Tax policy and budget proposals 2024-25

Reinvigorate and Reinvent Hong Kong

Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Taxation Faculty Executive Committee 2023

Chair	:	Sarah Chan
Deputy chair	:	Eugene Yeung
Members	:	Alan Chan Anthony Chan Timothy Chuk Jonathan Culver Jack Fernandes Gwenda Ho David Lai Edward Lean Bruce Li Benjamin Pong Grace Tang
Secretaries	:	Peter Tisman Selraniy Chow

Budget Proposals 2024-25 Task Force

Convenor	:	Eugene Yeung
Members	:	Sarah Chan William Chan Michael Chan Ricky Chow Lleyton Tso Louis Lam
Secretaries	:	Peter Tisman Selraniy Chow

Table of content

Theme I – Attracting investment and talent, encouraging new industries and entrepreneurship, and promoting the Hong Kong brand

- Attract foreign investment, enhance Hong Kong's business-friendly environment and promote the Hong Kong brand
  - Regional headquarters (RHQ) economy: Consider offering a 50% profits tax concession for relevant profits derived by qualifying RHQs.
  - Continue to keep affected multinational enterprises informed of the practical aspects of how the GloBE rules under BEPS 2.0 will be implemented in Hong Kong.
  - Introduce a simple form of group loss relief.
  - Qualifying innovation and technology (I&T) and green industries: Provide tax credits for start-up companies and a lower profits tax rate for the first 3 years of profits.
  - Entrepreneurship: Provide tax concessions for company setting-up expenses, including capital expenditure, capped at HK$10,000, for standalone startups.
  - Two-tier profits tax rate regime: Consider adjusting the rate downwards and/or raising the threshold of HK$2 million.
  - Expand the network of comprehensive avoidance of double taxation agreements.
  - Promote the unique Hong Kong brand and commit to an investment-friendly environment, for example:
    - Commit to maintaining Hong Kong's financial, legal and judicial systems: Give unequivocal assurances on the free flow of capital, the linked exchange rate system, the common law system and an independent and impartial judiciary, etc.
    - Review and streamline business licensing arrangements.
    - Conduct a comprehensive review of the listing regime and streamline the listing procedures.
    - Introduce a corporate rescue regime.
    - Review Hong Kong's investment promotion strategies and policies.
    - Strengthen standards of Putonghua and English.
    - Promote Hong Kong as a diverse community, where people of all backgrounds can thrive and succeed.

- Attract and retain talent
  - Consider providing subsidies or tax concessions, such as double deductions, to targeted industries facing labour shortages so that employers can offer more competitive salaries to attract talent.
  - Facilitate talent mobility between Hong Kong and the Greater Bay Area (GBA): Provide tax and non-tax incentives, e.g., for developers to build hostels for young GBA and overseas professionals and/or subsidies for employers to provide housing allowances. Simplify the visa application procedures and open a green channel for GBA students to come to Hong Kong for internships during the peak seasons in the accounting and other sectors.
  - Encourage child birth and attract overseas talent to raise their families in Hong Kong:
    - Increase the child allowance for newborn babies under salaries tax.
    - Incentivize businesses (i) to allow working from home (WFH) for employees in the first one or two years after the birth of their children; (ii) where WFH is not practicable, provide an allowance for new parents to engage a helper for the first one or two years of a child's life, where both parents are working full time (for up to three children per family); or an equivalent amount for child care/ crèche services. Incentivize employers to create suitable spaces for breastfeeding.
    - Provide an allowance for the private education of the children of overseas talent, up to a certain limit annually.
  - Develop the skills of the workforce:
    - Expand the deduction for self-education expenditure to cover expenditure incurred by a taxpayer's dependants.
    - Subsidize employers to send employees on qualifying courses to upgrade their skills.
    - Government to take the lead in generally increasing the retirement age to 65 - 68 (for both civilian and disciplined services officers).
    - Offer targeted training programmes and career counselling services to support stay-at-home parents and seniors in updating their skills and exploring potential career paths.
    - Encourage family-friendly policies, e.g., flexible working arrangements such as part-time work, WFH, seasonal employment and flexible retirement.
    - Offer incentives to employers to hire and retain experienced older people in employment.

Theme II – Encourage research and development, intellectual property business and digitalization

- Incentives for innovation
  - Take a holistic view in improving the intellectual property (IP) and research and development (R&D) tax and non-tax regimes:
    - Consider R&D tax credits for start-up businesses, or Base Erosion and Profit Shifting initiative-compliant "Qualified Refundable Tax Credits", where appropriate.
    - Modify the enhanced R&D tax deduction rules to accommodate the real commercial constraints of businesses engaged in R&D activities.
    - Relax the anti-avoidance provisions under the IP deduction rules: Allow genuine commercial transactions to enjoy the benefits, e.g., deductions for costs of acquiring IP from associates, IP licensed to another person for use outside Hong Kong, and for the costs of outsourced R&D activities.
  - Provide non-tax support, including possible financial subsidies, to encourage more local R&D activities.
  - Extend the coverage of tax and non-tax incentives to R&D activities undertaken in the GBA.
- Support small and medium-size enterprises (SMEs) in their digital transformation
  - Subsidize SMEs to obtain information (IT) support (for e.g., up to 36 months), which could include engaging a professional accountant to help them upgrade their accounting systems in readiness for the mandatory tax e-filing regime.
  - Support SMEs to (i) upgrade systems and equipment, and (ii) provide technical and infrastructure support, to allow for remote working employees.
  - Establish a dedicated fund, or expand the Continuing Education Fund, to cover practical training in IT and digitalization.
  - Extend funding schemes under the Innovation and Technology Fund to cover artificial intelligence and data analytics projects.
  - Make good use of the e-filing system for taxation:
    - Continue to collect feedback from the market and the profession on the design and operation of the e-filing system.
    - Provide early adopters with appropriate incentives, such as a good extension of the tax filing deadline, early tax refunds, or additional tax rebates.
    - Leverage the data provided by e-filing to improve services and streamline the system, for example:
      - Reducing the statutory time-bar period for finalization of tax affairs to three or four years
      - Strengthening tax audit capabilities and shortening timeframes for audits
- Support STEAM (science, technology, engineering, the arts and mathematics) education
- Improve transport data exchange and mobility
  - Promote and optimize the use of HKeMobility application, an integrated traffic data analytics system, by incorporating additional features and advocate the use of the system.
  - Encourage public transport operations, including taxis, to install functionality to accept a range of different electronic payment systems.

Theme III – A happier and healthier community in a greener Hong Kong

Measures for a happier and healthier community

- Provide a tax deduction for expenses on approved sports courses and activities for taxpayers and dependants, of up to HK$12,000 per person.
- Increase the maximum tax deduction for qualifying premiums paid under the Voluntary Health Insurance Scheme (VHIS) to HK$12,000 per each insured person and consider extending the scope of VHIS to other programmes, e.g., outpatient services.
- Review and adjust the amount and accumulation limit of vouchers under the Elderly Health Care Voucher Scheme more regularly.
- Encourage and support the holding of more international arts, culture, and sports events and exchanges in Hong Kong, as well as fostering the development of a vibrant and diverse local cultural scene.
- Community support:
  - Provide a tax reduction of 100%, subject to a ceiling of HK$12,000, on salaries tax, tax under personal assessment and profits tax for 2023-24.
  - Provide a rates concession for properties for three quarters, subject to a ceiling of HK$1,500 per quarter.
  - After the introduction of a progressive rating system for domestic properties, consider restricting the rates concession to properties in lower bands only.
  - Grant an electricity charge subsidy of HK$1,000 to each residential and commercial electricity account, in conjunction with promoting energy conservation measures.
  - Increase the tax deduction ceiling for home loan interest and domestic rents to at least HK$110,000 annually.
- Increase basic personal allowances at least in line with inflation.
- Review of the allowances for dependants and ensure any future adjustments are made on a more transparent and consistent basis.

General policies to promote sustainability in Hong Kong

- Revisit the blueprints and roadmaps previously published to establish effective interim targets and ensure Hong Kong is not falling behind.
- Establish policies to support renewable energy targets and technologies, including supporting businesses to adopt more sustainable practices and environmental, social and governance (ESG) standards, and expanding the feed-in tariff arrangements, etc.
- Further explore the development and use of alternative energy in Hong Kong, such as green hydrogen, and facilities and plants for testing.
- Ensure major new infrastructure projects incorporate sustainability goals in terms of planning, processes, materials and designs, etc. and that construction meet the highest quality and safety standards.
- Develop a more coordinated set of policies on recycling. Consider incentives for downstream recycling, waste-to-resources/ energy infrastructure (e.g., subsidies on land costs and facilities); and explore and encourage activities such as the use of recycled building materials, and second-life applications for electric vehicle (EV) batteries.
- Extend or regularize the Pilot Green and Sustainable Finance Capacity Building Support Scheme to promote training to build up the local green and sustainable finance talent pool.
- Research into the social aspects of ESG and consider establishing benchmarks for integrating social considerations into business practices.

Measures in specific areas

a) Electric vehicles and green public transport

- Expand EV charging facilities to all Housing Authority carparks.
- Continue with and expand the EV-charging at Home Subsidy Scheme, and streamline and expedite the approval process.
- Continue to offer first registration tax concessions for private car EVs.
- Continue to encourage and support public transport operators to explore and test the application of green innovative transport technologies, e.g., hydrogen fuel cell EVs.

- Where there are currently no EV or new energy alternatives, adopt, as a minimum, the Euro VI emission standard for all commercial vehicles and consider further incentives for replacement of Euro IV and V vehicles.
- Legalize and support the use of electric mobility devices, including electric scooters.
- Encourage the setting up of battery swapping stations for e-motorcycles.
- Develop policies on the recycling and reuse of EV batteries.

b) Green buildings

- Tighten the gross floor area concession by setting a higher BEAM Plus rating and introduce sanctions for subsequent non-compliance.
- Promote the use of building information modelling in private new building development projects.
- Adopt best practice standards for energy-efficient buildings in Hong Kong and mandate some requirements and introduce enhanced IBAs and CBAs for buildings that follow these standards (e.g., an initial allowance of 25% and an annual allowance of 5% for industrial buildings and, say, an annual allowance of 6.5% for commercial buildings).
- Extend CBAs and IBAs beyond the existing 25-year limit, for refurbished buildings that retrofit qualifying sustainable features, e.g., approved energy-reducing, features.
- Incentivize owners of old residential buildings to renovate their buildings sustainably.

c) Green finance

- Support the development of a more extensive regulatory framework/ set of coordinated, rigorous and transparent benchmarks for the certification of green financial products and verification of sustainable projects (a green taxonomy for Hong Kong).
- Allow a deduction of the costs incurred on purchasing appropriately certified renewable energy and carbon credits, regardless of whether this is directly linked to profit-generating activities.

Theme IV – Building on our strengths – Reassessing Hong Kong's tax system

- Increase tax certainty
  - Engage stakeholders to provide practical feedback on proposed tax law changes as early as possible in the process.
  - Promote clear understanding of how new tax laws, such as the refined foreign-sourced income exemption regime and BEPS 2.0 rules, will interact with the Inland Revenue Ordinance and allow sufficient transition time for taxpayers to get prepared.
  - Provide clear guidance and support to those affected by significant incoming changes in tax rules.
  - Improve the tax appeal system by benchmarking it against those of other advanced economies.
  - Reduce the statute of limitations from six years.
  - Regarding the determination of objections, amend the indefinite time limit of "reasonable time" with a fixed term of, say, one calendar year from the date the Commissioner of Inland Revenue receives the objection.
  - The Inland Revenue Department should establish key performance indicators on the time taken for them to review dispute cases, e.g., 6 or 9 months.
- Sustainable public finances
  - Review the tax system for its competitiveness and ability to provide sufficient revenue for Hong Kong's future development needs.

Responding to the public consultation on the 2024-25 budget, the Hong Kong Institute of Certified Public Accountants ("the Institute") sets outs below its recommendations for the 2024-25 budget.

Introduction

With the lifting of travel restrictions and pandemic-related constraints in 2023, Hong Kong's economy has shown signs of recovery and resilience. The Government of the Hong Kong Special Administrative Regions ("the Government") has taken positive action through promotional campaigns and implementing other measures, including "Hello Hong Kong", "Happy Hong Kong", and "Night Vibes Hong Kong", to attract visitors and boost local consumption. There has been some positive impact from these initiatives, with the economy experiencing a 4.1% year-on-year growth in real gross domestic product ("GDP") in the third quarter, accompanied by a further slight reduction in the unemployment rate of 2.8% from 2.9% in the second quarter, indicating nearly full employment[1]. Yet, overall, growth has been slower than originally expected and, taking into account the actual outturn in the first three quarters of 2023 and the near-term outlook, the government recently revised downward the real GDP growth forecast for 2023 as a whole to 3.2%, from 4% - 5% earlier.

Recently, The Financial Secretary acknowledged that with an estimated deficit of over HK$100 billion in 2023-24, around twice the figure originally projected, Hong Kong will need to tighten its belt, control and cut spending. Official expenditure increased 40% from HK$470 billion in 2017-18 to HK$660 billion in 2022-23, far outstripping the growth in government revenue. At the same time, it should be understood that this covered the period when Covid-19 had massively impacted the economy and there was a need for strong counter-cyclical measures to support business and employment.

Hong Kong continues to face head winds and uncertainties internationally. The world is undergoing unprecedented changes, and the successive interest rate hikes by developed economies to curb high inflation have had implications on the global economic outlook. As a result of this, and the ongoing political tensions between the United States ("US") and China, Hong Kong's economy has experienced negative impacts on its total goods exports and investment and assets markets. The keen competition from other economies, coupled with internal issues stemming from the talent shortage, ageing population and low birth rate, has further amplified the challenges faced by Hong Kong. There are also concerns regarding Hong Kong's competitiveness as an international financial centre. The situation has exacerbated by the brain drain, emphasizing the urgent need to address issues related to talent attraction and retention.

Against this backdrop, it is imperative for Hong Kong to regain its vibrancy and attractiveness to overseas investors, while appealing to local and overseas talent. The measures launched by the Government last year to attract enterprises, investment and talents have generated positive results, attracting around 70,000 talents coming to Hong Kong by the end of October 2023. In addition, the Office for Attracting Strategic Enterprises ("OASES") has reached out to over 200 strategic enterprises, of which 30 are planning to establish their foothold or expand their operations in Hong Kong, with about HK$30 billion of new investment is involved. These are positive signs, there is still more to do. We think Hong Kong needs to focus on, among other things, enhancing its branding and re-establishing itself as one of the best places in the world to live, work and visit. We need to review our investment promotion strategies, tax policies and overall competitiveness to enable Hong Kong to retain and attract investment and talent, as well as re-energize our status as a leading international financial centre.

[1] https://www.policyaddress.gov.hk/2023/public/pdf/policy/policy-full_en.pdf (see paragraph 7)

In this proposal, we present a wide range of measures under four main themes aimed at helping to reinvigorate and reinvent Hong Kong. Our proposed strategies encompass measures to stimulate investment, attract and retain talent, foster innovation, and promote sustainability. While a number of proposals could mean forgoing some revenue in the short term, the ultimate objective is to attract more investment, including investment in innovation and technology ("I&T"), and in research and development ("R&D") and intellectual property ("IP")-related businesses, and so boost the economy, which will in turn generate more tax revenue. Implementing these initiatives, we believe can help Hong Kong regain its vibrancy, overcome the aforementioned challenges, and establish an environment conducive to sustainable growth and prosperity.

At the same time, we appreciate the need for controlling expenditure and cost saving, where possible. We suggest that, if necessary, some reallocation of resources and adjustment of priorities should be considered. As advised elsewhere in this submission, the Government should consider moving more slowly on some major development projects that are only in the initial planning stage, until the economy is fully back on its feet and sources of funding are more clear and certain.

We also believe, in the present economic environment, there are strong grounds for taking a step back and looking at the competitiveness of our tax system as a whole, as well as considering non-tax incentives for investment, and exploring other possible sources of revenue.

An overview of the four main themes is below:

Theme I: Attracting investment and talent, encouraging new industries and entrepreneurship, and promoting the Hong Kong brand

With the keen global competition after the pandemic, Hong Kong should redouble efforts to reinforce its traditional competitive advantages, including a business-friendly environment, sound legal system, free flow of capital, advantageous geographical location, wealth of experience as a "super connector" between the Mainland and overseas jurisdictions, and our long-standing reputation as an international financial centre. Actions speak louder than words and we need to do more than just repeating this mantra, by ensuring that policies are in place to support it, to attract international investment and also to address the negative perceptions about Hong Kong prevailing in some of our traditional markets, while, at the same time, exploring new markets. In addition to more targeted business measures, this requires a hard look at our tax and non-tax incentives in general and a rethink of Hong Kong's branding and communications strategies.

In the meantime, Hong Kong is facing fierce competition in the global scramble for talent. The need for talent is acutely felt across all fields – from finance and technology to sustainability and the creative industries.

On top of a talent shortage, Hong Kong is facing a workforce shrinkage due to the ageing population and declining birth rate, in addition to the effect of emigration. Meanwhile, the skills of many capable seniors are underutilized due to traditional retirement practices, while women often leave employment for caregiving responsibilities. To encourage seniors and stay-at-home parents to re-enter the workforce, the Government should promote the acceptance of older employees and foster an inclusive work environment. Measures to encourage childbearing amid the persistently low birth rate are also important and these include encouraging businesses to adopt more flexible, family friendly practices, in terms of, e.g., allowing working from home or other options that can support new parents.

While the Chief Executive's Policy Address identified a number of the above issues, there is scope for more to be done in these areas

Theme II: Encourage research and development, intellectual property business, and digitalization

One of the roles envisaged for Hong Kong under the 14th National Five-Year Plan ("14th FYP") is an IP trading hub. We support the patent box tax incentive to be introduced in 2024, reducing the tax rate for qualifying profits derived from patents from the existing 16.5% to 5%, as it could effectively encourage more R&D activities, as well as transformation and commercialization of patented inventions, in Hong Kong. Meanwhile, the Government should consider reviewing other IP and R&D-related tax rules and exploring non-tax support measures.

Hong Kong's journey to becoming a smart city should involve not only initiatives for digital government but also the digital transformation of enterprises, including small and medium-sized enterprises ("SMEs"). Digital transformation will enable SMEs to adapt to changing market dynamics, enhance operational efficiency, cope better with the shortage of talent, and stay competitive. Ongoing support is necessary to facilitate this transformation. Funding should be allocated for hiring IT specialists, to facilitate digitalization, which could include, potentially, hiring an accountant with the requisite knowledge to help with upgrading of accounting systems in preparation for the introduction of mandatory electronic tax filing. Funding schemes should encompass artificial intelligence ("AI") and data analytics projects. Separately, measures are also needed to boost the supply of IT professionals in Hong Kong.

Theme III: A happier and healthier community in a greener Hong Kong

The Government is committed to striving to achieve carbon neutrality by 2050. In October 2021, the Environment Bureau released Hong Kong's Climate Action Plan 2050[2] ("CAP"), setting out the vision of "Zero-Carbon Emissions-Liveable City-Sustainable Development", and outlining the strategies and targets for combating climate change and achieving carbon neutrality, together with certain quantitative targets. The Institute supports Hong Kong's efforts to achieve carbon neutrality by 2050 and we are committed to helping the business community here to understand and adopt international sustainability reporting standards. The Government, regulators, as well as relevant industry organizations, should continue to promote sustainable development to the public and businesses, and drive and enforce the related regulations to enhance corporate sustainability performance and disclosure.

The Institute will continue its close collaboration with the Government and financial regulatory bodies to gradually develop a set of sustainability standards that suit Hong Kong's business landscape and solidify the Institute's role as the sustainability standard setter of Hong Kong. Having identified ESG-related knowledge as one of the key areas for upskilling members, the Institute has stepped up its efforts in providing relevant training to keep its members abreast of the latest developments in the area.

The Institute has long been a leading advocate of high standards of corporate governance and sustainability in Hong Kong, through our Best Corporate Governance and ESG Awards and related publications and research studies, the latest of which, *ESG Assurance in Hong Kong 2023: An evolving landscape*[3], was published in November 2023.

[2] https://www.eeb.gov.hk/sites/default/files/pdf/cap_2050_en.pdf
[3] https://www.hkicpa.org.hk/-/media/HKICPA-Website/New-HKICPA/Thought-Leadership/Reports/ESG-Assurance-Report-2023.pdf?la=en&hash=9DB41932B1990A8C86D17A5AB3DE9FB5

Meanwhile, in addition to proposing measures to help achieve long-term and interim decarbonization targets through green taxation and incentives, we put forward other measures to make Hong Kong a more liveable city, promote a healthier and more physically active community, foster a vibrant cultural scene, as well as to leave more money in the pockets of taxpayers so as to encourage increased consumer spending.

Theme IV: Building on our strengths – Reassessing Hong Kong's tax system

Reinforcing tax certainty in Hong Kong is crucial if we are to continue to attract multinational enterprises ("MNEs") and maintain our status as a business-friendly destination. Recent changes in the tax regime, prompted by international developments affecting Hong Kong, such as the Organisation for Economic Cooperation and Development ("OECD")'s base erosion and profit shifting ("BEPS") initiative and European Union ("EU")'s scrutiny of the foreign-sourced income exemption ("FSIE") regimes, have created uncertainties for taxpayers. Looking ahead, we suggest that the government engage stakeholders early in the discussion phase of legislative proposals, provide clear guidance on new tax laws, and ensure sufficient transition time for taxpayers to get prepared and adapt.

To ensure sustainable public finances, we continue to call for a more extensive review of Hong Kong's tax system. A review should also consider issues of tax certainty and the competitiveness of the tax regime, exploration of broader-based taxes to stabilize revenues, and regular monitoring of existing policies and incentives. We also make proposals for some reform of the framework for first-level tax appeals system.

In terms of new sources of revenue, we note elsewhere in this submission that the implementation of the BEPS 2.0 Pillar 2 rules in Hong Kong, together with the introduction of a Hong Kong domestic minimum "top-up tax", is expected to bring in some additional revenue.

****

To help Hong Kong write a new chapter and re-establish itself as one of the best places in the world to live, work and visit, the Institute is pleased to put forward its 2024-25 budget proposals, under the title of "Reinvigorate & Reinvent Hong Kong". The proposals are grouped under the four main themes outlined above with several subthemes, each containing a number of more detailed recommendations.

Theme I: Attracting investment and talent, encouraging new industries and entrepreneurship, and promoting the Hong Kong brand

Vast swathes of Hong Kong's economy were shut down before 2022 due to the travel restrictions and other COVID-19 related restrictions around the city. After its reopening, the economy started to bounce back in 2023. According to the Third Quarter Economic Report 2023, the Government Economist noted that Hong Kong's economy continued to revive in the third quarter of 2023, supported by inbound tourism and private consumption. Real GDP grew by 4.1% year-on-year, having increased by 1.5% in the preceding quarter. On a seasonally adjusted quarter-to-quarter comparison, real GDP increased by 0.1%. However, the recovery has not been as fast as anticipated and, taking into account the actual outturn in the first three quarters of 2023 and the near-term outlook, the real GDP growth forecast for 2023 as a whole was revised down to 3.2%, from 4%-5% in the August round of review.

Financial Secretary ("FS"), Mr Paul Chan, also warned in his blog on 17 December 2023[4]:

The external environment is fraught with challenges. In the year, we lowered our full-year forecast for Hong Kong's economic growth. In view of the substantial increases in government expenditure over the past few years and the real pressure on public finance, we will need to consolidate our expenditure and exercise more prudent control. That said, it is imperative to cater for the needs of the community and the underprivileged groups as well as to invest for our future. Therefore, we must open up new horizons through accelerating economic growth. Simply put, we must grow the pie. That means pursuing development to foster growth, which will open up new room and let us have new resources to address various needs.

In the latest World Competitiveness Yearbook 2023[5] published in June 2023 by the International Institute for Management Development, Hong Kong was ranked seventh globally (behind Denmark, Ireland, Switzerland, Singapore, Netherlands, and Taiwan), down two places from last year's ranking. Among the four competitiveness factors, Hong Kong continued to rank favourably in terms of government efficiency, and the ranking in infrastructure also improved. Yet, the ranking in business efficiency fell slightly and the ranking in economic performance dropped as the Hong Kong economy weakened notably and recorded negative growth in 2022. On sub-factors, the city continued to rank top in business legislation, and was in the top five in tax policy, international investment, international trade and technological infrastructure.

Meanwhile, according to the Global Financial Centres Index report[6] released in September 2023, Hong Kong maintained the fourth place globally. However, in terms of the business environment, human capital, financial sector development, and reputation, Singapore remains ahead of Hong Kong, giving it a slight edge and securing the third-place position. This indicates that the competition remains intense in the region. In December, the Asian Corporate Governance Association ("ACGA") released its latest *CG Watch 2023* market rankings. In what it referred to as "the biggest shakeup to the rankings in 20+ years", Japan climbed from equal fifth to second place in the survey, while Hong Kong dropped from equal second place to equal sixth.

Clearly Hong Kong is facing challenges and needs to work hard to change international perceptions and boost its image. We need to project and present a positive image of Hong Kong to the world and promote its strengths, achievements and opportunities, and highlight that the city is a good place where people from all backgrounds can achieve their ambitions and thrive.

[4] https://www.fso.gov.hk/eng/blog/blog20231217.htm
[5] https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-competitiveness-ranking
[6] https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/

We appreciate the Government's commitment to further enhancing Hong Kong's position amid keen global competition. Aside from leveraging on Hong Kong's distinctive advantages of enjoying strong support of the Mainland and Greater Bay Area cities and being closely connected to the rest of the world, the Government has been actively enhancing efforts to attract enterprises and investments to set up businesses in Hong Kong, with plans to step up investment in infrastructure, I&T, and the nurturing of talent, as well as increasing land supply, among other things, in order to provide a favourable environment for Hong Kong's long-term economic development. The establishment, in December 2022, of the Office for Attracting Strategic Enterprises ("OASES") is a positive step, in a bid to attract high potential and strategic enterprises from around the globe. It is encouraging to note that about 30 strategic companies have committed to setting up their businesses, investing around HK$30 billion and creating about 10,000 jobs in Hong Kong.

Apart from actively engaging with other jurisdictions to attract investment, it is important to ensure a favourable business environment and foster an atmosphere that remains conducive for businesses to invest and flourish in Hong Kong. Equally important is the need to create conditions that attract and retain talent in Hong Kong. By providing ample opportunities, attractive incentives, and a supportive ecosystem, Hong Kong can attract and retain skilled professionals who will play a vital role in driving its long-term success.

Against this background, we propose below a range of measures to help strengthen Hong Kong's competitiveness in attracting foreign investment and talent.

- **Attract foreign investment and enhance Hong Kong's business-friendly environment and promote the Hong Kong brand**

  Regional headquarters ("RHQs") tax incentives

  While Hong Kong is a leading international financial centre and regional business hub, Singapore has historically been a preferred location for multinational companies' RHQs in Asia, especially for those in the technology sector[7]. This might be attributable partly to the favourable tax incentives that Singapore offers to approved headquarters, which can enjoy a lower corporate income tax rate of 5% to 15% on qualifying activities, and 8% for corporate treasury centres ("CTCs"), for intra-group financing activities. In contrast, Hong Kong does not offer a concessionary tax rate for RHQs, and CTCs are taxed at 8.25% under the preferential regime introduced in 2016.

  In the Policy Address 2023, the Chief Executive spoke of developing a "headquarters economy":

  We will develop "headquarters economy" to attract enterprises from outside Hong Kong to set up headquarters and/or corporate divisions in Hong Kong, bringing in quality enterprises to explore the immense opportunities brought about by the national and international dual circulation. We will facilitate foreign enterprises to tap into the Mainland market, and also assist Mainland enterprises in expanding abroad. The HKSAR Government will explore with the relevant central authorities feasible measures to facilitate Mainland enterprises in setting up headquarters and/or corporate divisions in Hong Kong, such as arrangements for investments relating to capital account. (Policy Address, paragraph 54)

  We welcome this initiative, as well as the proposed introduction of a re-domiciliation regime in Hong Kong. To further encourage MNEs to establish RHQs in Hong Kong, we recommend the introduction of a more specific profits tax concession for RHQs.

[7] https://www.legco.gov.hk/research-publications/english/1920issh27-foreign-mainland-companies-setting-up-offices-in-hong-kong-20200605-e.pdf

Any preferential treatment of this kind would need to be consistent with the rules under BEPS 2.0 Pillar 2, which introduces of a global minimum effective tax rate of 15% on MNEs with a consolidated income of at least 750 million euros and which Hong Kong has committed to apply. Therefore, the Government should also consider providing some non-tax incentives, for example, providing subsidies to qualifying RHQs to hire or relocate high-quality talent, and/or for the rental costs of expatriate staff**.**

In addition, it is vital that the Government provides clarity and guidance regarding how the BEPS 2.0 rules will be implemented in Hong Kong. A number of other jurisdictions have already clearly set out their implementation plans and, in some cases, have already passed legislation. Given the significant impact on in-scope MNEs that Pillar 2 is expected to have and their need to plan ahead, it is imperative that Hong Kong clarifies the detailed approach to enable them to make informed strategic decisions and adapt their operations accordingly. In this regard, we welcome the recent launch of a consultation exercise on the *Implementation of Global Minimum Tax and Hong Kong Minimum Top-Up Tax* by the Financial Services and the Treasury Bureau ("FSTB").

Specific proposals

- ***Consider offering a 50% profits tax concession (i.e., a rate of 8.25%) for relevant profits derived by qualifying RHQs.***
- ***Consider other possible non-tax incentives, such as subsidies.***
- ***Continue to keep affected MNEs informed of the practical aspects of how the GloBE rules under BEPS 2.0 will be implemented in Hong Kong.***

Group relief

We continue to suggest that a form of group tax loss relief be introduced. This is available in other international financial centres, including the United Kingdom ("UK"), the United States ("US") and Australia and it could help to encourage the setting up of more RHQs in Hong Kong. To minimize the risk abuses, the transfer of losses could be restricted to, for example, current year unrelieved losses transferred from one wholly-owned group company to another. MNE groups will, in any case, need to be looked at on a consolidated basis under Pillar 2. Once this form of group assessment becomes part of the tax system in Hong Kong, there seems to be no strong reason to confine this facility only to large MNE groups.

Specific proposals

- ***Introduce a simple form of group loss relief.***

Introduce tax incentives for businesses in key industries, such as IT and "green" industries, and support entrepreneurship

We appreciate that the Government has been devoting considerable effort to promoting I&T development in recent years. The implementation of a series of measures on I&T infrastructure, nurturing talent, R&D promotion, start-ups and R&D commercialization, etc., together with the collaboration between the Government, industry, academia and research institutes, has laid a solid foundation for sustainable I&T development. Despite the various challenges encountered in recent years, the overall I&T ecosystem in Hong Kong has become increasingly vibrant, with enhancements in both quality and quantity, and it has already achieved some breakthroughs.

New energy technology is not only one of the major innovation areas in the new age, it is also a strategic emerging industry as set out in the 14th FYP. Advanced new energy technology industries can help combat climate change and take forward strategies to achieve carbon neutrality targets. Given the increased focus on sustainable development and the Mainland's world-leading role in green industries, this is one of the areas in which R&D should be encouraged in Hong Kong.

The Hong Kong Innovation and Technology Development Blueprint[8], issued in 2023, sets out a clear development path and formulates systematic strategic planning for Hong Kong's I&T development towards the vision of making Hong Kong an international I&T centre. Tax incentives can also play a useful role in facilitating this process.

There is a range of innovative green and sustainable tax incentives and supports available in other countries; for example, Japan provides tax credits or a special tax depreciation allowance for certain assets that contribute significantly to the reduction of greenhouse gases and Australia provides green tax incentives for the asset and wealth management sector.

The existing, but fairly limited, green tax incentives in Hong Kong include accelerated tax deductions on capital expenditure incurred by enterprises in procuring eligible energy-efficient building installations and renewable energy devices, 100% tax deduction on environmental protection machinery, environmental protection installations and environmentally-friendly vehicles, including hybrid and electric vehicles ("EVs"), in the year of purchase.

It is also important to encourage the development of industries that can contribute to the green economy and improve Hong Kong's sustainability credentials, as well as R&D in areas such as new energy sources and applications, energy conservation, and use of IT to create a more energy efficient and less wasteful society. Expanding and enhancing the range of green tax incentives in Hong Kong can further support the development of sustainable and environmentally conscious practices within the business community.

As noted above, preferential tax treatments will need to be compatible with the future rules under Pillar 2 of BEPS 2.0, but for start-up or other companies not linked to in-scope MNEs, this should not be an issue.

In addition, we suggest that support be shown for entrepreneurship in Hong Kong more generally, by offering a tax concession for some of the setting-up expenses incurred by standalone startups. This can help send a signal to young people, among others, that the community welcomes their efforts to develop their business and leadership skills by setting up their own companies.

Specific proposals

- ***Provide tax credits for start-up companies engaged in relevant IT businesses and green industries.***
- ***Consider introducing lower profits tax rates for qualifying IT and green industries for the first three years of profits (i.e., on top of the existing general concession on the first HK$2 million of assessable profits).***
- ***Provide tax concessions for company formation/ setting-up expenses, including capital expenditure, capped at HK$10,000, for standalone startups, (i.e., those not part of an existing group).***

Review the two-tier profits tax rate regime

A two-tier profits tax rates regime was introduced in 2018/19 to lower the tax rate to 8.25% for the first HK$2 million of assessable profits for corporations and unincorporated businesses. After five years of implementation and considering the slow pace of the economy recovery, we suggest the Government should review the effectiveness of the regime and consider

[8] https://www.itib.gov.hk/en/publications/I&T%20Blueprint%20Book_EN_single_Digital.pdf

adjusting the rate downwards and/or raising the threshold of $2 million to a higher level to reduce the tax burden on local businesses and further support their post-pandemic recovery.

<u>Specific proposals</u>

- **Review the effectiveness of the two-tier profits tax rate regime and consider adjusting the rate downwards and/or raising the threshold of HK$2 million to a higher level.**

Expand network of double taxation agreements

We understand that the Government has been making concerted efforts to expand Hong Kong's tax treaty network. However, the number of comprehensive avoidance of double taxation agreements ("CDTAs") in place is still well below that of other major jurisdictions (e.g., the Mainland, the UK, Japan and Singapore have each signed over 90 CDTAs, compared with 47 in Hong Kong). Hong Kong should continue efforts to negotiate with major trading partners and countries with which Hong Kong has an emerging trade relationship, including the US and Australia, as well as Association of Southeast Asian Nations members, Belt and Road and Middle Eastern countries.

<u>Specific proposals</u>

- ***Continue to expand Hong Kong's network of CDTAs, particularly with major trading partners* and *countries with which Hong Kong has an emerging trade relationship.***

Promote the unique Hong Kong brand and commit to an investment-friendly environment

In view of the keen competition among global economies, added to the negative perception of Hong Kong prevailing in various places around the world, Hong Kong needs to promote, consolidate and enhance its existing advantages, develop new edges and provide an all-round favourable business environment to attract overseas investment. In addition, it is important to review and monitor the effectiveness of Hong Kong's branding and communication strategies.

<u>The free flow of capital, legal system, judiciary and good governance</u>

The free flow of capital is Hong Kong's life blood, and common law system and the independence and impartiality of the judiciary are among Hong Kong's most important assets. All must be supported and upheld, as must good governance and freedom from corruption in both the public sector and the private sector. Inevitably, these cornerstones of Hong Kong society face pressures from time to time, but the Government must remain resolute in safeguarding them if Hong Kong is to thrive in the future.

<u>Business licensing and bank account opening procedures</u>

As an important part of the process of setting up a business in Hong Kong, licensing systems should be reviewed periodically to identify any unnecessary procedural hurdles and to see where further streamlining, including digitalization may be possible.

Businesses often complain about the difficulties in opening bank accounts in Hong Kong. As a member of the Financial Action Task Force and an international financial centre, Hong Kong needs to maintain, and to be seen to be maintaining, effective anti-money laundering and counter-terrorist financing controls. At the same time, a balance must be struck to ensure that while illegitimate businesses are discouraged from operating in Hong Kong, legitimate business are welcomed. It is not always clear that we have found the right balance. All parts of the Government including the regulatory agencies need to be pulling in the same direction.

Review of the listing regime and streamline the listing procedures

The Hong Kong Stock Exchange is facing tough challenges from other markets and Hong Kong's ranking in terms of initial public offerings ("IPOs") has also fallen, despite an anticipated inflow of Chinese companies switching their listing from the US to Hong Kong. Furthermore, some practitioners complain that the listing process is tilted in favour of large non-Hong Kong companies at the expense of local businesses, and concerns have been raised by SMEs that the regulators tend to be sceptical and, sometimes, heavy-handed in dealing with their applications. Recently, there have been reports of major international law firms laying off staff due to the lack of IPO activities in Hong Kong[9]. This situation raises concerns about the potential further loss of talent and impact on Hong Kong's reputation and status as an international financial centre.

Hong Kong Exchanges and Clearing Ltd. ("the Exchange") recently consulted on reform of the GEM, the secondary market in Hong Kong, which has stagnated in recent years. The Institute responded to the consultation. While we supported the proposals to reform the GEM, we also advised that it is important for the Exchange to articulate clearly the vision and ultimate objectives for the GEM going forward, addressing issues such as:

- Whether the GEM is intended to be primarily a stepping stone to the main board for early stage companies looking for funding, which aim to list on the main board once they achieve a sufficient level of growth and maturity; or mainly a liquid and vibrant market aimed at local and overseas SMEs, to encourage active trading in good quality SMEs.
- What types of investors the reformed GEM will be aimed at – institutional investors, private equity, corporates, professional investors, retail investors?
- With reference to other junior markets in the Mainland and overseas, how can the GEM differentiate itself, either in its overall positioning, or, if it is competing head on for the same business, its attractiveness?
- What key performance indicators should be adopted to measure its success and over what period?

While the Consultation Conclusions published in December 2023, to some extent, explain the Exchange's stance regarding the first two points, some doubt still remains about the positioning of the reformed GEM and the second two points.

At the same time in past submissions to the Government, including to the previous Chief Executive in the context of the Policy Address, we have emphasized the need to maintain high standards of corporate governance ("CG"), which is critical to the long-term success of our financial markets. Some concerns have already been expressed about recent market developments or proposals that could risk eroding investor protections in the quest for new business; examples include the expansion of weighted voting rights to corporate beneficiaries, waivers for secondary listings by companies with "non-compliant" structures (even where Hong Kong subsequently becomes their primary listing venue). As noted above, Hong Kong has dropped a number of places in the rankings in the ACGA's biennial *CG Watch* survey. The reasons for this need to be examined and, as far as possible, addressed. While Hong Kong should be aware of emerging developments and should be active in seeking to attract new investment, and open to exploring new business and fund-raising models, it cannot afford to be perceived as a market with declining standards of governance.

In order to address these important issues more thoroughly, we would suggest the Government consider asking the Task Force on Enhancing Stock Market Liquidity to consider them, if they have not already done so, or setting up a separate task force comprising government representatives, regulatory agencies, practitioners and industry representatives, including CG

[9] https://hr.asia/top-news/hong-kong/law-firm-layoffs-rise-in-hong-kong-as-china-business-slows/

experts, to conduct a review of these longer-term and fundamental aspects of the system and relevant regulation. Active engagement with market participants is crucial to gather insights and address concerns effectively.

Introduce a corporate rescue procedure

We would also urge the Government to proceed with the proposed statutory corporate rescue procedure ("CRP"), which was held up in 2021. Proposals for a statutory CRP were first put forward by the Law Reform Commission in 1996 and, despite several attempts to introduce legislation, we are no further forward today. A CRP could help companies with a sound business model that may be facing short-term cash flow issues. It would also facilitate cross-border restructuring and insolvency work, allow for mutual recognition of similar procedures overseas, and enhance Hong Kong's status as a modern international business hub. This is essential given the particular characteristics of the Hong Kong market, where so many listed as well non-listed companies doing business in Hong Kong are incorporated elsewhere. In addition, there can be few, if any, other major business and financial centres that do not have a formal CRP arrangement.

Review investment promotion strategies and tell the Hong Kong story

Given the evolving international tax environment, which will make it more difficult to rely extensively on tax incentives and a low tax regime to attract investment from MNEs in future, there is a clear need to review Hong Kong's investment promotion strategies and policies, in particular to consider the future role of tax and non-tax incentives. Consideration needs to be given to Hong Kong's positioning and to potential non-tax incentives and benefits, such as subsidies, that could be offered to boost Hong Kong's standing and reputation as a top-tier location for investment and place to live and work.

To this end, the Government should make use of a variety of channels and events to generate fresh, new and innovative ideas to attract business and investment. In addition to the setting up of OASES, we welcome the establishment of the Advisory Committee on Attracting Strategic Enterprises, comprising representatives from the business sector and community leaders, to provide advice to the Government on the overall approach to attracting strategic enterprises. To further enhance the effectiveness of such strategies, we suggest that the views of key stakeholders in different industry sectors be canvassed to ensure that government strategies and policies take into account the needs and priorities of the respective industries.

Linked to the above, investment promotion efforts are hampered while negative perceptions of Hong Kong continue to hold sway in some parts of the world. Although the Government has made significant efforts to reinforce Hong Kong's reputation as an international city and the Financial Services Development Council and Invest Hong Kong have launched a global marketing campaign, presenting Hong Kong's prospects and opportunities as a bridge connecting the Mainland and the rest of the world, continuous efforts need to be made to address the adverse publicity. We need to project and present a positive image to the world and highlight Hong Kong's strengths, achievements and opportunities, and that the city is a place where people can enjoy a good quality of life and can realize their ambitions and dreams. One of Hong Kong's traditional and unique strengths is its diversity and we should treasure and build on this facet of Hong Kong culture. We should promote Hong Kong as a vibrant, modern, sustainable and diverse community, and have policies in place to ensure that it can live up to this description. We need to tell the world the good Hong Kong stories, of people from all backgrounds who have succeeded and continue to thrive here.

Strengthen language skills

According to a report issued by Education First on English Proficiency Index 2022[10], Hong Kong has "high proficiency" and is ranked 31st globally. However, it was ranked 12th in 2011. There is a noticeable shift in the language landscape, indicating a decline in English proficiency over time. Meanwhile Singapore ranks significantly higher in 2nd place in terms of English proficiency. If this trend continues, it could well affect Hong Kong's competitiveness an international city, which, in a previous government campaign was branded as "Asia's World City." Despite Hong Kong's preferred image as a metropolis that combines different cultures and languages, according to the index, English proficiency here is also lagging behind that of Malaysia and the Philippines.

English remains an official language in Hong Kong and, in order to maintain Hong Kong's competitive edge as an international business, financial and trading centre, action needs to be taken to address perceptions of declining standards and use of English in the community. Meanwhile, in order to take full advantage of the opportunities generated by the Mainland's development, particularly in the GBA, attention also needs to be given to enhancing the general standard of Putonghua. This should be easier to achieve, given that the use and accessibility of Putonghua in Hong Kong is increasing all the time. The Government needs to support the objective of making Hong Kong truly a bi-literate (Chinese and English) and trilingual (Cantonese, Putonghua and English) society, by setting out its strategy and policies for achieving this, both within the formal education system and through support for good-quality language courses offered by other training institutes and adult education centres. This will help Hong Kong in fulfilling its role as a "super-connector" bridging the Mainland and global markets effectively.

To help address some of the issues identified above, we propose a range of measures, with the aim of creating an overall business-friendly environment in Hong Kong:

Specific proposals

- ***Commit to the free flow of capital and give assurances on the linked exchange rate system.***
- ***Support and uphold the common law system and an independent and impartial judiciary.***
- ***Keep business licensing arrangements under review and streamline and digitalize them, where possible, and review corporate bank account opening procedures.***
- ***Review the longer-term and fundamental aspects of the listing regime that may not have been considered so far by the Task Force on Enhancing Stock Market Liquidity. Uphold standards of CG and investor protection, while being open to new business and fund raising models.***
- ***Introduce a corporate rescue regime.***
- ***Review Hong Kong's investment promotion strategies and policies, and consider the future role of tax and non-tax incentives and benefits to attract investment.***
- ***Tell good Hong Kong stories and promote Hong Kong as a vibrant, modern, sustainable and diverse community, where people of all backgrounds can succeed and thrive.***
- ***Strengthen the standards of Putonghua and English.***

[10] https://www.ef.com/wwen/epi/

- **Attract and retain talent**

Addressing the brain drain and the talent gap, and encouraging child birth

Talent shortages

During the pandemic, Hong Kong experienced a significant outflow of talent, resulting in a workforce reduction of 210,000 individuals between 2019 and 2022. In 2022, Hong Kong's working population fell by 94,100[11]. Some productive people have continued to leave and take advantage of residence and immigration schemes overseas. More should be done to examine and address the causes of the brain drain at the same time as trying to attract new talent to Hong Kong.

According to the findings of Hong Kong General Chamber of Commerce's ("HKGCC") Talent Shortage Survey 2023[12], almost 75% of businesses in Hong Kong are suffering from the ongoing talent shortage, which is affecting a broad range of sectors. A total of 74% of respondents reported that they were wrestling with a shortage of talent, 61% of whom said they had been facing talent shortages for 1 to 3 years.

The survey revealed that the biggest shortfall in talent was for junior-level management at 59% and the top three reasons for resigning were desire for higher pay (79%), emigration (70%), and seeking a better work-life balance (51%). These findings indicate the challenges faced by employers in retaining talent and highlight the importance of addressing these concerns to mitigate further talent loss.

We acknowledge that the Government reviewed and expanded the talent list from 13 to 51 job professions across nine industry segments, under the Quality Migrant Admission Scheme, the General Employment Policy and the Admission Scheme for Mainland Talents and Professionals in May 2023. We also note the impressive number of applications and approvals under the various talent admission schemes, including the Top Talent Pass Scheme, although, at this stage, it still remains unclear how many of the approved persons will eventually come to Hong Kong and how many will stay in the long term.

Notwithstanding the above, we believe that more could still be done to attract and also retain talent in Hong Kong. For example, visa application procedures could be simplified and a green channel opened for GBA students to come to Hong Kong for internships.

In the longer term, the Government should consider providing subsidies and incentives (tax and non-tax) to both employers and employees. These measures would encourage businesses to invest in talent development, create a favourable working environment, and enhance employee retention.

Encourage child birth and attract overseas talent to raise their families in Hong Kong

According to the 2023 mid-year population statistics released by the Census and Statistics Department[13], Hong Kong's population rose by 2.1%, from 7,346,100 to 7,498,100, ending a downward trend since 2020. However, the number of births in Hong Kong has declined continually over the past five years, from 55,000 in 2017/18[14] to 32,600 in 2022/23[15]. With Hong Kong experiencing a record low fertility rate of 0.9 births per woman, legislators and academics have offered different recommendations to tackle the challenges. The downward

[11] https://www.chinadaily.com.cn/a/202310/13/WS6528ecd3a31090682a5e86ad.html
[12] https://drive.google.com/file/d/1hta_Ce8hMLl-UU9wGyti4ww5mTLLcIgj/view
[13] https://www.censtatd.gov.hk/en/press_release_detail.html?id=5265
[14] https://gia.info.gov.hk/general/201808/14/P2018081400417_290006_1_1534230860677.pdf
[15] https://gia.info.gov.hk/general/202308/15/P2023081500251_428780_1_1692085633294.pdf

trend has been effecting enrolments in schools and will eventually have an impact on the workforce, as well as exacerbating the ageing population situation. The newborn baby bonus, which will provide a one-off cash bonus of HK$20,000 for each baby born in Hong Kong on or after 25 October 2023, as announced in the 2023 Policy Address may serve as a short-term measure to encourage childbirth. This measure will last for three years and will then be reviewed. In addition to this, consideration could be given to increasing the general child allowances.

The "Families with Newborns Flat Selection Priority Scheme"[16] and "Families with Newborns Allocation Priority Scheme"[17], as announced in the 2023 Policy Address, should also serve to encourage more young couples to have children, although they will only benefit those on the waiting list for public housing or eligible to purchase subsidized housing. Meanwhile, the increased deductions under the home loan interest and domestic rent concessions from HK$100,000 to HK$120,000, proposed at the same time, for taxpayers who live with their first child, born as from the date of the Policy Address until the child reaches the age of 18 (see below), will benefit those living in private accommodation.

Besides the above, we believe the Government should take a holistic approach and develop more long-term policies to help create a more family-friendly society. Amid the sweeping changes to daily life and working environments triggered by the pandemic, many companies provided more flexible work models and utilized technology to adapt to the "new normal" in the workplace. In the post-Covid-19 environment around the world, some businesses have continued to adopt a hybrid work from home ("WFH")/ in office model, as a way to help employees maintain a better work-life balance and improve their physical and mental wellbeing. This is particularly important for working parents.

Furthermore, to encourage overseas talent to come to Hong Kong, bring/ raise their families here and stay for the longer term, which is also the aim of the extra stamp duty suspension arrangement for incoming talents' announced in the 2023 Policy Address, support should be provided for their children's education, where the local school system cannot accommodate their needs.

Encourage stay-at-home parents and skilled retirees to join/ return to the workforce

With an ageing population and a declining birth rate, Hong Kong's workforce is expected to shrink. At present, there are about 1.5 million older persons aged 65 or above and the number is projected to increase to 2.2 million in 2032. People are generally living longer nowadays than in the time when 60 or 65 was seen as a natural retirement age. Many people are still quite capable of working beyond this age and are willing to stay in employment. They should be given opportunities and encouraged to do so. On the other hand, despite women comprising the majority of university graduates, only around 53% of women are in the workforce in Hong Kong[18]. According to a Women's Foundation survey conducted in 2019[19], around 30% of women drop out of the workforce due to caring responsibilities, such as childcare and eldercare. To replenish its talent pool, the Government should take the lead in encouraging businesses to recognize the value of

[16] The Hong Kong Housing Authority ("HKHA") will introduce the "Families with Newborns Flat Selection Priority Scheme" to raise the chances for families with newborns to purchase subsidized sale flats ("SSFs"). Starting from the Home Ownership Scheme ("HOS") sale exercise in 2024, a quota of flats will be reserved for balloting and priority flat selection by family applicants with babies born today or after until the children reach the age of three. In each of the HOS or Green Form Subsidised Home Ownership Scheme ("GSH") sale exercise, an additional 10% of the total number of flats will be reserved for the purpose of selection priority.

[17] The HKHA will introduce the "Families with Newborns Allocation Priority Scheme" to advance the allocation of public rental housing ("PRH") flats for families with newborns. Under this scheme, applications of families that have babies born today or after will have their waiting time for PRH flats reduced by one year. This arrangement will take effect from April 2024.

[18] https://www.censtatd.gov.hk/en/web_table.html?id=210-06201

[19] https://twfhk.org/sites/default/files/twg_gender_infographic_pdf.pdf

having older workers and women with children in the workforce and to create a supportive and inclusive work environment that seeks to maximize the potential of the community.

The 2023 Policy Address proposed strengthening support for working families in their childbearing stage to unleash their labour power, including increasing the household and child allowance under the Working Family Allowance Scheme by 15%, increasing child care centre places and allowances, extending the after-school care programme for pre-primary children to cover all districts, and strengthening the home-based child care service. We acknowledge these efforts and we propose and hope to see further initiatives to support and incentivize stay-at-home parents to transition back to the workforce.

The Government could also lead the way in encouraging experienced and skilled retirees to stay in or return to the workforce by raising the standard retirement age in the civil service to 65 years old, with an option to stay on until, say, 68. Those within that bracket who have already retired and who are interested to return to full- or part-timework should be considered for re-engagement.

With this in mind, we propose that the following measures be considered:

Specific proposals

- ***Examine the causes of the brain drain, and take step to address them and explore effective ways to encourage working age people to stay in or to return to Hong Kong.***
- ***Consider providing subsidies or tax concessions, such as double deductions, to key industries facing labour shortages so that employers can offer more competitive salaries to attract talent.***
- ***Consider non-tax incentives to encourage and support talent mobility between Hong Kong and the GBA. For example, incentives could be offered to developers to build hostel accommodation for young GBA and overseas professionals and/or subsidies could be given to employers to provide housing allowances.***
- ***Simplify the visa application procedures and open a green channel for GBA students to come to Hong Kong for internships during the peak seasons in the accounting and other sectors.***
- ***Increase the child allowance for newborn babies under salaries tax.***
- ***Incentivize businesses (i) to allow WFH for employees in the first one or two years after the birth of their children through e.g., subsidies for upgrading IT infrastructure support for remote working and carrying out cybersecurity audits and (ii) where WFH is not practicable, provide an allowance for new parents to engage a helper for the first one or two years of their children's lives, where both parents are working full time, for up to three children per family; or an equivalent amount for child care/ crèche services. Encourage employers to implement other family-friendly policies, such as creating suitable spaces for breastfeeding on site.***
- ***Provide an allowance for the private education of the children of overseas talent, up to a certain limit annually.***
- ***Encourage family-friendly policies, e.g., flexible working arrangements such as part-time work, WFH, seasonal employment and flexible retirement.***
- ***Offer incentives to employers who hire and retain older employees. The Government should take the lead in generally increasing the retirement age to 65, with an option to stay on until, say, 68, for both civilian and disciplined service officers.***

Develop the skills of the workforce

To support members of the workforce who want to upgrade their skills and thus improve their opportunities and competitiveness, we suggest allowing more flexible use of the deduction for self-education expenses, currently capped at HK$100,000. We suggest expanding the scope of the deduction to cover expenditure incurred by a taxpayer's dependants, if they are not eligible for a deduction in their own right.

Furthermore, we recommend that the Government consider subsidizing employers to send employees on qualifying courses to upgrade their skills in areas that are most in demand, such as the I&T field. In addition, any such training should not be treated as a taxable perquisite in the hands of employees.

As businesses are becoming more reliant on technology, it is important for workers to be well-trained in using new technology. The provision of free online training programmes on the usage of popular system software and application software could be one approach to help them to upgrade their skills effectively for self-enhancement and employment.

Specific proposals

- ***Expand the deduction for self-education expenditure to cover expenditure incurred by a taxpayer's dependants, if they are not eligible for a deduction in their own right***
- ***Subsidize employers to send employees on qualifying courses to upgrade their skills***
- ***Offer targeted training programmes and career counselling services to support stay-at-home parents and older people to update their skills and explore potential career paths / job opportunities.***

Theme II: Encourage research & development, intellectual property business, and digitalization

- **Incentives for R&D and IP development**

One of the roles envisaged for Hong Kong under the 14^{th} FYP, is an IP trading hub. However, responding to the concerns of the EU over possible double non-taxation arising from tax exemptions for offshore passive income in Hong Kong, the Government made a commitment to refine Hong Kong's foreign-source income exemption ("FSIE") regime for passive income. The refined FSIE regime came into force on 1 January 2023, but, due to subsequent changes in the scope of the EU FSIE guidance at the end of 2022, it needed to be further extended to also cover gains from disposals of assets other than shares or equity interests, such as IP and debt instruments, regardless whether such gains are revenue or capital in nature, by the end of 2023. The relevant legislation was gazetted on 8 December 2023 and took effect on 1 January 2024.

For foreign-sourced IP income that is received in Hong Kong, the nexus approach adopted by the OECD is now used to determine the granting of tax exemptions. While income from certain IP rights (i.e. patents and patent-like IP) may continue to be non-taxable, the legislation has resulted in a very limited scope of non-taxable offshore IP income. This is likely to discourage companies from establishing IP-related businesses in Hong Kong.

Over the past few years, numerous stakeholders, including the Institute, have been calling for enhancement of the IP regime (including considering a "patent box" regime) in Hong Kong to incentivize more R&D and foster the development of I&T. Therefore, we are pleased to see that the Government responded to these calls and conducted a consultation in September 2023 to gauge stakeholders' views regarding the design of a proposed patent box regime. The patent box regime could serve as a valuable complement to the enhanced tax deduction regime for qualifying R&D expenses introduced in 2018. It will provide additional incentives for the creation and trading of IP assets in Hong Kong, alongside the R&D activities that support them, and help to boost Hong Kong's competitiveness as a regional and international I&T hub and IP trading centre.

That said, we believe that, as far as possible, a holistic view should be taken towards encouraging the growth and development of I&T and R&D in Hong Kong. As such, in addition to the proposed patent box regime, we hope that the Government will continue to explore enhancements to other IP and R&D-related tax rules that may impact taxpayers' decisions on locating or expanding their IP business in Hong Kong. We are referring to measures such as the existing deduction rules in respect of IP-related and R&D costs; for example, the restrictions on deductions for the acquisition costs of IP assets acquired from associates and payments for outsourced R&D activities carried out by persons other than "R&D institutions", as defined in the Inland Revenue Ordinance ("IRO") should be revisited. In fact, we believe that it is vital that these rules be enhanced for the proposed patent box regime to work effectively.

The Singapore Government announced in its Budget 2023 that it will introduce the Enterprise Innovation Scheme ("EIS"), to enhance the existing tax measures and introduce a new measure to encourage businesses to engage in R&D, innovation and capability development activities. In brief, the EIS provides enhanced tax deductions and allowances for various IP-related activities, such as R&D, IP registration, IP acquisition and licensing, training, and innovation, for a broader range of IP assets, including trade secrets or information that has commercial value, which may not be legally protected or subject to approval. It appears, therefore, that Hong Kong's regime is less comprehensive and offers less generous tax benefits for IP-related activities. To maintain Hong Kong's competitiveness, in future, the Government may need to take stock of new developments elsewhere, such as the EIS, and consider introducing additional tax benefits, such as super deductions on other types of IP-related expenditure. It is not a matter of matching other regimes measure for measure, but taking a step back and assessing whether, taken as whole, Hong Kong's IP regime is genuinely competitive.

At the same time, sounding a slight note of caution, while the aim of the proposal is, ultimately, to attract more business overall to Hong Kong, the Government will need to weigh up the expected impact of implementing a patent box regime, including the potential reduction of tax revenues from IP income and the additional complexity in the legislative framework, as well as any uncertainties for taxpayers and the IRD, that may arise from any lack of clarity and possible variations in assessing practice.

In addition to the patent box tax incentive, we welcome other measures proposed in the Policy Address, including the latest amendments to the Copyright Ordinance to strengthen copyright protection in the digital environment, and the Hong Kong Trade Development Council's initiatives to enrich the Hong Kong International Film and TV Market, Hong Kong International Licensing Show and Hong Kong Book Fair and Asia IP Exchange portal, with more trading elements, so as to strengthen support for local original works to exploit the Mainland and international markets. Apart from the above tax incentives and initiatives, the Government should also explore other possible non-tax support measures, to help create an environment conducive for businesses to invest in R&D and IP in Hong Kong. These measures may include, among other initiatives, a comprehensive talent strategy to attract and retain R&D talents, the provision of financial subsidies to bolster R&D infrastructure, the streamlining of IP registration procedures and simplification of requirements for application documents, etc. We propose consideration of the measures set out below.

<u>Specific proposals</u>

- ***Take a holistic view of the IP and R&D tax and non-tax regimes with a view to enhancing them, including the following:***
  - ***Consider R&D tax credits for start-up businesses or BEPS-compliant "Qualified Refundable Tax Credits", where appropriate.***
  - ***Modify the enhanced R&D tax deduction rules taking into account the real commercial constraints of businesses engaged in R&D activities that are unable to enjoy the existing deduction (normal or enhanced).***
  - ***Relax the anti-avoidance provisions under the IP deduction rules to allow genuine commercial transactions to enjoy the benefits, e.g., deductions for costs of acquiring IP from associates, IP licensed to another person for use wholly or principally outside Hong Kong, and for the costs of outsourced R&D activities.***
- ***Provide non-tax support for local R&D activities, including possible financial subsidies to encourage more local R&D.***
- ***Extend the coverage of tax and non-tax incentives to R&D activities undertaken in the GBA, including considering allowing the enhanced R&D deduction to be applied to R&D expenditures incurred on qualifying R&D activities undertaken in GBA cities.***

- **<u>Supporting small and medium-size enterprises ("SMEs") in their digital transformation</u>**

There are over 340,000 SMEs in Hong Kong, constituting more than 98% of our businesses and employing about 45% of the workforce in the private sector. It is expected that more SMEs will need to undergo digitalization in the coming years to ensure the sustainability of their businesses. They will also be asked to play their part in Hong Kong's transformation to a carbon neutral economy in the longer term and, in this regard, digitalization can help them move away from paper-based processes and operate more sustainably. Following the Government's Smart City initiative, set out in the second edition of Hong Kong's Smart City Blueprint[20], the deployment of secured cloud services, big data and artificial intelligence ("AI") should also be encouraged. Although there are various IT support schemes to help SMEs with digital transformation, they tend to provide one-off project-based subsidies, while SMEs may also require continuing digitalization support.

Funding for IT support and/ or training

With limited resources and funds, it has become more difficult for SMEs to recruit suitable IT personnel in recent years. Apart from seeking non-local talent, SMEs may also consider outsourcing vendors or using AI to perform manual tasks. Therefore, we suggest that consideration be given to providing SMEs with time-limited (i.e. up to 36 months) support to hire an IT specialist to facilitate their general digital transformation. This should extend to engaging an accounting professional to help them upgrade their accounting systems in readiness for the implementation of a mandatory electronic tax filing ("e-filing") system, which is currently under development. The proposed funding should also be able to be used by SME proprietors to up-skill their employees', or their own, skill sets to improve their IT capabilities.

An arrangement could be put in place along the lines of the Research Talent Hub for Innovation and Technology Fund projects ("RTH-ITF")[21] under the Innovation and Technology Commission, with an emphasis on engaging more experienced IT (post) graduates and specialists.

In practice, flexible working arrangements that allow employees to work remotely could also help companies hire overseas talent without necessarily requiring them to work in Hong Kong. Given the current shortage of IT professionals in Hong Kong, this could also offer a partial solution for companies and may even allow departing Hong Kong professionals to continue to do work for their existing employers in some cases. However, smaller organizations may not be able to afford the costs of new hardware, networks and technologies, including cyber security safeguards, to support employees working remotely. Consideration should be given to providing support to SMEs to (i) upgrade systems and equipment, (ii) provide technical and infrastructure support (including computers, software, Wi-Fi networks, etc.) to remote working employees, including WFH parents (see also *Theme I* above).

Set up a dedicated fund, or expand the Continuing Education Fund to cover practical training in IT and digitalization

We would also suggest establishing a more focused version of the Continuing Education Fund ("CEF"), or expanding the CEF, to cover practical training for company staff and proprietors in IT and digitalization. In addition to increasing digital awareness, SMEs' awareness of other related areas, including cyber security and data protection, also needs to be strengthened.

Provide funding to promote adoption of AI and data analytics projects

Hong Kong's I&T sector, together with that of Shenzhen and Guangzhou (i.e. the Shenzhen-Hong Kong-Guangzhou science and technology cluster), ranks as the world's second-

[20] https://www.smartcity.gov.hk/
Second edition: https://www.smartcity.gov.hk/modules/custom/custom_global_js_css/assets/files/HKSmartCityBlueprint(ENG)v2.pdf
[21] https://www.itf.gov.hk/en/funding-programmes/nurturing-talent/research-talent-hub/research-talent-hub-for-itf-projects-rth-itf-/index.html

performing cluster according to the Global Innovation Index 2023[22]. Biotechnology, AI, smart city and financial technologies were identified as the four key areas for Hong Kong's I&T industry. We have suggested above that green technology and sustainability should also be an important area in the future. In terms of applications, financial technology or "fintech", smart city and smart home, health care and big data applications are among the most popular sectors[23].

Currently, there are 17 funding schemes under the Innovation and Technology Fund, supporting R&D, facilitating technology adoption, nurturing technology talent, supporting technology startups and fostering an I&T culture, etc. To nurture the ecosystem and encourage a wider digital adoption in Hong Kong, we suggest to extending the funding schemes to AI and data analytics projects, which are two major development areas in Hong Kong. The Government may draw reference from Singapore's Artificial Intelligence and Data Analytics Grant[24], which is open to small Singapore-based financial institutions and FinTechs, and introduce and expanded version for selected industries.

Feedback suggests that the applications for the various funding schemes involve quite onerous procedures and that the process can take over one year. We suggest consolidating these different funding schemes where possible, and simplifying and expediting the approval procedure. Consideration should be given to establishing a central contact point or "one-stop shop" to assess potential applicants, and advise them on the most efficient route to apply for the most relevant support programmes.

To enhance the overall digital transformation in the business community and strengthen Hong Kong as an I&T centre, the Government should consider the following measures:

<u>Specific proposals</u>

- ***Subsidize SMEs to obtain time-limited IT support (e.g., up to 36 months) to hire a specialist, which could include engaging an accounting professional to help them upgrade their accounting systems in readiness for the tax e-filing regime.***
- ***Support SMEs to (i) upgrade systems and equipment, and (ii) provide technical and infrastructure support (including computers, software, Wi-Fi networks, etc.) to support remote working employees, including, where applicable, WFH parents (see also Theme I above). This could also enable IT assistance to be delivered remotely, if need be.***
- ***Establish a dedicated fund, or expand the CEF, to cover practical training for company staff and proprietors in IT and digitalization.***
- ***Extend funding schemes under the Innovation and Technology Fund to cover AI and data analytics projects. Consolidate the many different funding schemes, where possible, and simplify and expedite the approval procedure. Consider establishing a "one-stop shop" to assess and advise potential applicants on the most suitable funding schemes for them.***

<u>Make good use of the e-filing system for taxation</u>

Since early 2021, the IRD has been undertaking a two-phase project on the e-filing of profits tax returns. In the first phase, the existing eTAX Portal has been gradually enhanced to enable more businesses to voluntarily file profits tax returns electronically, together with their financial statements and tax computations. In the second phase, a new Business Tax Portal will be developed by 2026 for the e-filing of profits tax returns, initially by large companies with the ultimate goal of achieving full-scale implementation of mandatory e-filing by 2030.

[22] https://www.wipo.int/export/sites/www/global_innovation_index/en/docs/gii-2023-clusters-top100-ranking.pdf
[23] https://research.hktdc.com/en/article/MzEzOTIwMDIy
[24] https://www.mas.gov.sg/schemes-and-initiatives/Artificial-Intelligence-and-Data-Analytics-AIDA-Grant

Any e-filing system needs to be user-friendly and compatible with the way business is conducted and how businesses and their professional advisers interact. We expect that the system should help to improve efficiencies and align Hong Kong with international best practices. With the above in mind, the Institute made submissions on government consultations on the proposed Taxonomy Package, aimed at facilitating the electronic submission of financial statements and tax computations in inline eXtensible Business Reporting Language ("iXBRL") format, and on further proposals for taking forward the e-filing project, as well as on the legislation providing the platform for e-filing. We also took part in the trial run of iXBRL Data Preparation Tools and provided feedback to the IRD in early 2023.

The IRD should continue to solicit feedback from the market and the profession on the design and operation of the system and improve and fine-tune the system as appropriate. The IRD should also explore the best way to use the data gathered through the e-filing system, so as to streamline tax administration and enhance their services. They should also be transparent as to their usage of the data.

Encourage early adopters by providing appropriate incentives

To let corporations and businesses familiarize themselves with the iXBRL tax filing requirements, voluntary e-filing of profits tax returns, together with financial statements and tax computations in iXBRL format, was rolled out in April 2023. This should give taxpayers and practitioners the opportunity to be able to familiarize themselves with the e-filing system, as well as the IRD Taxonomy Package and the iXBRL Preparation Tools, during the three-year transition period before the implementation of mandatory e-filing for some taxpayers, in 2026. This will allow users to solve any technical issues at an early stage and reflect their concerns/ comments on the system to the IRD as early as possible. However, we understand that the take up of voluntary e-filing has been slow, as taxpayers and tax representatives are not incentivized to try using the system. Therefore, to pave the way for the implementation of mandatory e-filing, the Government should offer incentives, like significantly extended filing deadlines and additional tax rebates, to encourage taxpayers to use the e-filing system at an early stage.

Leverage the data collected through e-filing

The data received from e-filing should be leveraged to improve services and streamline the system for taxpayers and their representatives.

Under the current Hong Kong tax legislation and regulatory framework, it can take considerably more than six years for taxpayers to settle field audit and tax investigation cases with the IRD. Taxpayers, therefore, need to retain documents for many years to corroborate their cases. Changes in employees or business owners may make it more difficult to provide supporting evidence, thereby disadvantaging taxpayers.

Upon the full adoption of e-filing of profits tax returns for businesses, all companies, including inactive and loss-making companies, will be required to perform annual tax filing or submit their accounts. With all the financial and accounting data collected in a system, less manual effort will be needed and the IRD should be able to analyse tax data more efficiently. As the IRD's review process can be accelerated, we propose that the statutory limitation period be reduced to three or four years (from the current six years) after the end of a particular year of assessment. This again could be used as another incentive to adopt e-filing. In addition, we suggest amending the tax law to give statements of loss the same status as notices of assessment. This will increase certainty for taxpayers and investors and reduce their compliance costs. Shortening the limitation period would also help speed up the collection of tax underpaid in field audit and tax investigation cases. To cope with the more extensive work, the IRD should also strengthen its audit resources and capabilities.

Specific proposals

- ***Continue to collect feedback from the market and the profession on the design and operation of the e-filing system.***
- ***Provide early adopters with appropriate incentives, such as a significant, e.g., two- or three-month, extension of the tax filing deadline, early tax refunds, additional tax rebates, etc.***
- ***Leverage the data provided by e-filing to improve services and streamline the system, by, for example:***
  - ***reducing the statutory time-bar period for finalization of tax affairs to three or four years, and according a statement of loss the same status as a notice of assessment;***
  - ***strengthening the IRD's tax audit capabilities and shortening timeframes for audits.***

- **Support for STEAM (science, technology, engineering, the arts and mathematics) education**

To support the development of Hong Kong as an international I&T hub, in line with the 14th FYP, in the 2023 Policy Addresses, the Chief Executive referred to further strengthening the promotion of STEAM education in primary and secondary schools. STEAM and I&T education play a pivotal role in nurturing a new generation of young people to become a force in I&T in the future. Setting up campuses in the Mainland and overseas through joint ventures can also be considered to promote the exchange of I&T talent and expertise between Hong Kong and these areas.

Specific proposals

- ***Support schools and universities to attract the best talent in STEAM education and to enter into joint venture and co-operation arrangements with the top education institutions in the Mainland and overseas.***

- **Improve transport data exchange and mobility**

While Hong Kong's transport system has been renowned for its excellent infrastructure and efficiency, road users can find only limited integrated information, and data exchange within the transport sector is relatively uncommon. In order to realize the objective of being a smart city, Hong Kong needs to provide real time data in relation to traffic and transport information. In 2018, an all-in-one mobile application "HKeMobility"[25], integrating Transport Department's three previous mobile applications ("HKeTransport", "HKeRouting" and "eTraffic News"), was launched to facilitate fast and convenient search for routes of different transportation mode, journey times and fares, to enable the users to plan for the most appropriate travel arrangements. It also provides real-time traffic conditions and parking information, so that users can plan their journeys in advance or switch to alternative routes. However, despite having a robust system in place, many citizens and travellers are not fully aware of its existence, advantages and capabilities. As a result, people tend to rely on other alternative options ran by private companies such as Citymapper[26] and Google Maps and some may rely on separate transportation apps operated by different traffic operators, even though they may not be as reliable and informative as HKeMobility. To address this, the Government needs to promote the use of the system and raise awareness among the public. They should also consider taking reference from other private apps in order to

[25] https://www.hkemobility.gov.hk/en/route-search/driving
[26] https://citymapper.com/company

further enhance its capabilities and value to better meet the needs of users on an ongoing basis. For example, the application should be expanded to also incorporate additional features, such as EV parking information.

With the prevalence of new technologies, various electronic payment systems have gained popularity in Hong Kong. The Octopus card, for example, is widely adopted, with over 95% of Hong Kong residents utilizing it for seamless transactions while travelling, shopping, and dining, without the hassle of using cash. To align with this trend, we recommend the Government actively encourage public transport operators, including taxis, to install functionality to accept a variety of electronic payment systems, which is commonly the case in developed markets overseas. By expanding payment options, Hong Kong can provide even more efficient public transport services, offering passengers, including visitors, convenient and flexible payment options that cater to their preferences and enhance their overall commuting experience. While we understand that from January 2024, taxis accepting Octopus card payment will, through this, also be able to accept Alipay and UnionPay, so far, the Octopus payment facility has not been widely installed in taxis in Hong Kong.

Specific proposals

- ***Promote and optimize the use of HKeMobility, an integrated traffic data analytics system, by incorporating additional features and better promote use of the system.***
- ***Encourage public transport operations, including taxis, to install functionality to accept a range of different electronic payment systems.***

Theme III: A happier and healthier community in a greener Hong Kong

- **Measures for a happier and healthier community**

Education, health services and social welfare account for a large part of government expenditure. An ageing population and increasing dependency ratio are among the challenges that Hong Kong faces, which will inevitably lead to increases in health and social welfare costs. While we welcome the Primary Healthcare Blueprint[27] launched by the Government in December 2022, this is likely to take some years to come to full fruition. In the meanwhile, the public health services will remain under strain.

Encourage to adopt a healthy lifestyle

According to the Population Health Survey 2020-22 conducted by the Department of Health[28], about one in four adults (24.8%) aged 18 or above in Hong Kong had insufficient physical activity based on World Health Organization's recommendation in 2018-19, up from 13% in 2014-15. In addition, about 14.9% of the Hong Kong population aged 15 or above reported sitting or reclining for 10 hours or longer every day. The outbreak of Covid-19 exacerbated the problem, owing to closure of some sports facilities and cancellation of sports events.

Participation in sport can help relieve stress, build team work and positive spirit of competition, and also help foster other desirable qualities, such as sense of fair play and respect for others. Given the increasingly sedentary lifestyle of many young people, it is important to find ways to channel some of their energy into other more active, recreational outlets. In addition, given the increasingly good performances of Hong Kong's elite athletes in international events, who can serve as role models, it is an opportune time to encourage children and young people to develop a sporting culture. In addition, engaging in regular physical activity brings numerous physical and mental health benefits to individuals, including improved cardiopulmonary function, strengthened muscles and bones, and a reduction in symptoms of anxiety and depression. It also helps lower the risk of various non-communicable diseases such as high blood pressure, type 2 diabetes, heart disease, stroke, and certain types of cancers. Therefore, encouraging people to adopt a healthy lifestyle can in the longer help alleviate the burden on the public health system and ensure that essential services are accessible to those who are most in need.

In the Primary Healthcare Blueprint, the Government is committed to enhancing district-based primary healthcare services in a bid to shift the emphasis of the present healthcare system and changing people's mindset from treatment-oriented to prevention-oriented.

Against the above background, we propose the following measures:

Specific proposals

- ***Increase efforts to promote, and encourage people to adopt, a more healthy lifestyle and reduce the burden on the public healthcare system.***
- ***Introduce a tax deduction for expenses on approved sports courses and activities for taxpayers and their dependants, of up to HK$12,000 per person.***

[27] https://www.healthbureau.gov.hk/download/press_and_publications/otherinfo/221200_primary_healthcare/e_primary_healthcare_blueprint.pdf
[28] https://www.info.gov.hk/gia/general/202306/23/P2023062300224.htm

Enhance the Voluntary Health Insurance Scheme ("VHIS") and the Elderly Health Care Voucher Scheme

To help relieve the pressure on the public healthcare system and provide the public with an additional choice of using private healthcare services through hospital insurance, the VHIS was launched in 2019. Taxpayers who, or whose spouse, is the policyholder of a policy issued under a Certified VHIS Plan may claim tax deductions up to HK$8,000 per insured person for the premiums paid. Since premiums generally vary by age and gender, we recommend increasing the annual cap to HK$12,000 per insured person to encourage more people, especially those aged 60 or above to participate in VHIS policies. Since the VHIS covers only insurance products that provide hospital insurance protection of an indemnity nature, bought by individuals for themselves and their families, the Government should consider extending the scope to other programmes, such as outpatient services.

The Government launched the Elderly Health Care Voucher Scheme[29] in 2009 to provide subsidies for eligible elderly persons to access private primary healthcare services that best suit their health needs. Currently, vouchers can be spent on healthcare services provided by medical practitioners, Chinese medicine practitioners, dentists, nurses, physiotherapists, optometrists, etc. Since 2014, the annual voucher amount has been HK$2,000 and the Government provided an additional one-off HK$1,000 voucher amount to each eligible elderly person in 2018 and 2019 as a budget measure during the pandemic. There is no restriction on the number of years that an elderly person may carry forward unspent vouchers, but the unspent amount cannot exceed the accumulation limit of HK$8,000. Starting from July 2023, eligible senior citizens can share the vouchers with their spouses. As stated in the 2022 Policy Address, the Government will also extend the coverage and roll out of a pilot scheme to encourage use of primary healthcare services through increasing the annual voucher amount from existing HK$2,000 to HK$2,500, with conditions.

<u>Specific proposals</u>

- ***Increase the maximum tax deduction allowable for qualifying premiums paid under the VHIS Policy to HK$12,000 per each insured person.***
- ***Consider extending the scope of VHIS to additional programmes (e.g., outpatient services).***
- ***Review and adjust the amount and accumulation limit of vouchers under the Elderly Health Care Voucher Scheme annually, or at least more regularly.***

Arts and culture, and sports

The Culture, Sports and Tourism Bureau[30] ("CSTB") was established on 1 July 2022 to integrate subjects relating to Hong Kong's culture, sports and tourism sectors. The mission of the CSTB is to enhance Hong Kong's position as an East-meets-West centre for international cultural exchanges, as envisaged in the 14th FYP, reinforcing Hong Kong's leading position in the international arts market and facilitating the development of arts, cultural and creative industries. Bringing these subjects together could generate synergies to promote Hong Kong as an international hub for arts and cultural events more effectively. Among other events, we are pleased to note that Guangdong, Hong Kong and Macau will co-host the 15th National Games, the 12th National Games for Persons with Disabilities and the 9th National Special Olympic Games in 2025. It will deepen the collaboration between Hong Kong and other GBA cities and help attract tourists to the region.

[29] https://www.hcv.gov.hk/en/hcvs/service_area.html
[30] https://www.cstb.gov.hk/en/about-us/our-portfolio.html

The Government should continue to expand its support for holding more international arts, cultural and sports events to promote international exchanges, by providing additional subsidies to international exhibitors and performers. In order to enhance the interaction of culture and tourism, the Government should also promote local events such as the Hong Kong Arts Festival, Hong Kong Food Festival, etc. more actively to overseas visitors. For example, free/ discounted admission tickets and shopping coupons could be distributed to visitors. In this respect, we welcome the setting up of Mega Arts and Cultural Events Fund, as announced in the 2022 Policy Address and acknowledge the funding already in place for major sports events. However, we believe there is still scope for supporting other international events that may not be sufficiently large scale to benefit from this funding.

To enhance cultural life and the creative arts, Hong Kong also needs to continue to actively foster a vibrant and creative local arts scene, and not only promote international events and the international arts market. There must be scope for local artists to express themselves. This requires an environment that is genuinely open to a diversity of perspectives and channels of expression. In this regard, any boundaries should be made clear and the Government should give a more definite signal to the local arts scene that artistic expression is welcomed.

<u>Specific proposals</u>

- ***Encourage and support the holding of more international arts, cultural, and sports events and exchanges in Hong Kong, which may not be eligible for existing funding schemes aimed at large-scale events, including by offering subsidies to international exhibitors/ performers.***
- ***Continue to actively foster and support the development of a vibrant and diverse local arts and culture scene*****.**

Supporting the community

Since 2019, Hong Kong has consistently held the title of the world's most expensive city for expats, as reflected in Mercer's Cost of Living survey[31], while the ECA International's Cost of Living Rankings for 2023[32] indicated that Hong Kong has been overtaken by New York.

Hong Kong changed in rankings as the increase in prices of day-to-day goods and services was tempered by falls in accommodation costs in the city. However, the cost of living here remains high overall. Moreover, CLP Power and the Hongkong Electric Company increased their price of electricity by 6.4%[33] and 5.5%[34] respectively in 2023, based on November 2022 tariffs (representing a year-on-year rise of 19.8% and 45.6% respectively) as they faced increasing costs due to the uncertain outlook of the international energy market. While, following the 2023 interim review of the Scheme of Control Agreement, the net tariff have been reduced again in January 2024 compared with the January 2023 prices, by 7.4% for CLP and 16% for Hongkong Electric, this still represents a substantial increase from the tariffs two years ago and the underlying fuel prices have been volatile in recent years. Families' financial burden may be further increased with the implementation of Municipal Solid Waste Charging on 1 April 2024.

On the business front, Hong Kong's food and beverage industry is expected to face a challenging environment due to elevated costs of living, ongoing supply issues and labour shortages, coupled with the recent trend of more Hong Kong people crossing the boundary to spend their weekends in Shenzhen, due to the lower prices and improvements in the

[31] https://www.mercer.com/en-hk/insights/total-rewards/talent-mobility-insights/cost-of-living/#full-ranking
[32] https://www.eca-international.com/news/june-2023/hk-falls-one-place-to-2nd-most-expensive-location
[33] https://www.clp.com.hk/content/dam/clphk/documents/tariff-adjustment-20221/Tariff2023_PressRelease_ENG.pdf
[34] https://www.hkelectric.com/en/media/press-releases/year-2022/hk-electric-2023-tariff-adjustments

quality of service in the Mainland. The community will continue to need some help in the present general economic climate.

In relation to the increased for deduction home loan interest or domestic rents to HK$120,000, for taxpayers living with their first child, to encourage child birth, as announced in the 2023 Policy Address (see above), we propose that some increase be offered all taxpayers to, at least, HK$110,000, due to the high rental costs in Hong Kong as well as the highest mortgage interest rate over the past couple of years. This will also help to provide some relief to people who are in a "negative equity" situation with their property, the number of whom has increased substantially over the past one to two years. Such an increase would not only alleviate the burden on taxpayers but also assist overseas talent in renting or purchasing property in Hong Kong.

Therefore, to help alleviate the ongoing burden on taxpayers and other members of the community, we propose the measures below.

<u>Specific proposals</u>

- ***Provide a tax reduction of 100%, subject to a ceiling of HK$12,000, on salaries tax, tax under personal assessment and profits tax for 2023-24.***
- ***Provide a rates concession for properties for three quarters, subject to a ceiling of HK$1,500 per quarter.***
- ***After the introduction of a progressive rating system for domestic properties, consider restricting the rates concession to properties in lower band rates charges only.***
- ***Grant an electricity charge subsidy of HK$1,000 to each residential and commercial electricity account. This should be done in conjunction with promoting energy conservation measures.***
- ***Consider increasing all taxpayers' tax deduction ceiling for home loan interest and domestic rents from HK$100,000 to at least HK$110,000***.

Review and rationalize personal allowances

The amount of personal allowances under salaries tax and personal assessment have not been revised since 2018/19. The basic personal allowances should be increased in line with inflation.

The Government should also review and rationalize the allowances for dependants. Allowances for children and other dependants have been revised at various times over the past decade or so, with different levels of increases for each. Pending a review, generally, the allowances for dependants should also be increased at least in line with inflation. Following any review, future adjustments should be made on a more transparent and consistent basis. Where there are sound policy, or other, reasons for differential adjustments, these should also be made clear. As suggested above, this could, for example, involve larger increases for child allowances to encourage more couples to have children

<u>Specific proposals</u>

- ***The basic personal allowances should be increased, at least in line with inflation, as this can help leave more money in consumers' pockets.***
- ***A review of the allowances for dependants should be carried out and, following the review, any future adjustments should be made on a more transparent and consistent basis.***

- **General policies to promote sustainability in Hong Kong**

  The World Meteorological Organization has officially confirmed that, globally, 2023 was the warmest year on record, by a huge margin, globally[35]. Global average sea level has continued to rise over the past 30 years, reaching a record high in 2023. Various extreme weather events continued to batter different parts of the world, including heatwaves, blizzards, severe drought and extreme rainfall-triggered flooding.

  In September 2023, Hong Kong was also hit by the heaviest rain in 140 years, causing widespread flooding in the densely populated areas. Authorities shut schools "due to extreme conditions" and told workers to stay at home as streets, shopping malls and metro stations were submerged. We are all affected and Hong Kong must continue to play its part in combating global warming. The Government has committed to achieving carbon neutrality by 2050. As noted above, the CAP, issued in October 2021, outlines the strategies and targets for combating climate change and achieving carbon neutrality, together with certain quantitative targets. Under the CAP, the Government will pursue more vigorous interim decarbonization targets, to reduce Hong Kong's carbon emissions by 50% before 2035 as compared with the 2005 levels.

  The CAP focuses mainly on the continuation and improvement of existing policies. To strengthen these policies, the Government should formulate a science-based, long-term comprehensive climate policy, such as long-term carbon reduction strategies, which should include researching low-carbon power generation technology, exploring the possibility of using more renewable energy, and looking into energy storage and other technologies.

  Support for recycling in Hong Kong is also patchy. There is a need for a more coordinated set of policies in this area, which can help both to reduce waste and also change mindsets and influence lifestyle choices within the community. With an increasing number of EVs on the roads, among other things, we need to develop policies on the recycling of EV batteries.

  In the coming years, the Government is embarking on major infrastructure projects, such as the "Northern Metropolis". Hong Kong's carbon neutrality targets need to take these into account and they should make use of eco-friendly materials, processes and designs in the development of future-ready infrastructure. The work itself should as far as possible avoid contributing adversely climate change and the infrastructure should be future-ready and adapted to a hotter future. In the light of recent developments and incidents, the public will also look to government to do its utmost to ensure safe work conditions for construction workers and ensure confidence in the reliability of environment impact assessments, and the oversight of other aspects of the work, so as to avoid huge cost overruns, while ensuring quality and the proper use of public funds.

  In terms of ESG development, the Institute will be the standard setter for sustainability reporting standards in Hong Kong, building on our experience and well-developed infrastructure as the local standard setter for financial reporting, auditing and ethical standards. As such, we are committed to ensuring that our members are up to speed with corporate sustainability disclosure and reporting standards, both from the preparers' and the assurers' perspective. As also noted previously, the Institute already issued, in December 2020 (and recently revised) initial guidance to members on the assurance of ESG reporting. As noted earlier, in November, we published a study on the status of ESG assurance among listed companies in in Hong Kong, including observations and recommendations, which was an update and extension of our 2021 study on ESG assurance.

[35] https://wmo.int/media/news/wmo-confirms-2023-smashes-global-temperature-record#:~:text=The%20World%20Meteorological%20Organization%20(WMO,record%2C%20by%20a%20huge%20margin

While education and certifications for professionals in the field of ESG and sustainable finance are relatively new in the market, they are important to train up talents in these fields. There are some choices of training and certificate programmes, but the information is scattered and not well organized. We believe the Government could promote some designated training programmes and certification schemes for ESG and sustainable finance more actively, so that participants can be assured that the training and certificates will be recognized by relevant bodies.

While environmental factors, such as green buildings, have been the primary focus of ESG initiatives across various sectors, it is crucial to recognize the importance of addressing social and governance criteria for the successful implementation of a comprehensive ESG framework. While efforts to reduce carbon footprints in offices remain the main focus of ESG conversations, importance should also be placed on promoting wellness, inclusion, and equity. The shift in how and where people work during the pandemic has underscored the need for increased flexibility in office design. Enhancing the social aspects of ESG can contribute to maintaining a content, productive and healthy workforce, as well as attracting and retaining talented individuals. By addressing all three pillars of ESG, businesses can demonstrate their commitment to sustainability, social responsibility, and ethical business practices. In doing so, they can attract and retain talent, as well as investors, who prioritize ESG considerations. Given the significance of the social aspect, we recommend that the Government and regulators initiate research on the social aspects of ESG and consider establishing guidelines and benchmarks for companies to adhere to. This would further encourage businesses to incorporate robust social initiatives into their ESG frameworks, fostering a more sustainable and responsible business environment.

Against the above background, we propose consideration of the following policies to promote more sustainable development in Hong Kong:

<u>Specific Proposals</u>

- ***Revisit the blueprints and roadmaps previously published. e.g., in the CAP, to establish effective interim targets and ensure Hong Kong is not falling behind.***
- ***Establish policies to support renewable energy targets and technologies, including supporting businesses to adopt more sustainable practices and ESG standards, and expanding the feed-in tariff arrangements, etc.***
- ***Further explore the development and use of alternative energy in Hong Kong, such as green hydrogen and, where feasible, facilities and plants for testing.***
- ***Ensure major infrastructure projects incorporate sustainability goals in terms of planning, processes, materials and designs, etc. and that construction meet the highest quality and safety standards.***
- ***Develop a more coordinated set of policies on recycling. Consider incentives for downstream recycling, waste-to-resources/ energy infrastructure (e.g. subsidies on land costs and facilities); and explore and encourage activities such as the use of recycled building materials, and second-life applications of EV batteries.***
- ***Promote training programmes and widely accepted certification schemes for ESG, climate action including sustainable finance professionals. Extend or regularize the Pilot Green and Sustainable Finance Capacity Building Support Scheme to promote training to build up the local green and sustainable finance talent pool.***
- ***Research into the social aspects of ESG and consider establishing guidelines and benchmarks for integrating social considerations into business practices.***

- **Measures in specific areas**

(A) Electric vehicles and green public transport

Over the past few years, resources have been allocated in the budget to take forward the building of a green city and implement a range of measures on various fronts to combat climate change. In June 2021, the Government announced the Clean Air Plan for Hong Kong 2035, setting out the vision under the slogan "Healthy Living - Low-carbon Transformation - World Class". The Clean Air Plan covers six major areas of action, namely green transport, liveable environment, comprehensive emissions reduction, clean energy, scientific management and regional collaboration. Concurrently, the Government committed in the 2022-23 budget that it would continue to promote new energy transportation so as to further enhance air quality.

Private cars

In 2021, the Government issued the Hong Kong Roadmap on Popularisation of Electric Vehicles[36], and introduced a series of measures and targets, such as stopping the registration of fuel-propelled private cars (“PCs”) in 2035 or earlier; promoting trials for electric public transport and commercial vehicles, including buses, public light buses, taxis and goods vehicles, and striving to legislate a producer responsibility scheme for retired EV batteries in the next few years.

We are pleased to note that over 60% of newly registered private cars (“PCs”) in the first half of 2023 were EVs (“e-PCs”). To further facilitate the popularization of EVs, the Institute would reiterate that the infrastructure for EVs needs to be further enhanced, including installing fast charging stations in convenient locations. As at September 2022, there were about 5,300 public chargers in the 18 districts of Hong Kong, among which over 2,200 were offered by the Government and the rest established by private organizations. Among the others, a total of 54 Housing Authority carparks are currently installed with EV charging facilitates at the selected hourly parking spaces [37]. We recommend that the Government expand EV charging facilities to all carparks under the Housing Authority.

We strongly support the Government’s initiative in the 2023 Policy Address to increase the number of public and private parking spaces with charging infrastructure to about 200,000 by mid-2027. To further enhance the convenience and accessibility of charging facilities for EV drivers, we suggest that real-time information on the availability of these public EV chargers should be provided in the HKeMobility application, as proposed in *Theme II* above.

In order to meet the demand, in the 2022-23 budget, the FS announced additional funding of HK$1.5 billion, on top of the original HK$2 billion for the EV-charging at Home Subsidy Scheme[38], which subsidizes private building owners to install charging stations in car parks of existing private residential buildings, to extend the scheme for four years to 2027-28. It is anticipated that the funding will be able to support installation of an EV charging-enabling infrastructure for around 140,000 parking spaces in 700 car parks in existing private residential buildings. While supporting the extension of the scheme, there is feedback that the application process can take as long as 2.5 years. Therefore, we suggest that the procedure be reviewed and that the approval process be expedited and streamlined.

We note that, given the rapid take up of e-PCs in Hong Kong in recent years, there has been some discussion on discontinuing the first registration tax (“FRT”) concessions for

[36] https://www.evhomecharging.gov.hk/downloads/ev_booklet_en.pdf
[37] https://www.housingauthority.gov.hk/en/common/pdf/commercial-properties/leasing-information/parking-spaces/ev_charging_facilities_en.pdf
[38] https://www.evhomecharging.gov.hk/en/

them. Currently, purchase of e-PCs can benefit from a waiver of up to $97,500 of the FRT, or, under the “One-for-One Replacement" Scheme[39], PC owners who arrange to scrap and de-register their own eligible old PC with an internal combustion engine or e-PC and then first register a new e-PC can enjoy a waiver of up to $287,500. These concessions are due to end on 31 March 2024. We recommend that these concessions remain in place, even if the caps are reviewed. In our view, it would send the wrong signal now to discontinue the concessions at a time when all purchasers of new PC should be encouraged to switch to e-PCs. The success of the concession is self-evident and, as noted above, the Government is planning to end the registration of fuel-propelled PCs by 2035, so, in the intervening time, purchasers of PCs should continue to be incentivized to make the transition earlier

Commercial vehicles and public transport

In terms of commercial vehicles, while the Government targets to introduce about 700 electric buses and 3,000 electric taxis by end-2027, other new energy vehicles should also be explored with a view to achieving zero emissions by 2050. According to a survey conducted by the Hong Kong Productivity Council, with the assistance of the City University of Hong Kong, 55% commercial vehicle operators are willing to switch to hydrogen-fuelled vehicles if the operating costs are not 20% higher than the existing ones[40].

The Government committed in the 2023 Policy Address that it will make every effort to promote the use and supply of new energy in sea, land and air transport, so as to spearhead green transformation of the relevant trades. To encourage the trial and wider use of green innovative transport technologies, the Government injected an additional HK$800 million to the New Energy Transport Fund[41] to extend its scope in 2020. We are pleased to note that Hong Kong’s first hydrogen buses commenced services in October 2023 alongside the city’s first hydrogen refuelling station, the core equipment of which has been completed and accepted by Citybus. Citybus advised that they will be introducing no fewer than five hydrogen buses with an estimated range of over 400 km in 2024, in support of the Government’s plan to test hydrogen, electric and diesel buses in parallel. The company is also planning to build a second hydrogen refuelling station on Hong Kong Island, which will provide hydrogen refuelling services for its production model hydrogen double deck buses. However, the plan is still pending the Government’s approval[42].

We understand that the Government will formulate the Strategy of Hydrogen Development in Hong Kong in the first half of 2024, and commence the preparatory work for the necessary legislative amendments pertaining to the production, storage, transportation and application of hydrogen fuel with a view to introducing a bill into the Legislative Council in 2025. To allow the industry to participate more actively in testing both battery-electric and hydrogen vehicles in parallel on Hong Kong roads, we look forward to the announcement of hydrogen policies, including a roadmap and long-term goals, establishing a clear and consistent regulatory framework, and providing economic incentives for clean hydrogen gas producers, hydrogen refuelling station operators, and certification organisations, in addition to policy support for infrastructure development. We also urge the Government to work closely with the industry in expediting the legislative process.

Currently, not all internal combustion engine vehicles can be replaced with EVs or a new energy equivalent. In the meanwhile, efforts should continue to be made to have older polluting vehicles removed from Hong Kong’s roads.

[39] https://www.td.gov.hk/en/public_services/licences_and_permits/vehicle_first_registration/new_frt_concessions_for_electric_vehicles_2018/index.html
[40] https://www.hkpc.org/en/about-us/media-centre/press-releases/2023/hk-hydrogen-economy-report-survey-result
[41] https://www.epd.gov.hk/epd/english/environmentinhk/air/prob_solutions/new-energy-transport-fund.html
[42] https://www.thestandard.com.hk/breaking-news/section/4/205694/Hong-Kong%E2%80%99s-first-hydrogen-buses-and-refueling-station-expected-to-operate-in-October

E-motorcycles

In view of the increasing popularity of using electric mobility devices ("EMDs"), e.g. electric scooters, in recent years, the Government intends to update the law with a view to providing a proper regulatory framework for EMDs and embracing new technologies and innovations for personal mobility. Meanwhile, we suggest that the Government review the speed limit and put forward practicable ways for law enforcement in order to strike a balance between promoting technological advancements and ensuring public safety on the roads.

Further, we propose that the Government encourage the establishment of battery swapping stations for e-motorcycles, while also providing financial support and fostering collaboration among stakeholders. This initiative will promote the wider adoption of EMDs and help reduce reliance on fossil fuels for short road trips within the city.

Battery recycling

We propose the development of a more coordinated set of policies on recycling to enhance waste management practices and promote sustainability. Among other things, the Government should actively support and incentivize the development of second-life applications for EV batteries. In addition to extending the producer responsibility schemes[43] to EV batteries, as announced in the 2023 Policy Address, this can also be achieved by encouraging the reuse of these batteries in various energy storage systems, thereby extending their lifespan and reducing waste. Additionally, measures such as providing subsidies and support for R&D in the field of EV battery recycling should be considered. With such initiatives, Hong Kong can enhance its sustainable battery practices, minimize the environmental impact, and foster a circular economy in the EV sector.

Sustainable shipping industry

We welcome the Government's proposals to promote the sustainable development of the maritime industry and to develop Hong Kong as a green and smart port, as well as addressing the decline in the competitiveness of Hong Kong's ports.

We propose, therefore, the specific measures below in relation to green transport.

Specific proposals

- ***Expand the EV charging facilities to all public housing estate carparks.***
- ***Continue with and expand the EV-charging at Home Subsidy Scheme and streamline and expedite the approval process.***
- ***Continue to offer first registration tax concessions for private car EVs.***
- ***Continue to encourage and support public transport operators to explore and test the application of green innovative transport technologies, e.g., hydrogen fuel cell EVs.***
- ***In the short term, and where there are no EV or new energy alternatives, adopt, as a minimum, the Euro VI emission standard for all commercial vehicles and consider further incentives for replacement of Euro IV and V vehicles.***
- ***Legalize and support the use of EMDs, including electric scooters.***
- ***Encourage the setting up of battery swapping stations for e-motorcycles.***
- ***Develop policies on the recycling and reuse of EV batteries.***

[43] https://www.epd.gov.hk/epd/english/environmentinhk/waste/pro_responsibility/index.html

(B) Green buildings

In recent years, many countries have introduced green building certification systems to provide indicators for building performance and encourage the adoption of low-carbon construction methods for structures that are newly built, undergoing renovation, or already occupied. Common green building certification systems in Hong Kong include the Leadership in Energy and Environmental Design (LEED[44]) by the US Green Building Council and BEAM Plus[45] New Buildings by the Hong Kong Green Building Council. Buildings in Hong Kong constitute the largest source of energy usage. The CAP notes: "Buildings account for about 90% of Hong Kong's total electricity consumption, and over 60% of our carbon emissions are attributable to generating electricity for our buildings". However, new buildings that are not very energy efficient are still being constructed, while green building codes, such as BEAM Plus, in Hong Kong, remain voluntary. While the energy conservation measures mentioned in the 2022 Policy Address focused only on the government buildings and infrastructure, we were pleased to note the commitment in the 2023 Policy Address to consult the trade on the proposal of amending the Buildings Energy Efficiency Ordinance, including extending the scope of regulation to more types of buildings. We believe that the measures should be extended to the private sector and the Government should explore incentives to drive the development of more private green buildings.

As stated in the 2023 Policy Address, the Government will promulgate a roadmap for full adoption of Building Information Modelling ("BIM") in the preparation and approval of building plans for private development projects. We recommend a more proactive promotion of the use of BIM in private new building development projects as it can improve building quality by optimising planning and designs, improving coordination, reducing construction waste, and enhancing workers' safety. The Housing Department has already recognized the value of BIM as one of the important tools for the development of public housing projects. In addition, BIM can calculate the residential thermal transfer value of building envelopes, based on light transmittance and external reflectance of the glazed portions, thereby improving energy performance of the buildings and help create a more environmentally-friendly and sustainable built environment.

Tighten the gross floor area ("GFA") concession

In relation to non-tax incentives, a gross floor area ("GFA") concession[46] (capped at 10% of the total GFA of the development) is currently granted to buildings meeting only the minimum standards for BEAM Plus certification, and performance verification post-occupancy is not required. This means that it is not providing motivation to developers to pursue higher-tier ratings or to strive for more energy-efficient designs. Therefore, we suggest the scope of this incentive should be reviewed and it should be modified to encourage developers to obtain higher green building ratings.

In this regard, we note and support the call from Civic Exchange[47] to tighten the GFA concession requirements by setting a higher BEAM Plus rating[48] (e.g., the silver level) and adding two pre-requisites: (a) providing a Life Cycle Analysis for the building before its occupation permit is issued, and (b) committing to join an annual energy efficiency reporting

[44] https://www.usgbc.org/leed/why-leed

[45] https://www.hkgbc.org.hk/eng/beam-plus/beam-plus-new-buildings/index.jsp

[46] Hong Kong implemented a policy on green and innovative buildings in 2001 to allow green features such as balconies, communal podium gardens and sky gardens to be exempted from the calculation of the GFA of residential development projects. Later the Buildings Department included BEAM Plus as one of the prerequisites for seeking GFA concession. Besides, a 10% cap was imposed on the amount of concession. For more details, see: https://www.bd.gov.hk/en/resources/codes-and-references/notices-and-reports/GFA.html

[47] https://civic-exchange.org/wp-content/uploads/2020/06/Hong-Kong-2050-policy-report_Final-20200626-1.pdf

[48] BEAM Plus is a rating standard that would give the building a rating such as Platinum, Gold, Silver and Bronze. For building energy code, it would only give a building a "Comply" or "Not comply" status. For more details, please see https://www.hkgbc.org.hk/eng/beam-plus/beam-plus-faq/faq.jsp.

programme if one is established in Hong Kong. This would be an extension of Buildings Department's existing web publication of GFA concession compliance information. Furthermore, arrangements should be put in place to monitor approved projects regularly and introduce sanctions for subsequent non-compliance.

Incentivize buildings that adopt environmental best practices

In addition to considering mandating key elements of green building codes in new building and incentivizing/ subsidizing retrofitting and/or developing best practice standards for energy-efficient buildings in Hong Kong, providing enhanced commercial ("CBA") and industrial building allowances ("IBA") for new commercial and industrial complexes that adopt approved, environmentally-sustainable, designs could be another effective means to encourage developers to build greener, more energy-efficient buildings.

Extend commercial and industrial building allowances beyond 25 years for refurbished buildings that retrofit more sustainable features

In the 2022 Annual Meeting between the Institute and the IRD[49], the IRD confirmed that, since the combined effect of sections 33A to 36 of the IRO was to grant relief in respect of the capital expenditure incurred on construction within a period of not more than 25 years, there was no provision for granting relief for the capital expenditure incurred by the buyers of industrial or commercial buildings more than 25 years old. Therefore, where the relevant interest in a commercial building constructed before the year of assessment 1998-99 is sold for a consideration after the year of assessment 2023-24, while the seller would be subject to a balancing charge on the amount of the sale money (restricted to the allowances previously made to the seller), the buyer would not be entitled to any annual allowance on the residue of expenditure immediately after the sale. This asymmetric tax treatment results in an incongruent situation that at least part, if not the whole, of the capital expenditure incurred on construction will not be relieved, even though the building has all along been used for the purpose of producing profits chargeable to tax during the 25-year period.

In light of the advancements in construction technology over the years, it is not uncommon that buildings are still in good condition and in use even after the 25-year period. In particular, given that a significant number of pre-1998-99 commercial buildings are still in use and the year of assessment 2023-24 is already upon us, we would ask the Government to consider granting relief to buyers in the above situations. This incentive would be in line with the policy on refurbishing old industrial and commercial buildings. In order to support Hong Kong's progress towards higher levels of sustainable development, this concession could be tied to buildings that retrofit more sustainable, e.g., energy-efficient, features.

Based on the provisions in the IRO, the annual allowance for a used building is calculated by dividing the residue of expenditure immediately after the sale by the number of years of assessment comprised in the period that begins with the year of assessment in which the sale takes place, and ends with the 25th year after the year of assessment in which the building was first used (or the 25th year after the year of assessment 1998-99 for a pre-1998-99 commercial building). In these cases, we suggest that the Government consider allowing the buyer to claim the entire amount of the residue of expenditure immediately after the sale as annual allowance in the year of acquisition, by deeming the denominator of the fraction (which is not a positive figure) to be one.

[49] https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section5_membership/Professional-Representation/tb18.pdf

Incentivize owners of old residential buildings to renovate their buildings sustainably

There are many older residential buildings in Hong Kong in need of renovation and repair. However, owners may be put off by the potential costs involved, despite any legal obligations that they may have to ensure the safety of their property. Therefore, we suggest that they be encouraged to undertake environmentally-friendly renovation work. One option would be to consider leveraging on the Common Area Repair Works Subsidy offered by Building Rehabilitation Platform (an all-in-one information platform managed by Hong Kong Building Rehabilitation Facilitation Services Limited, a subsidiary company of the Urban Renewal Authority), which has a Green Item Subsidy.

<u>Specific proposals</u>

- ***Tighten the GFA concession by setting a higher BEAM Plus rating and introduce sanctions for subsequent non-compliance.***
- ***Promote the use of BIM in private new building development projects.***
- ***Adopt best practice standards for energy-efficient buildings in Hong Kong, mandate some requirements, and introduce enhanced IBAs and CBAs for buildings that follow these standards (e.g., an initial allowance of 25% and an annual allowance of 5% for industrial buildings and, say, an annual allowance of 6.5% for commercial buildings).***
- ***Extend CBAs and IBAs beyond 25 years for refurbished buildings that retrofit more sustainable, e.g., approved energy-reducing, features.***
- ***To encourage owners of old residential buildings to undertake environmentally-friendly renovations, consider leveraging on the Common Area Repair Works Subsidy ("CARWS") scheme and, for example, increasing the Green Item Subsidy by 50% while also providing a reduced level of subsidy for buildings exceeding average annual rateable value limits to be eligible for CARWS.***

(C) Green finance

The 14th FYP supports the development of Hong Kong as a green finance centre in the GBA. We welcome the initiative to develop Hong Kong as a regional green and sustainable finance hub, including encouraging institutions to conduct relevant investment, financing and certification activities and attracting top-notch institutions and talents to Hong Kong to provide the relevant services. By leveraging its advantages as an international financial centre, Hong Kong can facilitate matching between international capital and quality green projects, as well as propelling Hong Kong towards its carbon neutrality target by 2050 and promoting green transformation of the economy.

Hong Kong's green and sustainable debt market has been expanding rapidly over the past few years. In the 2023-24 Budget, the Government announced a further expansion of the Government Green Bond Programme to cover sustainable finance projects. Since 2019, the Government has successfully issued around to US$24 billion worth of green bonds under the Programme. Hong Kong's successful issuance of the world's first tokenized government green bond worth around US$100 million in February 2023 also marked an important milestone in combining green finance and Fintech. The Green Bond Framework[50], which was first published in March 2019 and is applicable to the Government green bond issuances, was updated in February 2022 to reflect the Government's latest commitments and strategy, and to align with the latest international standards and practices in the green bond market.

The dedicated Fintech Proof-of-Concept Subsidy Scheme for green Fintech to be launched in the first half of 2024, as announced in the 2023 Policy Address, is another positive development, we believe early-stage funding support for pre-commercialized green finance technologies can

[50] https://www.hkgb.gov.hk/en/greenbond/greenbondframework.html

catalyse market innovation and help to foster a more extensive innovation and technology ecosystem. The Government's plan to publish a Hong Kong Green Fintech Map, providing information on the around 1000 green fintech companies and related services available here, will also be welcomed by the market.

Regulatory framework/ independent and transparent benchmarks for the certification of green financial products

It is clear from the measures referred to above that active steps are being taken to develop Hong Kong into a regional and international green finance hub. In order to give this initiative greater credibility, we would encourage the development of, a more extensive regulatory framework/ set of coordinated, rigorous and transparent benchmarks for the certification of green financial products, and verification of sustainable projects to ensure that any products issued under the framework will genuinely contribute to decarbonization, or other relevant environmental objectives, and avoid the risk of being labelled as "greenwashing". In this regard, we note and support the calls for Hong Kong to develop its own green taxonomy and the Hong Kong Monetary Authority's May 2023, *discussion paper* on *Prototype of a Green Classification Framework for Hong Kong*[51]. We understand the work is now underway.

Core Climate: Voluntary international carbon trading platform

In October 2022, the Exchange announced[52] the launch of a new international voluntary carbon trading platform, namely Core Climate, which seeks to connect capital with climate-related products and opportunities in Hong Kong, the Mainland, Asia and beyond. Core Climate will provide a one-stop solution for trading, custody and settlement of voluntary carbon credits and facilitate effective and transparent trading of carbon credits and instruments to support the global transition to carbon neutrality. Carbon credits on the platform will come from internationally-certified carbon projects from around the world, including carbon avoidance, reduction and removal projects. All projects listed on Core Climate are verified against international standards, such as the Verified Carbon Standard by Verra[53].

We welcome the Exchange's commitment to building an integrated ecosystem and international "first class platform" in Hong Kong, and support the setting up and further development of an integrated carbon marketplace in Hong Kong to address the needs of stakeholders across the climate value chain.

Deduction of the costs incurred on purchasing renewable energy credits ("RECs")

Taxpayers may purchase RECs or carbon credits on a voluntary basis as a means to lower their carbon footprint, or meet their greenhouse gas emission goals. For example, a business group can purchase RECs from the market in a year to match its electricity consumption relating to business operations/ activities in that year with an equivalent amount of energy produced in renewable energy projects. The purchase of RECs will generate a renewable energy certificate, indicating the estimated amount of carbon emissions that has been avoided in that year. To encourage more taxpayers to participate in ESG initiatives, we suggest that the Government should give consideration to deeming such expenses, possibly up to certain limits, to be connected to the profit-earning processes of the taxpayer's business, where the connection may not sufficiently clear cut to qualify automatically as deductible expenses, and allowing a deduction on the costs incurred on purchasing appropriately certified RECs or carbon credits by companies

[51] https://www.hkma.gov.hk/media/eng/doc/key-information/guidelines-and-circular/2023/20230530e1a1.pdf
[52] https://www.hkex.com.hk/News/News-Release/2022/221028news?sc_lang=en
[53] https://verra.org/programs/verified-carbon-standard/

chargeable to Hong Kong profits tax. Such deductions should also be extended to the costs shared among group companies in relation to the purchase of RECs or carbon credits.

Specific proposals

- ***Develop a more extensive regulatory framework/ set of coordinated, rigorous and transparent benchmarks for the certification of green financial products and verification of sustainable projects. This could be part of a green taxonomy for Hong Kong.***
- ***Allow a deduction on the costs incurred on purchasing appropriately certified RECs or carbon credits, possibly up to certain limits, where the connection to profit-producing activities may not sufficiently clear cut for these to qualify automatically as deductible expenses.***

Theme IV: Building on our strengths – Reassessing Hong Kong's tax system

- **Increase tax certainty**

In addition to a low-rate and relatively simple tax regime, certainty of tax treatment has been another important factor of the tax system affecting the overall attractiveness of Hong Kong as a place of investment for MNEs. However, there have been numerous changes in Hong Kong's tax regime in recent years, often brought about by international developments, such as the BEPS initiative, which has global implications, and, recently and more specifically for Hong Kong, the call by the EU for a review of Hong Kong's FSIE regime for passive income, aimed at addressing aspects of it that could be considered to be harmful tax practices. These developments have created uncertainties, particularly for MNEs and, where there have been consultations on the implementation of such proposals in Hong Kong, they have tended to come at a later stage in the discussion when there is little room left for change, and sometimes certain important questions can remain unresolved.

The refined FSIE regime is a case in point. The arrangements negotiated and agreed with the EU have resulted in a number of new tax-related concepts being introduced in Hong Kong, representing significant new developments, and, as a result, Hong Kong's territorial source principle of taxation will no longer be as straightforward as it was previously. The way in which the refined FSIE regime will interact with the existing preferential regimes also needs to be explained clearly. MNEs need sufficient time to understand the details, and to review their existing investment holding structures and operating models, in order to assess whether they can preserve their existing tax exemptions. We appreciate the more consultative approach adopted by the Government in further refining the FSIE regime in light of the further updated Guidance on FSIE Regimes promulgated by the EU in December 2022. The Government should also keep stakeholders posted about the progress of the negotiations and continue to keep MNEs and tax practitioners well informed about how the refined FSIE regime will be administered.

Representatives of the Taxation Faculty met the FSTB and the IRD and welcome the efforts made by the Government to gather views from stakeholders. Similarly, we would urge that the taxpaying community be involved as early as possible during the discussion phase of future legislative proposals (including those relating to different aspects of the BEPS 2.0 initiative), so that they can provide feedback on the real practical impact of the proposed changes. This, in turn, can inform the discussions and negotiations at the international level and enable stakeholders to better prepare themselves for any the changes that may to be made.

We have previously suggested that the Government should consider engaging more outside expertise from the tax and commercial fields on an ongoing basis, either within the more formal government structure, such as the Tax Policy Unit, or in an informal advisory/ consultation groups. We reiterate this suggestion here.

Improve tax appeals system

Back in 2008, in the case of ING Baring Securities (Hong Kong) Ltd v Commissioner of Inland Revenue ("CIR"), CFA questioned whether the existing structure of the Board of Review ("BoR") properly facilitated the hearing of complex tax appeals and whether it was time to establish a full-time tribunal staffed with permanent members. In response to the request by the Government for views on the future of the BoR and its role in the appeal procedures for taxation cases, the Institute issued a letter to list out various recommendations with the aim of enhancing the administration of justice. We note that the

Joint Liaison Committee on Taxation also issued a letter to the then Financial Secretary in this matter in 2008. However, so far, no further steps have been taken to bring reform to the tax appeals system.

In addition, as noted above (Theme II) there are concerns regarding the 6-year limitation period, during which CIR has the right to issue an additional assessment, potentially resulting in a higher tax amount than the taxpayer originally reported in their tax return. We understand that a 6-year time bar is less favourable for taxpayers than the corresponding tax administration practice in many other advanced and regional economies, such as Singapore, Malaysia, and Australia, which have a time bar periods of 4 years, 5 years and 4 years, respectively.

The current regime provides that the CIR is required to determine an objection filed by a taxpayer against an assessment within a "reasonable time". It is undesirable if there is no fixed timeframe for CIR to make a final decision. In recent years, tax practitioners also note that the processing time might vary in different dispute cases and some tax audit reviews could not be resolved efficiently, possibly due also to challenges posed by the pandemic over the past three years.

In view of the above, we believe that various measures should be implemented to improve the tax appeal system.

Providing greater clarity and certainty of tax treatment

In general, there is a need to provide greater clarity and certainty of tax treatment, which has come to rely too heavily on debatable interpretations of court judgments, and non-statutory interpretations through IRD departmental interpretation and practice notes, and, in some cases, informal, and perhaps conflicting administrative arrangements.

Accelerating the tax audit process or committing to a performance pledge on the timeframe for concluding field audit and investigation cases, would help taxpayers manage their tax risks and exposures. We would also welcome a reform of the penalty system, the calculation of judgement debt interest and the interest rate on tax reserve certificates, to achieve a more equitable system.

Specific Proposals

- ***Engage stakeholders to provide practical feedback on proposed tax law changes as early as possible in the process***.
- ***Promote clear understanding of how new tax laws, such as the refined FSIE regime and BEPS 2.0 rules, will interact with the existing IRO and allow sufficient transition time for affected taxpayers to get prepared.***
- ***Provide clear guidance and support to those affected by significant incoming changes in tax rules.***
- ***Improve the tax appeal system by benchmarking it against those of other advanced economies, including:***
    - ***Take the UK's two-tiered tax tribunal as reference and consider establishing a two-track tribunal system to divide simple and complex cases based on the potential tax amount and/or penalties involved.***
    - ***The experience and qualifications of the panel members, particularly for those who are dealing with complex cases, should be considered carefully to ensure they have proven experience in revenue law.***
    - ***The structure of the panel and remuneration of panel members, should be given careful consideration to ensure that members have sufficient***

time and expertise to thoroughly review the case materials and draft the decision.

- ***Reduce the statute of limitations from six years (see Theme II)***
- ***Regarding the determination of objections, amend the indefinite time limit of "reasonable time" with a fixed term of, say, one calendar year from the date the CIR receives the objection.***
- ***Establish key performance indicators to measure the time taken by IRD officers to review each case in dispute, say, 6 or 9 months.***

- **Sustainable public finances**

We continue to urge that a more extensive review of the tax system be conducted. International developments, such as those referred to above, the importance of safeguarding Hong Kong's competitive position, retaining a simple, relatively low-rate tax regime, as far as possible, while also being able to fund vital public services, against the backdrop of Hong Kong's ageing population and increasing dependency ratio, all points to the need for a tax system that is responsive, up to date and fit for purpose. It has been over 45 years since the previous review of the IRO and, although numerous changes have been made since that time, for specific purposes, the framework has not been re-examined from a holistic perspective. It is time to look more thoroughly at the IRO.

We propose, therefore, a more extensive review of Hong Kong's tax system to examine various pressing issues, including those set out below.

The FS revealed that, while Hong Kong's financial situation over the long term remains healthy, the Government is expected to record a large financial deficit in 2023-24, of over HK$100 billion, for the second year in succession, due to lower than anticipated land sales in 2023-24[54], resulting in a further fall in the fiscal reserves.

In view of the above, there is an increasing need to explore alternative, broader-based taxes to ensure stability of revenues in the future, to help address the longer-term public finance needs and avoid structural deficits. This remains important given Hong Kong's ageing population; the lack of indirect, consumption-based taxes; and over-reliance on a few sources of revenue, primarily profits tax, salaries tax, land premiums, stamp duty (a large proportion of which is also property-related), and investment income - all of which are quite volatile. In this regard, we note that there was pressure on the Government to reduce the stamp duty on stock transactions to try to improve liquidity in the stock market, which has been preforming comparatively poorly so far in 2023. In the 2023 Policy Address, the Chief Executive announced a reduction from the current 0.13% to 0.1% of the consideration or value of each transaction payable by buyers and sellers respectively, in addition to relaxing the Buyer's Stamp Duty and other supplementary stamp duty measures on real property. However, it is not clear that these measures have had the desired effect so far.

As regards new sources of revenue, the BEPS 2.0 Pillar 2 rules, which Hong Kong plans to implement in 2025, will impose a global minimum effective tax rate on large MNE groups. Although, on the one hand, this will impact Hong Kong's ability to attract business from affected groups on the basis of offering low tax rates, on the other hand, it is expected to result in some additional revenue. Like a number of other jurisdictions, Hong Kong will introduce a domestic minimum top-up tax regime, to ensure that it does not give up its taxing rights to other jurisdictions (generally the jurisdiction of the ultimate parent entity of the MNE group) where the effective tax rate of the Hong Kong constituent entities of the

[54] https://www.thestandard.com.hk/section-news/section/4/256782/Chan-upbeat-on-recovery-despite-deficit

group is less than 15%. In the 2022-23 budget speech, this additional revenue was estimated to be roughly around HK$15 billion[55].

In view of the current fiscal situation, we see the establishment of the Committee and also the Office for the Financing of Major Development Projects as a positive measure. With the development of the Northern Metropolis under way, we believe that the Government should consider moving more slowly on proceeding with other major and costly infrastructure projects, until the economy is fully back on its feet, and sources of funding are clear and secure, and also the projects enjoy wide community support.

Overall competitiveness of Hong Kong's system

The overall competitiveness of the system needs to be considered, what may still be possible and what will not be, in the light of international tax developments, such as those outlined above, and what Hong Kong's positioning should be from a tax perspective in the future. Existing policies, preferential regimes and other tax incentives also need be monitored and reviewed regularly for their effectiveness in achieving their stated objectives.

The Government should research into how the tax system could be used better to support policy objectives, such as developing Hong Kong's role as an IP hub, and providing more assistance to start-up businesses that cannot make use of the existing incentives. Given the increasing focus on, and importance of, sustainable development, the Government should consider green taxes and incentives (e.g., emission taxes, additional carbon taxes, incentives for energy conservation, etc.). Push and pull measures can be used to increase the take up of EVs and encourage the development of new energy vehicles, including commercial vehicles and public transport, in order to help achieve a carbon neutral Hong Kong by 2050 (see Theme III above). New business models also need to be understood and accommodated.

Specific proposals

- ***Conduct a fuller review of the tax system for its competitiveness and ability to provide sufficient revenue for Hong Kong's future development needs. Among other things, the review should:***
  - ***Look at different options for broader based or other sources of taxation***
  - ***Consider how to enhance Hong Kong's overall competitiveness, and lend support to other policy objectives.***
  - ***Review the effectiveness of existing preferential regimes.***

[55] https://www.budget.gov.hk/2022/eng/pdf/e_budget_speech_2022-23.pdf (paragraph 188)

Appendix 1: Proposed changes for salaries tax allowances and deductions[56]

Allowances and deductions	Existing (HK$)	Proposed (HK$)
Allowances[57]:		
- Basic	132,000	134,640
- Married person	264,000	269,280
- Child (annual, each dependant, the 1st to 9th child)	130,000	132,600
- Child (initial, each dependant, the 1st to 9th child)	130,000	132,600
- Dependent brother or sister (each dependant)	37,500	38,250
- Dependent parent/ grandparent (each dependant)		
- aged 60 or above or is eligible to claim an allowance under the Government's disability allowance scheme	50,000	51,000
- aged 55 or above but below 60	25,000	25,500
- Additional dependent parent/ grandparent (each dependant)		
- aged 60 or above or is eligible to claim an allowance under the Government's disability allowance scheme	50,000	51,000
- aged 55 or above but below 60	25,000	25,500
- Single parent	132,000	134,640
- Personal disability	75,000	76,500
- Disabled dependant (each dependant)	75,000	76,500
Deductions, maximum limit:		
- Self-education expenses	100,000 limited to claims by taxpayer	100,000 limited to claims by taxpayer or dependants
- Private healthcare insurance premiums	8,000	12,000
- Rental payment for taxpayer's primary residence	100,000	110,000

[56] The forecast rates of underlying and headline consumer price inflation for 2022 are maintained at 2% and 2.4% respectively.

https://www.hkeconomy.gov.hk/en/situation/development/index.htm
https://www.hkeconomy.gov.hk/en/pdf/22q2_pr.pdf

[57] For illustration purposes, the proposed allowances are increased on the assumption that the benchmark is set at current levels and the inflation rate is 2%.

Appendix 2: Proposed changes in salaries tax allowances and deductions - impact on a typical individual

Example: Single person

This example illustrates the impact of[58]:

- an increase of basic allowance to HK$134,640
- an increase of the annual limit on the deduction of qualifying premiums paid under VHIS policy to HK$12,000
- an increase of the maximum limit on the deduction of rental payment for taxpayer's primary residence to HK$110,000

	Existing		Proposed		Savings	
	(HK$)		(HK$)		(HK$)	(%)
Income		300,000		300,000		
Allowances/ deductions:						
Basic allowance	132,000		134,640			
Mandatory MPF contribution	18,000		18,000			
Qualifying premiums paid under VHIS	8,000		12,000			
Home loan interest/ Rental payments	100,000		110,000			
Total allowances/ deductions		258,000		274,640		
Net chargeable income		42,000		25,360		
Tax payable		840		508	332	40%

[58] Assumptions are as for Appendix 1.

Appendix 3: Proposed changes in salaries tax allowances and deductions - impact on a typical family

Example: Married person with spouse separately assessed, one children who is not newborn, and living with two dependent parents over 60 years of age throughout the whole year

This example illustrates the impact of[59]:

- an increase of basic allowance to HK$134,650
- an increase in child allowance to HK$132,600
- an increase in dependent parent allowance and additional allowance to HK$51,000
- an increase of the annual limit on the deduction of qualifying premiums paid under VHIS policy to HK$12,000
- an increase of the maximum limit on the deduction of rental payment for taxpayer's primary residence to HK$110,000

	Existing (HK$)			Proposed (HK$)			Savings (HK$)	Savings (%)
Income			750,000			750,000		
Allowances/ deductions:								
Basic allowance		132,000			134,600			
Child allowance	1 children 130,000 each	130,000		1 children 132,600 each	132,600			
Dependent parent allowance and additional allowance	2 parents 100,000 each	200,000		2 parents 102,000 each	204,000			
Mandatory MPF contribution		18,000			18,000			
Qualifying premiums paid under VHIS	1 taxpayer and 1 children 8,000 each	16,000		1 taxpayer and 1 children 12,000 each	24,000			
Home loan interest/ Rental payment		100,000			110,000			
Total allowances/ deductions			596,000			623,200		
Net chargeable income			154,000			126,800		
Tax payable			9,560			6,680	2,880	30%

[59] Assumptions are as for Appendix 1.