international arena," says Chan.

"We have consistently urged the government to set up a high-level tax policy committee to look into international developments and Hong Kong's overall tax competitiveness. There should be a holistic approach in reviewing Hong Kong's tax system and changes should not be made on a piece-meal basis. A tax policy committee could help the government develop suitable tax policies to serve Hong Kong's long-term interests," she continues.

Leveraging on Mainland's development and building on advantages

Shanghai's ambitions and regional neighbours, and even developments closer to home, such as Qianhai, and other special economic areas in Guangdong, may test Hong Kong's competitiveness in the future. However, according to Chan, "Hong Kong still has many advantages relative to its peers, such as its experience and expertise in serving as the gateway to China, its sound and trusted legal system, a deep pool of trained professionals, and extensive physical and non-physical infrastructure, but we need to capitalize and build on them."

Tax certainty and sustainability

Curtis Ng, convenor of the Institute's budget proposals sub-committee, points out that while Hong Kong remains on a trend of solid growth, it needs to ensure that this growth is sustainable. Greater certainty in the tax system can help to ensure that international investors continue to feel comfortable investing here and for this reason, the Institute recommends that action be taken to strengthen tax certainty.

Environment and conservation

Protecting the environment and encouraging conservation can also help develop a more sustainable community, says Ng. To this end, the Institute proposes offering accelerated industrial and commercial building allowances for buildings with approved environmentally-friendly designs and setting up a heritage body in Hong Kong to better preserve the city's historical buildings and sites.

Although there is limited scope for helping the very needy through the tax system in Hong Kong, the proposals identify an area where valuable assistance can be provided. The Institute believes that the vital community work done by food banks to redistribute good quality, surplus food, from shops and other sources, should be supported in Hong Kong, as it is in a number of other places around the world.

"The scope of deductions for charitable donations can be expanded to cover food donations. This provides multiple benefits: it supports the needy, which is important, given the number of people in Hong Kong living below the poverty line and, at the same time, it avoids unnecessary disposals at landfill sites, where space is in short supply," Ng adds.

The full budget proposal is available online at www.hkicpa.org.hk.

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About the Hong Kong Institute of CPAs

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has more than 36,000 members and 17,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designatory letters *CPA*.

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance and works in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate CPA qualification programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

The Hong Kong Institute of CPAs is a member of The Global Accounting Alliance - an alliance of the world's leading professional accountancy bodies, which was formed in 2005. The GAA promotes quality services, collaborates on important international issues and works with national regulators, governments and stakeholders.

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