Tax policy and budget proposals 2026-27

Reinforcing and enhancing Hong Kong's strengths, innovation and talent for a bright and bold future

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

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(1) Investment, financial markets and innovation and technology

- Headquarters economy:
  - Offer a half-rate profits tax concession for relevant profits derived by qualifying regional headquarters ("RHQs"), at least for fixed period of five years.
  - Consider offering non-tax incentives to qualifying RHQs of multinational enterprises (which may be unable to benefit from reduced rates of tax), such as subsidies to hire or relocate high-quality talent, and/or for the rental costs of expatriate staff.
  - Provide an additional two-year tax exemption for Mainland and, potentially, other enterprises "going global" via Hong Kong ("HK") by setting up qualifying RHQs in HK.
  - Provide "2+3" years' work visa for C-suite executives of Chinese RHQs and rental subsidies for their stay in HK.
  - Provide subsidies for consultancy and legal fees for companies contemplating re-domiciliation; and also ensure that their tax position in HK and the Chinese Mainland is clear and certain.

- Conduct a holistic review of tax and non-tax incentives for research and development ("R&D") and intellectual property ("IP") business with a view to –
  - Modifying the enhanced R&D tax deduction rules to accommodate the real commercial constraints of businesses engaged in R&D activities (e.g., extending the scope to qualifying group R&D centres registered in HK).
  - Relaxing 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 associate, IP licensed to another person for use outside HK, and for the costs of outsourced R&D activities, where undertaken elsewhere in the Greater Bay Area (GBA).
  - Consider R&D tax credits for start-up businesses, or Base Erosion and Profit Shifting initiative-compliant "Qualified Refundable Tax Credits", where appropriate.
  - Consider non-tax support, such as financial subsidies, to encourage more local R&D activities
  - Provide subsidies to cover part of the costs incurred by companies to invite international experts to provide professional training to their HK R&D staff.

- Strengthen HK's role as education hub and R&D centre:
  - Offer enhanced deductions for donations to tertiary education institutions' R&D centres and for seed funding for initial work towards commercialization, covering the costs of, e.g., bringing in expertise, facilities and equipment and testing.

- Quantum computing:
  - Accelerate the development of quantum computing by establishing a dedicated funding scheme, among other technology support, and attracting leading quantum computing companies with both financial incentives and tax concessions.

- Financial market development:
  - Determine the HK$240 million minimum asset threshold for tax concessions for family-owned investment holding vehicles based on "assets under management", instead of "net asset value".
  - Consider extending the tax exemption to other asset classes that family offices may invest in, such as art pieces.
  - To give a further boost to HK's wealth management sector, the government should work with the Mainland authorities to facilitate the introduction of more innovative RMB-denominated offshore products, such as annuities, insurance, financial instruments.
  - Move forward with establishing a framework for issuing licences to virtual asset ("VA") custodians and over-the-counter traders to provide the essential ecosystem needed for VA trading.
  - Consider subsidizing some listing expenses/ professional fees for HK-incorporated small and medium-sized enterprises ("SMEs").
  - Consider profits tax concessions and also incentives for investors in HK-listed real estate investment trusts ("REITs").

- Review the listing framework for special purpose acquisition companies ("SPACs"), which has become inactive in HK with the aim of facilitating more SPAC listings in HK.
- Discuss with the Mainland authorities the feasibility of an "IPO Connect", to allow Mainland institutional investors to subscribe for a certain tranche of HK initial public offerings, on a pilot basis.
- To reduce transaction costs for mergers and acquisitions and restructurings of HK-incorporated private companies and, potentially, encourage more companies to re-domicile to HK, consider a stamp duty exemption for private company transfers. Conduct a review after, say, three years, to assess the impact.
- Continue to stress the critical importance for listed companies, and major public sector organizations to have a strong corporate governance ("CG") culture and commitment to transparency and accountability, in addition to good ESG.
- To strengthen CG and boost investor confidence, introduce a requirement for listed companies to have a full-time qualified accountant in the senior management and, preferably, on the board. This could, initially, take the form of a comply-or-explain requirement in the Corporate Governance Code.

- Maritime and logistics:
  - Further consolidate HK's status as an international maritime and logistics centre and facilitate modernization and automation of HK ports.
  - Introduce tax deductions or super-deductions for capital expenditure on smart ports and logistics technology investments.
  - To encourage the development of smart ports, warehousing and logistics in HK, which may require leveraging on group R&D support, consider relaxing the restriction on tax deductions for subcontracting fees paid to an overseas associate for R&D.
  - In addition to the proposed half-rate tax concessions, the government should explore non-tax incentives for commodity traders to set up businesses in HK.
  - Consider extending the proposed tax concession for commodity trading to other core parts of the ecosystem, such as warehousing and logistics.

(2) Support during the economic restructuring

- Review the effectiveness of the two-tier profits tax rate regime and consider adjusting the rate downwards, or raising the threshold of HK$2 million to a higher level, say, HK$3 million, for standalone SMEs, as a temporary measure, e.g. for the next three to five years.
- Support the digitalization of SMEs by providing a time-limited tax incentive, of up to 36 months, in the form of a subsidy or tax super-deduction to hire an IT specialist, or for other related purposes.
- Consider establishing an easy-access fund, e.g., "Accounting Technology Adoption Fund", to lower the threshold the SMEs to adopt smart accounting tools through financial subsidies.
- Establish an expert group to advise on the challenges and opportunities of the rapidly-evolving cross-boundary economy and assist businesses affected by it.
- The Hong Kong Tourism Board should work with their counterparts in the GBA to promote combined HK and GBA tours highlighting the distinct experiences of the different cities, and explore ways to stimulate more local spending, through campaigns, offers and reward schemes for local citizens.
- Promote "Brand Hong Kong" leveraging on the city's reputation and quality.
- Promote the strengths and advantages of the multifaceted, multicultural, unique HK community.
- To help develop new markets both within China and other regions, strengthen standards of English and Putonghua to support HK in its role as a "super-connector", straddling the Chinese and international markets. Preserve and promote HK's unique linguistic and cultural heritage alongside its range of other cultural influences and diverse community.
- Promote higher-end and well-managed eco-tourism, while protecting the environment from unrestrained access to ecologically sensitive sites.

Theme II – Measures to attract, retain and nurture talent in Hong Kong

(1) Measures to address talent shortages

- Attract and retain talent:
  - Enhance talent mobility and strengthen HK's connections to the GBA and global markets, including by simplifying the visa application procedures, and opening a green channel for GBA and foreign students to come to HK for internships in the accounting and other sectors, during the peak seasons.
  - Help to retain high-calibre graduates in HK by subsiding employers to provide competitive salaries and accommodation, particularly for non-local students, for a limited period after their graduation.
  - Review talent admission schemes regularly to align with long-term workforce demands and resource capacity
    - Discourage misuse of talent admission schemes by, e.g., imposing an additional condition on persons admitted under talent admission schemes, who should be required to stay in HK for at least 90 days annually, if they wish to have their visas renewed and to maintain their eligibility to qualify for permanent residency.
    - Consider providing a priority processing channel for persons admitted under the talent admission schemes, specifically the Top Talent Pass Scheme, to handle double tax relief applications.
    - Introduce a "Property Connect" pilot scheme to facilitate recently-arrived Mainland talent to purchase HK first-hand residential properties directly using RMB.

- Encourage child birth and attract overseas talent to raise their families in HK:
  - Consider further extending the statutory maternity leave and parental leave from 14 weeks and 5 days to 16 weeks and 10 days, respectively, and provide subsidies to employers for wages paid during the extension.
  - We welcome the extension of additional child allowances for two years after a child is born, announced in the Policy Address, which is similar to a measure that we have been advocating. We also suggest encouraging businesses to implement more family-friendly policies, such as flexible working arrangements and part-time work. Encourage employers to allow parents to work from home for up to two years after the birth of a child (for one parent), where feasible, by offering subsidies on remote working facilities/ equipment.
  - Provide an allowance for the private education of the children of overseas talent, up to a certain annual limit.

- Retain and develop the skills of the workforce:
  - Facilitate experienced and skilled recent retirees to re-enter the labour market. The government should actively promote the arrangement by giving suitable staff the option to defer their retirement age to 65 - 68 (for both civilian and, where practical, disciplined services officers) and encourage employers to hire and retain experienced older people in employment.
  - Encourage local talent and experienced retirees back to the workforce. In addition to incentives for new parents (see above), provide significantly higher (e.g. double) basic allowances to retired individuals aged 65 and above, and enhanced deductions for employers, of 125%, on their salaries, for up to two years.

Theme III – Measures to ensure resilient and sustainable public finances and a competitive tax system

(1) **Optimizing revenue streams**

  - Review the tax base regularly and establish realistic projections for long-term revenue needs
    - Establish a regular review mechanism to assess the effectiveness of current tax policies and incentive schemes for their competitiveness and ability to generate more business, and, so, tax revenue.
    - Conduct more regular reviews of the composition of the tax base and explore options for broader-based taxes to stabilize revenues and help address longer-term public finance and development needs, and also avoid structural deficits.

- Consider increasing the stamp duty on leases of residential properties.
- Consider increasing the higher-tier standard rate from 16% to 16.5% and/or reducing the income threshold at which it is triggered to, e.g., income over $4 million.
- Launch a public education campaign on business registration and tax compliance, coupled with a limited-time voluntary self-reporting scheme and an amnesty/ waiver of penalties for small-scale businesses, including key opinion leaders, online store owners, taxi drivers, and other individuals who proactively register and rectify past failures to make tax filings, to enhance compliance, expand the tax base and reduce the IRD's administrative burden. Consider expanding this to non-HK entities looking to redomicile to HK, etc.
- Review the operational hours of all HK land boundary control points.
- Consider implementing a boundary facilities fee structure for private vehicles entering controlled zones at rates of, e.g., $80-$100 per private car.
- Periodically review and adjust vehicular e-toll rates from time to time. Consider increasing the number of road e-toll facilities, to include bridges as well as tunnels.

(2) Enhancing the efficiency of the tax system

- Leverage on the e-filing system to streamline tax administration and enhance tax certainty:
  - Continue to collect feedback from the market and practitioners post implementation on the functionality of the eTax portals, to ensure a practical and user-friendly interface.
  - Provide early adopters of e-filing with incentives, such as a significant extension of their tax filing deadline, early tax refunds, or additional tax rebates.
  - Over time, leverage on the efficiencies and data collected from e-filing to enhance tax administration and services for taxpayers, by, for example, strengthening the IRD's tax audit capabilities and shortening timeframes to review dispute cases and finalize tax positions.
- Modernize the stamp duty group relief regime under section 45 of the Stamp Duty Ordinance to cover entities that are not bodies corporate with share capital, such as certain types of limited liability partnerships ("LLPs").
  - Consider issuing a public announcement that a review will be undertaken, to reinforce confidence in HK's commitment to a maintaining a business-friendly environment, and granting the relief administratively in cases involving LLPs, pending a change in the law.
  - Issue guidance how the existing test of "association" (i.e., 90% of the issued share capital) should be determined, given that shares of a company no longer have a nominal or par value under the Companies Ordinance.

(3) Contain the growth of public expenditure

- Continuously assess public spending to identify opportunities for cost reductions, streamline operations, eliminate inefficiencies, and where possible, enhance automation.
- Prioritize public spending for impact: Focus spending on essential public services such as housing, healthcare, education, welfare, as well as digitalization and infrastructure development, i.e., areas that provide the greatest benefit to the community and help to stimulate economic growth.

Theme IV – Measures to support the community and sustainable development

(1) Community measures

- For a limited period, e.g., the next five years, allow purchasers of residential property for self-use, to pay the stamp duty, in equal annual instalments over a 3-year period from the original stamp duty due date.
- If further stimulus to the property market is desirable, consider reducing stamp duty (e.g., by 50% for property values or considerations up to, say HK$12 million) for first-time buyers of self-use residential properties, over the next three years.
- Provide a tax reduction of 100%, subject to a ceiling of HK$5,000, on salaries tax, tax under personal assessment and profits tax for 2025-26. Alternatively, increase basic personal allowances, at least, in line with inflation, since the previous increase occurred nearly 10 years ago.
- Provide a rates concession for properties owned by natural persons for two quarters, subject to a ceiling of HK$1,200 per quarter. Consider restricting the concession only to properties with a

ratable value of up to, say, HK$200,000, or to lower-band properties under the progressive rates system.
- Extend the electricity charges relief scheme for one more year to December 2026, in conjunction with promoting energy conservation measures.
- Consider expanding the scope of "qualifying tenancy" eligible for a rental deduction under salaries tax, to include the rental of a serviced apartment by means of a licence.
- 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.
- Increase the maximum tax deduction for qualifying annuity premiums and voluntary mandatory provident fund contributions to HK$80,000.

(2) Further development of the silver economy

- Implement a comprehensive set of policies to promote and support the silver economy, with objectives including enabling capable and experienced people who wish to do so to work for longer, and encouraging more active lifestyles, which should help reduce the burden on the public purse, and, more generally, improving quality of life for seniors.

(3) Policies to promote sustainable development in Hong Kong

- Revisit the blueprints and roadmaps previously published, to establish effective interim targets toward achieving carbon neutrality by 2050 and ensure HK is not falling behind.
- Ensure major new infrastructure projects incorporate sustainability goals in terms of planning, processes, materials and designs, etc., and ensure a safe and secure work environment on related construction projects. Leverage on the construction of a more sustainable infrastructure to further develop HK's active green bond market.
- 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.
- More funding from the green bonds should be deployed for waste management and resource recovery, such as providing suitable venues and premises at lower rent.

(4) Measures to encourage sustainable development in specific areas

a) Electric vehicles ("EVs") and green public transport:
- Extend the EV-charging at Home Subsidy Scheme, and streamline and expedite the approval process. Consider other options as well, such as providing a tax deduction for installation costs for EV home chargers by individual taxpayers.
- Continue to offer first registration tax concessions for private car EVs.
- Continue to encourage and support public transport operators to explore, test and adopt more widely, the application of green innovative transport technologies, e.g., hydrogen fuel cell EVs.
- Explore setting up of battery swapping stations for e-motorcycles.

b) Green buildings:
- Adopt best practice standards for energy-efficient buildings in HK and mandate some requirements. Consider introducing enhanced industrial and commercial building allowances 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).
- Incentivize the use of green building materials, including green cement, in construction.
- Encourage the adoption of the WELL label by educating stakeholders about the benefits.
- Incentivize owners of old residential buildings to renovate their buildings sustainably.

c) Encourage energy efficiency among consumers:
- Introduce and promote to the public a "replace old items with new ones" initiative: Provide subsidies to consumers who trade in old appliances for specified energy-efficient appliances, e.g.,

air-conditioners, refrigerators, washing machines, televisions, etc., with a high-grade energy efficiency label, and provide for the safe disposal of the old, traded-in items.

d) Green finance:

- As an interim measure, and to promote the further development of Core Climate, allow a deduction up to a certain ceiling, of the costs incurred on purchasing appropriately certified renewable energy and carbon credits.

Responding to the public consultation on the 2026-27 budget, the Hong Kong Institute of Certified Public Accountants ("the Institute") sets out below its recommendations for the 2026-27 budget.

Introduction

With the efforts made by the Government of the Hong Kong Special Administrative Region ("the government") to improve the economy by adapting to changing global dynamics and enhancing local competitiveness, Hong Kong ("HK")'s economy continued to expand solidly in 2025, supported by strong exports performance and improved domestic demand. Real Gross Domestic Product ("GDP") grew by 3.1% year-on-year in the second quarter and 3.8% in the third quarter of 2025. The unemployment rate during the three-month period from August to October 2025 went up to 3.8% and remained the same for the period September – November, with the employment situation in some sectors continuing to face challenges due to the economic restructuring, while the increasing external uncertainties could also weigh on corporate hiring sentiment. Although we expect the economy to maintain moderate growth, various factors including the global economic outlook, geopolitical tensions, as well as more unpredictable trade policies and measures internationally, mean that uncertainties are likely to remain.

The sustained economic momentum, continuous capital inflows, a buoyant stock market and a stabilizing property market, along with the government's vigorous efforts to promote major events and tourism, which were reinforced by private sector activity, together helped to bolster private consumption and market sentiment in HK. Taking into account the actual outturn in the first three quarters of the year and the latest developments of the global and local situation, the government revised the real GDP growth forecast for 2025 as a whole to 3.2%, which is reasonable for a developed economy. The forecast rates of underlying and headline consumer price inflation for 2025 were revised downwards to a very modest 1.2% and 1.5% respectively.

With significant financial deficits in recent years, the government's fiscal reserves declined to HK$654 billion as at 31 March 2025, which is the lowest level since 2012/13[1]. Not for the first time, questions have been raised as to whether the deficits are purely cyclical (i.e. due to short-term economic cycles) or structural (i.e. long-term and more systemic). Although the Financial Secretary ("FS") has recently indicated that the current account is likely to return to surplus in 2025/26, which is earlier than expected, as explained in a research brief issued by the Legislative Council Secretariat in March 2025[2], an analysis by the University of Hong Kong, found that "80% of fluctuation of local fiscal balance is attributable to structural factors (e.g. increased welfare and healthcare spending and reliance on land-based revenue", which "cannot be passively alleviated by economic growth alone but requires proactive fiscal policy adjustments". Of course, HK has faced economically challenging situations in the past, including following the Asian Financial Crisis and during the SARS virus. In those cases, HK was able to demonstrate resilience and emerge stronger financially and in terms of community spirit, so there is no reason to doubt that we can do so again, with prudent fiscal management and ongoing measures to boost HK's competitiveness and develop the economy. However, the structural concerns reinforce the importance of achieving long-term fiscal stability and sustainability, and continuing to look for additional sources of revenue and ways to control and optimize public expenditure, particularly recurrent expenditure. We acknowledge the government's ongoing efforts in this regard.

[1] https://www.info.gov.hk/gia/general/202404/09/P2024040900251.htm
[2] https://app7.legco.gov.hk/rpdb/en/uploads/2025/RB/RB01_2025_20250313_en.pdf

The keen competition from other economies, coupled with other issues, including the need to attract more talent, the ageing population and low birth rate, has further amplified the challenges faced by HK. However, the Chief Executive's 2025 Policy Address ("PA 2025"; para. 170) reported that, over 230,000 people have come to HK under various talent admission schemes, with over 50,000 visa extension approved annually from 2025 to 2027. These arrivals may also bring their families to settle in HK, with about 170,000 dependants having arrived in HK so far, including nearly 100,000 dependent children under the age of 18[3]. This has, to some extent, helped to counter the impact of the talent shortage and migration. However, by 2028, there will still be a projected shortage of around 180,000 workers across different sectors[4]. Therefore, HK must continue to address issues related to talent attraction and retention.

Among the many positive signs, HK regained its place as the world's freest economy among 165 economies, in the Economic Freedom of the World Annual Report, published by the Fraser Institute in September 2025[5]. The city ranked third globally, and first in the Asia-Pacific region, in the Global Financial Centres Index 38 ("GFCI") Report, published in September 2025[6]. Hong Kong also rose significantly in the World Talent Ranking published in September by the International Institute for Management Development ("IMD"), moving up to fourth, from ninth last year[7]. The fact that InvestHK has surpassed the milestone of attracting 200 family offices ahead of schedule is a testament to this city's strong competitive advantage in private wealth and asset management[8]. On 6 November, KPMG China and the Private Wealth Management Association ("PWMA") released the tenth edition of the co-authored Hong Kong Private Wealth Management Report[9]. Findings reveal that client confidence in HK as a preferred wealth management centre has reached its highest level in three years. Industry optimism soared over the past year, with all member firms (100%) expressing optimism about the HK PWM market over the next five years, up from 76% in 2024, despite ongoing concerns about geopolitical instability and macroeconomic uncertainty, which remain the top concerns for the PWM industry.

We support efforts to further refine policy measures, in areas such as the preferential tax regimes for funds, single family offices and carried interest, to build on the momentum of the family office and business sector. Hong Kong needs to continue to foster an environment that attracts and nurtures talent and investment, while also expanding initiatives in innovation and technology ("I&T") and sustainability, to ensure its long-term growth and competitiveness.

At the same time, we believe that additional steps could still be taken to help secure a sustainable and successful long-term future for HK, by continuing to strengthen HK's position as an international financial and business centre ("IFC"), and its attractiveness to overseas investors, while appealing to local and overseas talent. We believe that HK needs to enhance its branding and show itself to be one of the best places in the world to live, work and visit.

Against the above backdrop, the Institute's budget proposals 2026-27 put forward a range of possible measures under four main themes, aimed at helping HK to continue to grow, while enhancing its innovation and resilience. Our recommendations encompass measures to stimulate investment, attract and retain talent, foster innovation, and promote sustainability. While certain proposals may mean forgoing some revenue in the short term, the ultimate objective is to attract more investment,

[3] https://www.info.gov.hk/gia/general/202501/15/P2025011500238.htm
[4] https://www.news.gov.hk/eng/2024/11/20241114/20241114_164637_380.html
[5] https://www.fraserinstitute.org/studies/economic-freedom-world-2025-annual-report
[6] https://www.longfinance.net/programmes/financial-centre-futures/global-financial-centres-index/gfci-38-explore-the-data/gfci-38-rank/
[7] https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-talent-ranking/
[8] https://www.info.gov.hk/gia/general/202509/15/P2025091500314.htm
[9] Hong Kong Private Wealth Management Report

including investment in 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.

We believe that, in the present economic environment, there are also strong grounds for taking a step back and reviewing the existing tax policies and incentive schemes for their competitiveness, as well as considering non-tax incentives for investment. Meanwhile, there is a need to monitor and control expenditure and save costs, where possible and practicable, without adversely affecting the most disadvantaged in the community. In addition to the "reinforced version" of the fiscal consolidation programme, including a cumulative reduction of government recurrent expenditure by 7% from 2025 through 2027/28, some reallocation of resources and adjustment of priorities should be considered, while also continuing to explore new sources of revenue.

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The Institute is pleased to put forward its 2026-27 budget proposals, under the title of "*Reinforcing and enhancing Hong Kong's strengths, innovation and talent for a bright and bold future*". The proposals are grouped under four main themes, with several subthemes, each containing a number of more detailed recommendations, as set out below.

Theme I: Business measures to attract investment and promote economic growth, including in innovation and technology

Overview

In the latest IMD World Competitiveness Yearbook 2025[10], published in June 2025, HK's global competitiveness ranking rose to third globally (behind Switzerland and Singapore), an improvement from fifth in 2024, underscoring its enhanced business environment and government efficiency. HK tops the rankings on tax policy and business legislation, ranks second globally in international investment, education and finance, and third globally in international trade and management practices. These results highlight the effectiveness of recent business measures that have successfully attracted investment and fostered economic growth, confirming that the HK government's policy direction is well-founded and delivering tangible and positive outcomes.

It is clear that HK is progressing in the right direction and should continue to promote and strengthen its traditional competitive advantages, including a business-friendly environment, a robust legal system, the free flow of capital and information, an advantageous geographical location, and extensive experience as a "super connector" between the Mainland and overseas jurisdictions. At the same time, we should examine the challenges faced by some sectors given the increasing convenience of cross-boundary travel and the higher cost base in HK than in the Greater Bay Area ("GBA") generally, and take active steps to incentivize more local spending.

HK'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, through, e.g., funding for hiring IT specialists, to facilitate SMEs' digitalization.

We note and welcome the fact that the PA 2025[11] touched on a number of the above issues, and we suggest further measures to support policies in these areas.

Proposals

Notwithstanding the ongoing uncertainties in global politics, economics and trade, referred to above, the HK economy continued to expand moderately. Among the three key drivers of HK's economy, for the first nine months of 2025 as a whole, the total exports of goods grew visibly by 16.1% year-on-year in real terms. Business sentiment has also improved markedly according to recent survey by the Hong Kong General Chamber of Commerce, although factors such as changes in the spending patterns of visitors and residents, as well as the pace of interest rate cuts in the United States ("US"), continue to put pressure on private consumption[12].

The government is making strong efforts to attract business, capital and talent from around the world to come to HK, driving the further development of key sectors where HK enjoys an edge, including financial services, I&T, and trade, and embracing green transformation and the digital

[10] https://imd.widen.net/s/wtx5fd2ltn/booklet_wcy_2025
[11] https://www.policyaddress.gov.hk/2025/public/pdf/policy/policy-full_en.pdf
[12] https://www.hkeconomy.gov.hk/en/situation/development/index.htm

economy. We applaud these efforts to set out clear objectives for HK's future economic development and we believe that it is important to put in place associated policies and measures that are consistent with and support those objectives.

Against this background, we propose below a range of measures to help strengthen HK's competitiveness in attracting investment and promote economic growth.

(1) Investment, financial markets and innovation and technology

Regional Headquarters ("RHQ") economy – Multi-national enterprises ("MNEs")

While HK is a leading IFC and regional business hub, Singapore has historically been a preferred location for multinational companies' RHQs in Asia, especially for those in the technology sector[13]. We believe that this is attributable partly to the favourable tax incentives that Singapore offers to approved HQs, 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, HK does not offer a concessionary tax rate for RHQs, and corporate treasury centres are taxed at 8.25% under the preferential regime introduced in 2016.

In the PA 2025 (para 80), the Chief Executive reaffirmed the government's commitment to promoting the development of an HQ economy. In 2024, HK was home to more than 1,400 RHQs of non-local enterprises, over 300 of which were from the Mainland. The introduction of the company re-domiciliation regime in 2025 aligns well with recent international business and tax developments and offers an attractive option for business restructuring in HK going forward. Therefore, to further incentivize major international companies, including multinational accounting and professional services firms, to establish or expand their RHQs in HK, we recommend introducing a targeted profits tax concession for RHQs, e.g., a half-rate tax concession on qualifying profits (resulting in an effective tax rate of 8.25%) for an initial fixed period of five years—thus boosting HK's competitiveness as a premier HQ location in Asia.

Companies obtaining RHQ tax concessions should be required to demonstrate substantive operations in HK, rather than merely maintaining a shell registration. This substance should be evidenced by meaningful business activities and strategic decision-making conducted in HK. In designing such a regime, the government may also consider drawing reference from the RHQ tax concession frameworks adopted in Singapore[14] and other major competing jurisdictions. Key indicators of adequate substance would typically include genuine control and management of the company exercised in HK, an adequate local presence in terms of key executives and senior management personnel based in HK, and a certain level of operating expenditure incurred in HK that is commensurate with the scale and nature of the RHQ functions.

At the same time, any preferential treatment for RHQs will need to be consistent with the Global Anti-Base Erosion ("GloBE") Rules, recently implemented in HK. This requires the application of a global minimum effective tax rate of 15% on MNEs with a consolidated worldwide income of at least 750 million euros. Given this changing tax landscape, particularly for large MNEs, we suggest that the government also consider providing some non-tax incentives to qualifying MNE RHQs, such as subsidies, to hire or relocate high-quality talent, and/or for the rental costs of expatriate staff**.**

[13] https://www.legco.gov.hk/research-publications/english/1920issh27-foreign-mainland-companies-setting-up-offices-in-hong-kong-20200605-e.pdf
[14] https://www.forvismazars.com/sg/en/insights/latest-insights-updates/tax/tax-incentive-for-headquarters-activities

Further support to Chinese Mainland and other non-HK enterprises "going global" via HK

To capitalize on the advantages of HK as a springboard for new areas of economic growth, we welcome the establishment of the Task Force on Support Mainland Enterprises in Going Global ("GoGlobal Task Force") in October 2025[15], which should encourage and help facilitate Mainland enterprises to use HK to launch or expand their business internationally. The task force will assist these enterprises to expand their outbound business in an orderly manner, becoming a new driving force for HK's economy, and further consolidating HK's position as an international business and trade hub.

One way Mainland enterprises can leverage HK's strengths and go global is by establishing CTCs and RHQs in HK for a wide range of financial and operational functions. They can also tap HK's professional high value-added supply chain services in fields such as accounting and law, to help them explore overseas markets, and harness HK's strengths in marketing to connect with global buyers and build international brands.

We believe that offering such enterprises that meet certain minimum criteria, additional tax exemptions for the first two years of their establishment, along with special work visa arrangements and rental subsidies for C-suite executives, will go further to attract more Mainland enterprises to use HK as a base to make global connections. We would also suggest extending these proposed measures to enterprises from other jurisdictions that wish to use HK as a base for global outreach, to maximize the benefits of HK's unique position in the global market.

In addition to the above, we welcome the government's review and prospective enhancements to the tax concessionary measures for qualifying CTCs, as mentioned in the PA 2025 (Annex, section I, para. 14). This consolidated approach will not only foster a more attractive business environment, but also solidify HK's position as a strategic gateway for enterprises looking to engage internationally.

Given the changing tax landscape, particularly for large MNEs, the government should also consider providing some non-tax incentives, such as subsidies for consultancy and legal fees to companies proposing to re-domicile to HK, while working with the Mainland authorities to ensure that their tax position in both HK and the Chinese Mainland is clear and certain. This would help alleviate the financial costs associated with the re-domiciliation process and foster a more competitive business landscape.

Proposals

- ***Offer a half-rate profits tax concession for relevant profits derived by qualifying RHQs, at least for fixed period of five years.***
- ***Consider offering non-tax incentives to qualifying MNE RHQs, e.g., subsidies, to hire or relocate high-quality talent, and/or for the rental costs of expatriate staff.***
- ***Provide an additional two-year tax exemption for Mainland and, potentially, other enterprises "going global" via HK by setting up qualifying RHQs in HK.***
- ***Provide "2+3" years' work visa for C-suite executives of Chinese RHQs and rental subsidies for their stay in HK.***

[15] https://www.info.gov.hk/gia/general/202510/06/P2025100600200.htm

- ***Provide subsidies for consultancy and legal fees for companies contemplating re-domiciliation; and also ensure that their tax position in HK and the Chinese Mainland is clear and certain.***

Conduct a holistic review of tax and non-tax incentives for research and development and intellectual property business

One of the roles envisaged for HK under the country's 15th National Five-Year Plan ("FYP") is an IP trading hub. We welcome the initiatives in the PA 2025 that support the development of the innovation economy, including setting up the Hong Kong Artificial Intelligence Research and Development Institute in 2026 (para. 69) and setting up R&D centres under the third InnoHK research cluster progressively, starting from the first half of 2026, with the focus on sustainable development, energy, advanced manufacturing and materials (Annex, section II, para. 16).

In addition to the introduction of the patent box regime (which offers a 5% concessionary tax rate on qualifying IP income) in 2024, the FS indicated in the 2025/26 budget that the government will review the deduction rules for IP-related expenditures. This includes lump-sum licensing fees and expenses incurred on the purchase of IP rights, or the rights to use IP acquired from associates, which we have long advocated. We look forward to the release of further details about this initiative.

Among other things, we suggest revisiting the restrictions on deductions for the acquisition costs of IP assets acquired from associates, and payments made for outsourced R&D activities carried out by persons other than "R&D institutions". In addition, the coverage of incentives could be extended, where some R&D activities may be undertaken elsewhere in the GBA and activities may be carried out by group R&D centres registered in HK, even if they are not approved research institutes. The Institute's quarterly online magazine, *A-Plus* (October 2025 issue)[16] contains a more detailed analysis.

Meanwhile, the government should take stock of new developments elsewhere, such as Singapore's Enterprise Innovation Scheme, and consider introducing additional tax benefits, such as super deductions on other types of IP-related expenditure. It is not a question of trying to match other regimes measure for measure, but, rather, taking a step back and assessing whether, taken as whole, HK's IP regime is sufficiently attractive and competitive.

<u>Proposals</u>

- ***Conduct a holistic review of tax and non-tax incentives for R&D and IP business with a view to –***
  - ***Modifying the enhanced R&D tax deduction rules e.g., extending the scope to qualifying group R&D centres registered in HK.***
  - ***Relaxing 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 HK, and for the costs of outsourced R&D activities, undertaken in the GBA***

[16] https://app1.hkicpa.org.hk/APLUS/2025/2025%20Issue%204/pdf/38_Large_Source_3.pdf

- ***Consider R&D tax credits for start-up businesses, or Base Erosion and Profit Shifting initiative-compliant "Qualified Refundable Tax Credits", where appropriate***
- ***Consider non-tax support, such as financial subsidies, to encourage more local R&D activities***
- ***Provide subsidies to cover part of the costs incurred by companies to invite international experts to provide professional training to their HK R&D staff.***

Strengthen HK's role as education hub and R&D centre

According to the World University Rankings 2026, announced by Times Higher Education in October 2025, University Grants Committee-funded universities continued to hold top spots, rendering HK the only city in the world with five universities ranked among the global top 100, with all its ranked institutions gaining higher positions in the latest review. This further bolsters HK's strategic positioning as a higher education hub. Much good-quality R&D is being conducted by universities and this is not only pure research but frequently research with a view to oommercialization of the output. This work is important and should be supported. We propose enhanced deductions for donations to tertiary education institutions' R&D centres and for seed funding for initial work towards commercialization, covering the costs of e.g., bringing in expertise, facilities and equipment and testing.

Proposal

- ***Offer enhanced deductions for donations to tertiary education institutions' R&D centres and for seed funding for initial work towards commercialization, covering the costs of, e.g., bringing in expertise, facilities and equipment and testing.***

Accelerate the development of quantum computing

Following the setting up of the first two research clusters, namely Health@InnoHK, focusing on healthcare technology, and AIR@InnoHK, focusing on artificial intelligence ("AI") and robotics technologies, the government is taking forward the establishment of the third InnoHK research cluster, namely SEAM@InnoHK, focusing on four research areas namely sustainable development, energy, advanced manufacturing, and materials[17]. In addition, the Innovation and Technology Commission launched the Frontier Technology Research Support Scheme ("FTRSS)" in September 2025[18], aimed at supporting, through matching funds, the eight universities funded by the University Grants Committee to attract international top-notch researchers to conduct projects on frontier technology in HK and enhance basic research facilities. Under FTRSS, quantum information has been included as one of the seven frontier technology fields identified in the FYP. Quantum Information covers (i) R&D of metropolitan-area, intercity, and free-space quantum communication technologies; (ii) R&D of universal quantum computer prototype and practical quantum simulators, and (iii) quantum precision measurement[19].

[17] https://www.innohk.gov.hk/en/spotlights/news/invitation-for-proposals-for-admission-to-the-third-innohk-research-cluster-application-closed/
[18] https://www.info.gov.hk/gia/general/202509/26/P2025092500877.htm
[19] https://www.itc.gov.hk/ch/doc/ftrss/FTRSS_Guidelines.pdf

In contrast to traditional computers, quantum computers' qubits adopt a completely different way to represent and process information. These properties enable a much richer computational space to explore solutions to complex problems beyond the reach of classical computing, including in fields such as drug discovery, materials discovery, optimization, network safety, communications, financial modelling, logistics and even space technologies. Progress in this area will help foster the comprehensive development of the I&T chain, and build capacities for collaboration with the GBA on commercialization opportunities, aligning with the Mainland's strategic planning of technologies. Therefore, we suggest accelerating the development of quantum computing by establishing a dedicated funding scheme, among other technology fields, and attracting leading quantum computing companies with both financial incentives and tax concessions.

Proposal

- ***Accelerate the development of quantum computing in HK by establishing a dedicated funding scheme, among other technology support, and attracting leading quantum computing companies with both financial incentives and tax concessions.***

Financial market development

Minimum asset threshold for family-owned investment holding vehicles ("FIHVs")

Under Section 10 of Schedule 16E of the Inland Revenue Ordinance, the aggregate net asset value ("NAV") of Schedule 16C assets managed by an eligible single family office ("ESFO") for the FIHV(s) must be at least HK$240 million to qualify for the tax concessions. The Inland Revenue Department ("IRD") advised the Institute in the 2025 annual meeting that, while NAV is not explicitly defined in the Hong Kong Financial Reporting Standards, the concept is widely recognized in accounting and finance as representing the value of total assets less total liabilities. We note that the Singapore government has amended the definition of "assets under management" ("AUM") under its tax concession regimes for funds and family offices as the net amount of designated investments without taking into account loans (including shareholder loans) for financing the investments. To echo the Institute's suggestion made during the annual meeting, we encourage the government to consider adopting a similar approach to determining the HK$240 million minimum asset threshold based on assets under management.

Family offices

We are pleased to see that the number of Mainland accounts investing in HK's wealth products has increased from 25,000 to 110,000 since the launch of Cross-boundary Wealth Management Connect 2.0 in February 2024 (PA 2025, para. 100). As noted above, the government is considering further enhancing the preferential tax regimes for funds, single family offices and carried interest to attract more funds to establish a presence in HK. Among other recommendations made in the Institute's submission on an earlier consultation on this topic, in January 2025[20], we proposed extending the tax exemption to other asset classes commonly invested in by family offices, such as artworks and collectibles. This would also align with the government's policy to further develop the market for the

[20] https://www.hkicpa.org.hk/-/media/Document/APD/TF/submission/TFECconsltn-on-preferential-tax-regimes-for-funds-FIHVs-carried-interest250120.pdf

arts, cultural and creative industries in HK, and support the proposal in the PA 2025 aimed at developing HK as a Premium Arts Trading Hub.

Further development of the wealth management sector

More generally to support HK's wealth management sector, we would suggest that the government encourage and support the introduction of more innovative RMB-denominated offshore products, such as annuities, insurance, financial instruments. Of course, we appreciate the Central People's Government's concerns regarding RMB outflows and the potential impact on RMB exchange rate stability, so we would suggest working with the Mainland authorities and experts to jointly formulate detailed frameworks and action plans that balance innovation with economic stability.

Proposals

- ***Determine the HK$240 million minimum asset threshold for tax concessions for FIHVs based on assets under management, instead of NAV.***
- ***Consider extending the tax exemption to other asset classes that family offices may commonly invest in, such as art pieces.***
- ***To give a further boost to HK's wealth management sector, the government should work with the Mainland authorities to facilitate the introduction of more innovative RMB-denominated offshore products, such as annuities, insurance, financial instruments.***

Licensing of virtual asset ("VA") custodians and over-the-counter traders to provide the essential ecosystem needed for VA trading

We expect that the first licences for stablecoin providers will be issued in the first quarter of 2026, following the implementation of the Stablecoins Ordinance in August 2025. This marks a critical milestone in strengthening regulatory oversight and fostering confidence in the virtual asset market. To ensure the ecosystem is comprehensive and well regulated, it is recommended that the government also move forward with establishing licensing frameworks for virtual asset custodian services and over-the-counter trading within 2026. Together, these measures would provide a robust infrastructure that enhances investor protection, market integrity, and the sustainable growth of HK's virtual asset sector.

Proposal

- ***Move forward with establishing a framework for issuing licences to VA custodians and over-the-counter traders to provide the essential ecosystem needed for VA trading.***

Subsidize some listing related-fees for Hong Kong SMEs

To maintain HK's position as a capital raising hub, and support more good-quality SMEs to list, consider subsidizing some listing expenses/ professional fees for HK-incorporated SMEs

Further support for real estate investment trusts

Hong Kong's capital market faces intensifying global competition, with jurisdictions including Singapore and Australia offering targeted incentives to attract listings, mergers, restructurings, and investment vehicles, while relatively high transaction costs in HK deter deal activity for unlisted HK-incorporated firms. SMEs, which are vital to HK's economy, sometimes struggle with elevated listing fees amid subdued initial public offering ("IPO") volumes, prompting calls for subsidies, akin to those in other jurisdictions. In addition, the real estate investment trust ("REIT") market in HK lags behind various other markets due to the absence of profits tax exemptions or investor incentives that are available elsewhere, limiting the appeal of HK's REIT market despite strong property fundamentals.

Special Purpose Acquisition Companies

Hong Kong introduced its Special Purpose Acquisition Companies ("SPACs") regime in 2022. Since then, only five SPAC IPOs have listed in total. All of them occurred in 2022. No new SPAC IPOs were recorded in 2023, 2024, or 2025, compared with 57 and 135 SPAC IPOs in the US, in 2024 and 2025, respectively. The HKEX Listing Rules require stricter sponsor qualifications, investor eligibility (professional investors only in the initial phase of listing a SPAC), and safeguards compared with the US. This may help to explain why HK has had very few SPAC IPOs compared with the US.

The government and regulators should explore measures to lower barriers, boost incorporation and listing trends, and reinforce HK's status as Asia's premier fundraising centre.

"IPO Connect"

Despite the geopolitical uncertainties, the HK stock market has proved to be resilient and very buoyant in 2025. According to KPMG's year-end review[21], HK reclaimed the top spot in global IPO market rankings for the first time since 2019, driven by a record number of 17 A+H listings, which contributed over half of total funds raised, and highlighted HK's strength as a bridge between domestic and global capital pools.

Over HK$270 billion was raised across 100 listings. This represents increases of 210% and 43% respectively compared with 2024, marking the strongest year in terms of funds raised since 2022. Among the A+H listings was the world's largest EV battery manufacturer, which raised HK$41.0 billion. HK hosted 14 pre-revenue biotech listings in 2025, up from four in 2024, along with three specialist technology listings.

In addition, active IPO applications in HK reached a record 316 as at 7 December 2025, a 267% increase from the end of 2024.

The IPO market is an important generator of income and all-round activity for HK. A buoyant market can also help raise confidence more generally. To sustain and further build on this momentum in the future, we suggest that the government consider discussing with the Mainland authorities the idea of introducing an "IPO Connect", to allow Mainland institutional investors to subscribe for a certain proportion of HK IPOs, on a pilot basis. In the longer-term if this is successful, it should be allowed to operate on both a Southbound and Northbound basis.

Exempt HK-incorporated private companies from stamp duty on intra-group transfers

To reduce transaction costs for mergers and acquisitions, and restructurings, we propose the introduction of a trial scheme to exempt HK-incorporated private companies (not listed companies) from stamp duty on intragroup transfers. This may also encourage more companies incorporated in jurisdictions that do not levy stamp duty on group restructurings to redomicile to HK. A review

[21] https://kpmg.com/cn/en/home/insights/2025/12/china-hk-ipo-markets-2025-review-and-2026-outlook.html

could then be conducted after, say, three years, to assess the impact on incorporation trends, tax revenue and capital market activity.

Proposals

- ***To maintain HK's position as a capital raising hub, and help more good-quality SMEs to list, consider subsidizing some listing expenses/ professional fees for HK-incorporated SMEs.***
- ***To further enhance the attractiveness of HK's REIT market, consider profits tax concessions and also incentives for investors in HK-listed REITs (as Australia and Singapore do).***
- ***Review the listing framework for SPACs, which has become inactive in HK with the aim of facilitating more SPAC listings in HK.***
- ***Discuss with the Mainland authorities the feasibility of an "IPO Connect", to allow Mainland institutional investors subscribe for a certain proportion of HK IPOs, on a pilot basis.***
- ***To reduce transaction costs for mergers and acquisitions and restructurings of HK-incorporated private companies (not listed companies), and, potentially, encourage more companies to re-domicile to HK, consider a stamp duty exemption for private company transfers. Conduct a review after, say, three years, to assess the impact on incorporation trends, revenue and capital market activity.***

Corporate governance

Hong Kong's broad and deep financial markets are critical to its success and, without high standards of corporate governance ("CG") in HK, there would undoubtedly be a loss of confidence among investors. Some concerns have been expressed by institutional investors and others about certain market developments that could risk eroding investor protections in the drive to attract new types of business.

As the main body in HK for restructuring and insolvency practitioners, the Institute has heard feedback about cases, which are no uncommon, where listed companies have gone into liquidation, having been stripped of their assets, by directors who are not in HK and are unreachable.

The government and regulators should continue to stress the critical importance for companies, especially listed companies, and major public sector organizations, to have a strong CG culture and commitment to transparency and accountability, as well as to sustainability. This should be emphasized as one of the core eligibility criteria when companies apply to list in HK.

A few years ago, the Institute published a comparative jurisdictional study, "*Report on Improving Corporate Governance in Hong Kong*"[22], which contained a number of recommendations for strengthening CG in relation to, among other areas, the CG framework and policy, the board and the work of independent non-executive directors ("INEDs"), and enforcement. Despite the passage of time, and some further strengthening of the Listing Rules and Corporate Governance

[22] https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section8_communications/media_centre/2018/20180502/PR_20180502_EN.pdf?la=en&hash=7E023EC5421D78E71546E53F88E08D69. This independent report was carried out by Syren Johnstone and Say H. Goo of HKU's Asian Institute of International Financial Law

Code in the intervening period, a number of the recommendations in the report remain relevant and should still be considered.

"Qualified accountant" in listed companies

One measure that could help reinforce good CG in listed companies and give investors greater confidence would be to introduce a requirement for listed companies to employ a full-time qualified accountant ("QA") in the senior management and, preferably, on the board. A requirement alone these lines was in place in the GEM Listing Rules between 1999-2009, and the Main Board between 2004-2009, in order to strengthen the CG of listed companies, particularly in relation to financial accountability. The main responsibility of the QA was to ensure that proper financial reporting procedures and internal controls were in place and promote compliance with the Listing Rules with regard to financial reporting and other accounting-related issues.

High-quality financial reporting is fundamental to good CG. A QA with the required credentials will be familiar with financial reporting requirements, which have continued to evolve and, arguably, become more extensive and complex since 2009, and will be able to address any issues raised by, the company's auditors more effectively. A QA will be subject to a code of ethics and an obligation to undertake continuing professional development. He/she will have a good understanding of risk management and internal controls, CG requirements and, increasingly also, the rapidly developing area of sustainability reporting. As the standard setter for international sustainability reporting standards in HK, the Institute has issued Hong Kong Financial Reporting Standards Sustainability Disclosure Standards ("HKFRS SDS") and is carrying out capacity building work to ensure that members, and others, are familiar with, and competent to apply, HKFRS SDS. In addition, with the climate-reporting-related changes to the Environmental, Social and Governance ("ESG") Reporting Code (Appendix C2 to the Listing Rules) having recently come into effect, the presence and support of QA can give listed companies, particularly larger listed companies, more confidence that they are able to meet the expectations of investors, in terms of both their financial and their sustainability reporting.

A QA can also be expected to be cognizant of other issues high on the agenda internationally, such as tax governance and anti-money laundering and counter-terrorist financing.

In 2022, the Institute conducted a study on the board diversity of listed companies, including professional qualifications held by board members. We found that:

- Most companies are relying on INEDs to provide their accounting/ financial expertise at the board level. Only around 20% of listed companies in HK have a QA on the board who is an executive director.

- Where there was no QA at all on the board, whether an executive director or (I)NED, in the case of around 18% of companies, in less than a quarter of those companies was the CFO or finance director disclosed as being a QA.

- A survey conducted by the Hong Kong Independent Non-executive Directors Association at that time found that INEDs do not always get sufficient information from the management

This all adds up to a potentially risky situation in terms of investor protection. It is compounded by the fact that, in recent years, certain types of companies with, potentially, a very limited financial track record have become eligible to list on the Main Board of the Hong Kong Stock Exchange, based, primarily, on their market capitalization, which is a volatile measure of performance and one which may be affected by speculative investment. Other types of companies may have in place fewer protections for minority shareholders, such as weighted voting right companies.

We cannot afford to let the perception develop among investors that the overall standard of CG in HK's markets is dropping. The judges in the Institute's annual Best Corporate Governance and ESG Awards have also observed that, while companies are giving considerable attention to their ESG reporting and practices, standards of CG have tended to plateau. We believe that action needs to be taken to ensure that high standards of CG are maintained and continue to improve, which is why we advocate for a new QA requirement. This could, initially, take the form of, e.g., a comply-or-explain requirement in the Corporate Governance Code (Appendix C1 to the Main and GEM Listing Rules).

Proposals

- ***The government and regulators should continue to stress the critical importance for listed companies, and major public sector organizations to have a strong CG culture and commitment to transparency and accountability, in addition to good ESG. This should be emphasized as one the core eligibility criteria when companies apply to list in HK.***
- ***To increase investor confidence in listed companies' CG and ESG, a requirement should be introduced for listed companies to have a full-time qualified accountant in the senior management and, preferably, on the board. This could, initially, take the form of a comply-or-explain requirement in the Corporate Governance Code.***

Further consolidate HK's status as an international maritime and logistics centre and facilitate modernization and automation of HK ports

Hong Kong has established itself as a leading international maritime and logistics centre, ranking fourth globally in the International Shipping Centre Development Index Report 2025[23]. The city's strategic geographical location, robust legal and regulatory framework, and well-developed port and airport infrastructure contribute to its competitive edge. The Hong Kong Shipping Registry ranks among the top in the world by gross tonnage[24], and local maritime companies provide comprehensive services spanning ship management, marine insurance, financing, and legal arbitration[25]. Despite increasing competition from neighbouring ports in the GBA, HK continues to maintain a niche in high value-added maritime services, complementing its logistics capabilities. The government's recent efforts, such as establishing the Hong Kong Maritime and Port Development Board in July 2025, launching the Port Community System project in May 2025, and promoting sustainable maritime fuels, further strengthen the city's role as a premier logistics and maritime hub in Asia, and align with the national strategy under the FYP and the GBA development goals. This solid foundation positions HK well to maintain and build on its status as a global gateway for shipping, logistics, and supply chain management.

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[23] https://www.balticexchange.com/content/dam/balticexchange/consumer/documents/2025%20Xinhua-Baltic%20ISCDI%20Report%20-%20FINAL.pdf

[24] https://www.facebook.com/HKTLB/posts/%E9%A6%99%E6%B8%AF%E8%A8%BB%E5%86%8A%E8%88%B9%E8%88%B6%E7%9A%84%E7%B8%BD%E8%A8%BB%E5%86%8A%E5%99%B8%E4%BD%8D%E8%99%95%E8%BF%9110%E5%B9%B4%E9%AB%98%E4%BD%8D%E8%88%AA%E9%81%8B%E6%A5%AD%E5%AF%A6%E5%8A%9B%E9%9B%84%E5%8E%9Atotal-gross-tonnage-of-hong-kong-registered-ships-at-h/1040893554753658/

[25] https://www.legco.gov.hk/yr2025/english/counmtg/motion/cm20250108m-lsk-prpt-e.pdf#:~:text=6.%20In%20addition%2C%20as%20mentioned%20by%20the,well%2Drecognised%20by%20the%20International%20Maritime%20Organization%20(IMO)

As part of the broader strategy to enhance the city's competitiveness as a leading maritime and logistics hub, HK is committed to promoting the development of smart ports and advanced logistics technologies. Recognizing the growing importance of digitalization and automation in port operations, the government has launched initiatives like the Port Community System[26], which aims to promote digitalization within HK's port community, enhance cross-sector information interconnectivity, and advance smart port development to consolidate and enhance the HK port's competitiveness. To further encourage private sector investment in this area, introducing tax deductions or super-deductions for capital expenditure on smart port and logistics technology investments will provide a strong financial incentive for companies to adopt cutting-edge technologies.

In addition, to support the expansion of related R&D capabilities, besides the R&D-related measures proposed above, relaxing the current limits on concessionary deductions for subcontracting fees paid to overseas associates for R&D (currently limited to circumstances where such fee is not more than 20% of the total costs of the R&D project and the subcontracting fee is not more than $2 million), will enable enterprises to leverage group R&D efforts more effectively. Such a relaxation will provide greater flexibility for MNE groups that often outsource critical R&D components to affiliates outside HK, but which face restrictions under the existing tax regime. Broadening eligibility for tax deductions on cross-border subcontracting fees should help to incentivize increased investment in innovative port and logistics technologies, thus facilitating modernization and automation of HK ports.

According to the PA 2025 (para. 111), the government will continue to foster the development of a commodity trading ecosystem. In addition to the proposed introduction of a half-rate tax concessionary regime for physical commodity trading businesses, as outlined in a recent Legislative Council paper[27], the government should take the initiative to explore additional non-tax incentives to attract commodity trading enterprises to set up their operations in HK. As the ecosystem of the commodity trading involves not only trading but also warehousing, logistics, finance, and related services, the government should consider extending the proposed tax concession to other core parts of the ecosystem, such as warehousing and logistics. Specifically, providing enhanced tax deductions for building warehouses would support infrastructure development vital for the ecosystem's growth, especially in key sectors like the gold market.

Proposals

- ***Introduce tax deductions or super-deductions for capital expenditure on smart ports and logistics technology investments.***
- ***To encourage the development of smart ports, warehousing and logistics in HK, which may require leveraging on group R&D support, consider relaxing the restrictions on tax deductions for subcontracting fees paid to overseas associates for R&D.***
- ***In addition to the proposed half-rate tax concessions, the government should explore non-tax incentives for commodity traders to set up businesses in HK.***
- ***Consider extending the proposed tax concession for commodity trading to other core parts of the ecosystem, such as warehousing and logistics.***

[26] https://www.info.gov.hk/gia/general/202505/16/P2025051600651.htm
https://www.legco.gov.hk/yr2025/english/panels/edev/papers/edev20250304cb3-257-3-e.pdf
[27] https://www.legco.gov.hk/yr2025/english/panels/edev/papers/edev20250708cb3-1045-5-e.pdf

(2) Support during the economic restructuring

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 seven years of implementation and considering the ongoing uncertainties in the global and domestic economies, we suggest that the effectiveness of the regime be reviewed and consideration given to adjusting the rate downwards and/or raising the threshold of $2 million to a higher level, say, HK$3 million, specifically for standalone SMEs, in order to improve the cash flow of local businesses. This could be introduced as a temporary measure for, say, three to five years.

Proposal

- ***Given the prevailing economic challenges and uncertainties, review the effectiveness of the two-tier profits tax rate regime and consider adjusting the rate downwards or raising the threshold of HK$2 million to a higher level, say, HK$3 million, for standalone SMEs, as a temporary measure, for e.g. the next three to five years.***

Support the digitalization of SMEs

There are over 360,000 SMEs in HK, constituting more than 98% of businesses and employing about 43% of the workforce in the private sector. More SMEs will need to undergo digitalization in the coming years to ensure the sustainability of their businesses. They will also be expected to play their part in HK'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, the deployment of secured cloud services, big data and AI should also be encouraged.

We are pleased to see government support for local SMEs through the Digital Transformation Support Pilot Programme, launched during March 2024 to May 2025[28]. While there are a number of IT support schemes that aim to assist SMEs, they tend to provide one-off project-based subsidies, whereas SMEs may also need ongoing digitalization support.

Apart from seeking relevant talent which, due to shortage in this sector, may be non-local talent, SMEs may also consider outsourcing to vendors or using information technology ("IT") to replace some manual tasks. Given their gnererally limited resources, we suggest that consideration be given to providing additional support to SMEs, through a time-limited incentive, of up to 36 months, in the form of a subsidy or tax super-deduction to hire an IT specialist to facilitate the upgrading of their digital capabilities. The proposed funding should also be sufficiently flexible to be usable by SME owners to upskill 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, under the Innovation and Technology Commission, with an

[28] https://www.news.gov.hk/eng/2024/08/20240830/20240830_154540_647.html

emphasis on engaging more experienced IT (post-) graduates and specialists.

The Institute has been advocating and promoting the digitalization of accounting practices, particularly small and medium-sized professional practices (“SMPs”). In order to accelerate the digital transformation of the business sector and the accounting profession, and improve the efficiency of financial management and compliance processes, the adoption of smart accounting software and automation systems by SMEs, including SMPs, should be facilitated. These systems integrate the latest technologies, such as AI, blockchain and advanced data analysis, to help simplify operational processes, improve data accuracy and strengthen risk management capabilities. This can also help prepare businesses for mandatory e-filing of profts tax returns, the first phase of which, for large MNEs, has recently come into effect. The process of facilitation could be achieved either through the funding mechanism proposed above or, alternatively, the esablishment of a separate, easy-access, dedicated fund, e.g., an "Accounting Technology Adoption Fund", to lower the threshold for enterprises to adopt smart tools through financial subsidies.

<u>Proposals</u>

- ***Support the digitalization of SMEs by providing a time-limited tax incentive, of up to 36 months, in the form of a subsidy or tax super-deduction to hire an IT specialist, or for other related purposes.***
- ***Consider establishing an easy-access fund, e.g., an “Accounting Technology Adoption Fund”, to lower the threshold the SMEs (including small and medium-sized professional practices) to adopt smart accounting tools through financial subsidies.***

Establish an expert group on the cross-boundary economy

The government’s efforts to organize and support a diverse range of mega-scale and smaller events have been attracting large crowds of both domestic consumers and tourists. It is also good to see tourism numbers increasing, with over 45 million visitors recorded in the first eleven months of the year, a significant increase of 12% over the same period last year[29].

However, with increasingly more convenient cross-boundary travel, and HK’s higher cost base than the Chinese Mainland’s, changes in spending patterns have emerged, including the tendency for HK people to travel to Shenzhen and other Mainland locations for the weekend, while Mainland visitors to HK are devoting less time to shopping and more to visiting sights recommended by social media, besides more traditional tourist spots. While non-Mainland tourist numbers are growing, they still account for a much smaller proportion of overall visitor numbers than visitors from the Chinese Mainland. As a result, many local businesses are facing challenges. As a Knight Frank research report from 2025 notes, “HK’s retail landscape is undergoing profound changes, affecting both traditional and trendy retailers alike. In April and May, several prominent food and beverage establishments have succumbed to these challenges”[30]. Building on the efforts to attract more visitors, we suggest establishing an expert group/ task force on the cross-boundary economy to examine and make recommendations on possible enhancements to help address the challenges and opportunities faced by the local businesses in sectors such as retail, food and beverage, and tourism.

[29] https://news.rthk.hk/rthk/en/component/k2/1831982-20251117.htm
[30] https://research.hktdc.com/en/article/MjAyNTUxODYwNg

By examining trends in consumer behaviour, economic drivers, potential collaborations among stakeholders, etc., and with the advice of an expert group, the government can formulate strategies to elevate HK's appeal to both residents and visitors and, potentially, assist businesses to be more competitive and to navigate this transitional economy.

Furthermore, the Hong Kong Tourism Board ("HKTB") should work with the tourism boards of other GBA cities to promote combined HK and GBA tours and experiences for oversea tourists that highlight the unique cultural, historical, and leisure attractions of each city, thereby providing a more diverse and enriched travel experience for overseas tourists. HKTB should also explore ways to further stimulate local spending, including promotion campaigns, offers and reward schemes for both visitors and local citizens.

Proposals

- ***Establish an expert group to advise on the challenges and opportunities of the rapidly-evolving cross-boundary economy and assist businesses affected by it.***
- ***The HKTB should work with their counterparts in the GBA to promote combined HK and GBA tours highlighting the distinct experiences of the different cities, and explore ways to stimulate more local spending, through campaigns, offers and reward schemes for local citizens.***

Promote "Brand HK" and the strengths and advantages of the multifaceted HK community

We should continue to review and monitor the effectiveness of HK's branding and communication strategies. Clearly, the HK brand is recognized. For instance, a recent study by the Hong Kong Trade Development Council found that quality, authenticity and brand trust engendered confidence among Mainland consumers for HK products purchased online[31]. We should adopt consistent themes in promoting HK's unique qualities, not only in terms of products, but the whole package of offerings of goods and services. It is important to focus on what defines and distinguishes "Brand HK" and promote and leverage on our strengths in different ways, which could involve, e.g., a lighter-touch, ongoing approach to promotion, aside from any big campaigns. This could help HK to consolidate and enhance its advantages, develop new edges, and maintain a business and living environment that continues to attract overseas investment and visitors. We should also continue to emphasize that HK will remain an international city, open to the world, underpinned by a capitalist system, with a free flow of capital, people and information; that HK will maintain a common law legal system, separate customs and tax regimes, its own currency and highly-liquid financial markets.

In addition, part of what makes HK a great city is its rich diversity and cultural influences. We should project and present a positive image of HK's strengths, achievements and opportunities, as a city where people can realize their ambitions and dreams. We should treasure and build on HK's cultural diversity as a unique and distinguishing facet, promoting HK as a vibrant, modern, sustainable and diverse community, with policies to support that. Engaging citizens from different backgrounds to tell their own stories of how they have been able to succeed and thrive here, in promotional materials, would be a good way to project the strength of the HK community.

[31] https://www.thestandard.com.hk/hong-kong-news/article/308509/HK-brands-thrive-in-mainland-e-commerce-as-78pc-consumers-favor-Hong-Kong-products

According to a report issued by Education First on English Proficiency Index 2024[32], HK has "moderate proficiency" and is ranked 32nd globally. This marks a decline from its 12th place ranking 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 3rd place in terms of English proficiency. If this trend continues, it could well affect HK's competitiveness an international city. Despite HK'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 HK and, in order to maintain HK's competitive edge as an international business, financial and trading centre, and enable to city to fully achieve its ambitions as a "super-connector", 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 Chinese 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 HK is increasing all the time. The government needs to support the objective of making HK 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 HK in its role as a super-connector, bridging the Mainland and global markets effectively.

Preserving and promoting HK's unique linguistic and cultural heritage involves maintaining the city's rich historical identity while embracing its dynamic multiculturalism. HK's heritage conservation efforts protect over a hundred declared monuments and nearly a thousand graded historic buildings, ranging from traditional temples and ancestral halls to colonial-era architecture[33]. Alongside these efforts, HK's diverse community and cultural influences—from traditional Chinese customs to Western, regional and international contributions—enrich the city's cultural landscape, making it a vibrant, cosmopolitan metropolis. Promoting this unique blend not only strengthens social cohesion and local identity, but also enhances HK's attractiveness as a global city offering a distinctive cultural experience, which supports tourism, creative industries, and knowledge-based economy.

Proposals

- ***Promote "Brand HK" leveraging on the city's reputation and quality***
- ***Promote the strengths and advantages of the multifaceted, multicultural, unique HK community.***
- ***To help develop new markets both within China and other regions, strengthen standards of English and Putonghua to support HK in its role as a "super-connector", straddling the Chinese Mainland and international markets. At the same time, preserve and promote HK's unique linguistic and cultural heritage alongside its range of other cultural influences and diverse community.***

[32] https://www.ef.com/wwen/epi/
[33] https://www.amo.gov.hk/en/historic-buildings/heritage-sites-lists/index.html

Promote higher-end and managed eco-tourism

According to the PA 2025, the government will enhance the development of tourism products and initiatives with local and international characteristics, realizing the motif of “tourism is everywhere”, and actively explore new opportunities and develop new attractions.

We are pleased to note from the HKTB’s Work Plan for 2025-26[34] that, among other things, various eco-tourism promotional campaigns will be rolled out in view of the growing interest in in-depth tours among visitors. HKTB will also encourage the travel trade to develop more eco-tourism products and island tour itineraries, enabling visitors to explore scenic coastal environments, marine parks, and diverse ecological zones, such as the crystal cruises at Hoi Ha Wan, Sai Kung. However, it is also crucial that eco-tourism development should be carefully controlled and managed to protect environmentally sensitive sites. Balancing conservation with tourism will protect HK’s unique ecological heritage while enhancing visitor experiences and supporting sustainable local economies.

HKTB has already been promoting the high-quality development of the tourism industry by organizing a series of activities to enrich visitors’ experience to boost their spending and extend their stay in HK. The Board has also been launching targeted measures to attract high value-added visitor segments to HK, and a new hospitality campaign with the travel trade to enhance the satisfaction of both visitors and the general public. We welcome these efforts, which will consolidate the competitiveness and sustainable development of HK’s tourism industry and enhance its contribution to the community and the economy. We also support the idea of collaborating with the Hong Kong Jockey Club to tailor upmarket horse-racing tourism experiences for high value-added visitors.

Proposals

- ***Promote higher-end and well-managed eco-tourism, while protecting the environment from unrestrained access to ecologically sensitive sites.***

[34] https://www.legco.gov.hk/yr2025/english/panels/edev/papers/edev20250506cb3-610-2-e.pdf

Theme II: Measures to attract, retain and nurture talent in Hong Kong

Overview

Hong Kong continues to face strong competition in the global push for talent, compounded by workforce challenges arising from an ageing population, declining birth rate, and people moving overseas. According to a Fact Sheet published by the Legislative Council Secretariat's Research Office[35], HK's labour force shrank by about 6% from 2018 to 2024, with a widening manpower shortfall projected to reach 180,000 by 2028 due to a rapid ageing trend and population movements.

In recent years, the government has implemented a comprehensive suite of talent attraction initiatives to address talent shortages and strengthen the city's position as an international hub for high-calibre talent. Key measures[36] launched since late 2022 include the Top Talent Pass Scheme ("TTPS") targeting high-income earners and graduates from world-class universities, streamlining other employment visa schemes, suspending quotas under the Quality Migrant Admission Scheme, and enhancing arrangements for non-local graduates to stay and work in HK. As of August 2025, over 520,000 applications have been received under various talent admission schemes, with more than 350,000 approved and over 230,000 talents arriving in HK[37]. The government also promotes integration between academia and industry and supports youth development programmes to nurture local talent. This multifaceted approach has resulted in HK achieving its highest-ever ranking in the global World Talent Ranking 2025[38], reflecting the effectiveness of talent policies in attracting and retaining high-calibre professionals essential to economic growth and innovation.

On the other hand, the skills of many capable seniors are underutilized due to traditional retirement practices, while women often leave employment for child-rearing and 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. Additional measures to encourage childbearing amid the continuing low birth rate are also important and these should include encouraging businesses to adopt more flexible, modern, family friendly practices.

(1) Measures to address talent shortages

Attract and retain talent

To enhance talent mobility and strengthen HK's connectivity with the GBA and global markets, it is proposed that the government further simplify visa application procedures by continuing the recent move to mandatory online submissions for certain visa applications[39], which has streamlined processing and reduced administrative burdens. In addition, we suggest establishing a green channel to facilitate the timely entry of GBA and foreign students for internships in the accounting and other sectors, during peak seasons. The government should also consider supporting the retention of more,

35 https://app7.legco.gov.hk/rpdb/en/uploads/2025/FS/FS02_2025_20250430_en.pdf
36 https://www.immd.gov.hk/eng/services/index.html#tab_b_1
37 https://www.news.gov.hk/eng/2025/09/20250909/20250909_101855_093.html?&tl=t
38 https://www.imd.org/centers/wcc/world-competitiveness-center/rankings/world-talent-ranking/
39 https://www.info.gov.hk/gia/general/202501/14/P2025011400355.htm

high-calibre graduates in HK by subsidizing employers to provide competitive salaries and accommodation, particularly for non-local students, for a limited period after their graduation. Such measures will help attract young talents, enrich the local workforce, and reinforce HK's position as a vibrant talent hub in the region, while strengthening professional exchanges and industry development across borders.

According to the PA 2025, among the various schemes, the TTPS has recorded an application rate as high as 55% for extension of stay. These talents are employed mainly in the I&T and financial sectors in HK. Among the applicants, 95% receive a monthly income higher than the local median income of about $20,000, and 50% earn a monthly income nearly double that amount (para. 170). This reflects a strong demand for TTPS talents and the market's willingness to offer higher salaries to attract them. Nevertheless, concerns have been raised about potential misuse of these talent schemes [40]. The observation is that some people admitted under talent schemes, may return immediately to the Mainland after obtaining their residency status, which they may obtain for various non-work reasons, such as facilitating travel to and from HK, enrolling, their children in schools for HK residents in the Mainland or in HK schools, or benefiting from a lower tax rate as HK residents in the Mainland.

We recommend that the government should conduct regular reviews of these schemes to ensure alignment with evolving economic needs and to effectively match HK's medium- and long-term workforce demands against the availability of resources. While the Immigration Department will consider the applicants' salaries, their economic contributions to HK, and their duration of stay when processing TTPS renewal applications[41], it is important to prevent misuse and ensure the schemes fulfil their intended purpose. Therefore, we suggest imposing an additional condition on persons admitted under talent schemes, i.e., that they should maintain substantial residency, for example, staying a minimum of 90 days annually during the period when they are establishing their eligibility for residency. Furthermore, any renewal under these schemes should require evidence of compliance with conditions, except where fully justified, such as where a relevant person is posted overseas by a HK employer. This approach would discourage the exploitation of the schemes for short-term or passive residency benefits.

The government should consider introducing a priority processing channel for individuals admitted under talent schemes, particularly the TTPS, to expedite the handling of double tax relief applications and facilitate individuals' tax planning. Such measures would improve the efficiency of talent admissions and strengthen HK's appeal in attracting skilled individuals.

Facilitate property purchases by newly arriving Mainland talent

We propose the launch of a "Property Connect" pilot scheme to facilitate Mainland residents to purchase HK first-hand residential properties directly using RMB, thereby enhancing the commitment of talents coming from the Mainland. Under this mechanism, any proceeds received from selling such properties could be required to be remitted back to the Chinese Mainland, rather than reinvested elsewhere, thereby ensuring effective governance of RMB flows. During the pilot phase, the initiative could be applied specifically to first-hand residential properties, creating a controlled framework that supports cross border capital management while helping to stimulate HK's property market.

[40] https://hongkongfp.com/2025/03/05/break-up-peacefully-hong-kong-labour-chief-defends-citys-talent-schemes-after-ex-leader-casts-doubt-on-policy/

[41] https://www.thestandard.com.hk/breaking-news/article/229060/Labor-minister-reassures-strict-vetting-for-talent-schemes

Proposals

- ***Enhance talent mobility and strengthen HK's connections to the GBA and global markets, including by simplifying the visa application procedures, and opening a green channel for GBA and foreign students to come to HK for internships in the accounting and other sectors, during the peak seasons.***
- ***Help to retain high-calibre graduates in HK by subsiding employers to provide competitive salaries and accommodation, particularly for non-local students, for a limited period after their graduation.***
- ***Review talent admission schemes regularly to align with long-term workforce demands and resource capacity. Discourage their misuse by, e.g., imposing an additional condition on persons admitted under talent admission schemes, who should be required to stay in HK for at least 90 days annually, if they wish to have their stay renewed and to maintain their eligibility for residency.***
  - ➢ ***Consider providing a priority processing channel for persons admitted under the talent admission schemes, specifically the TTPS, to handle double tax relief applications.***
  - ➢ ***Introduce "Property Connect" pilot scheme to facilitate recently-arrived Mainland talent to purchase HK first-hand residential properties directly using RMB.***

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

Hong Kong continues to face a record low fertility rate, with the total fertility rate[42] rising slightly from 0.70 in 2022 to 0.84 in 2024, but still well below replacement level (2.1)[43], and early 2025 data indicate a possible decline in births compared with last year[44]. The number of registered births reached 36,700 in 2024, marking an 11% increase from 2023, possibly linked to the one-off HK$20,000 newborn baby bonus[45] introduced in October 2023, which will be reviewed after October 2026. However, experts remain cautious, noting that the impact of this cash bonus has been limited and the declining number of women of childbearing age due to population ageing may constrain future birth numbers[46]. The low fertility rate is already beginning to affect school enrolments and workforce planning, exacerbating demographic challenges in HK. In addition to continuing the baby bonus, consideration should be given to extending the statutory maternity and paternity leave, and implementing more family-friendly policies. These measures will go some way towards encouraging childbirth and support local families, as well as overseas talent, in raising the next generation in HK.

Regarding the statutory maternity and paternity leave, it is proposed that the government consider further extending statutory maternity leave from the current 14 weeks to 16 weeks, and paternity leave from 5 days to 10 days, and provide subsidies to employers to cover wages paid during the extended leave. This would bring HK more in line with regional peers such as Singapore, which from April 2025 has extended maternity leave to 16 weeks with full pay[47] (with reimbursement by the government)

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[42] https://www.censtatd.gov.hk/en/scode160.html
[43] https://www.info.gov.hk/gia/general/202507/16/P2025071600270.htm#:~:text=It%20has%20been%20reported%20that%20Hong%20Kong's,development%2C%20public%20service%20demands%20and%20workforce%20structure
[44] https://www.scmp.com/news/hong-kong/society/article/3326056/why-number-hong-kong-newborns-could-drop-near-record-low-despite-measures
[45] https://www.cso.gov.hk/newbornbabybonus/eng/index.htm
[46] https://www.scmp.com/news/hong-kong/society/article/3326056/why-number-hong-kong-newborns-could-drop-near-record-low-despite-measures
[47] https://www.mom.gov.sg/employment-practices/leave/maternity-leave/eligibility-and-entitlement

and offers up to 6 weeks of shared parental leave[48] for parents. Other Asia-Pacific economies like South Korea, which is also facing a low birth rate, provide even longer and more generous paternity leave of 20 days[49]. Extending leave periods not only supports better early child care and maternal recovery, but also encourages higher birth rates by alleviating work-family conflicts. Given the significant role employers play in HK, wage subsidies would incentivize businesses to implement these extensions without incurring an excessive financial burden, promote family-friendly workplaces and help address the city's ongoing low fertility rate and workforce sustainability challenges.

In recent years, the government has been strengthening support for working families in their childbearing years, including increasing places at childcare centres and allowances, extending the after-school care programmes for pre-primary children to cover all districts, and strengthening the home-based child care service. We support these measures and also the extension of the additional child allowances for two years after a child is born, as announced in the PA 2025 (para. 271(i)), which is similar to a measure that we have been advocating. To complement this, we also suggest encouraging businesses to adopt more family-friendly policies, including flexible working arrangements, part-time work options, and the creation of suitable on-site breastfeeding spaces. Furthermore, we suggest that the government consider providing subsidies to employers to facilitate parents to work from home ("WFH") for up to two years after childbirth (for one parent), subsidizing relevant costs for remote working facilities, such as laptops and cybersecurity software. Such supportive measures will help parents balance work and family responsibilities, and promote workforce retention.

To attract and retain overseas talent with families, the government should provide an allowance to cover private education expenses for the children of overseas talent, up to a certain limit annually. This would alleviate concerns over education costs and cultural differences, making HK a more attractive destination for global talent and their families, thereby supporting workforce diversity and economic growth.

Proposals

- ***Consider further extending the statutory maternity leave and paternity leave from 14 weeks and 5 days to 16 weeks and 10 days, respectively, and provide subsidies to employers for wages paid during the extension.***
- ***We welcome the extension of additional child allowances for two years after a child is born, as announced in the Policy Address, which is similar to a measure that we have been advocating. We also suggest encouraging businesses to implement more family-friendly policies, such as flexible working arrangements and part-time work; and encourage employers to allow parents to work from home ("WFH") for up to two years after the birth of child (for one parent) by offering subsidies on remote working facilities/ equipment.***
- ***Provide an allowance for the private education of the children of overseas talent, up to a certain limit annually.***

48 https://www.mom.gov.sg/employment-practices/leave/shared-parental-leave
49 https://global.lockton.com/us/en/news-insights/south-korea-expands-family-leave-entitlements

Retain and develop the skills of the workforce

Currently, there are about 1.8 million older persons aged 65 or above, accounting for around 23.9% of the total population[50] and this number is projected to rise to approximately 2.74 million (36% of the total population) by 2046[51]. The traditional retirement age of 60 or 65 is becoming less relevant as people generally live longer and many remain capable and willing to work beyond these ages. It is imperative, therefore, that opportunities be created and encouragement given for older adults to stay in employment, which not only supports their well-being, but also helps alleviate workforce shortages. Meanwhile, despite women comprising the majority of university graduates, only about 52% participate in the workforce[52]. According to a survey conducted by The Women's Foundation in 2019[53], around 30% of women drop out of the workforce due to caring responsibilities, such as childcare and elderly care. To replenish its talent pool, the government should develop and back initiatives to encourage businesses to recognize the value of retaining experienced older workers, as well as adopting more family-friendly policies and practices to entice say-at-home mothers to return to the workforce. Hong Kong needs create a more supportive and inclusive work environment that maximizes the potential of the community.

The Re-employment Allowance Pilot Scheme was launched in July 2024[54], with more than 50,000 participants and more than 27,000 placements recorded as of August 2025. We are pleased to note the government will conduct a mid-term review to optimize the scheme, along with the Employment Programme for the Elderly and Middle-aged to explore measures promoting silver employment, in the first quarter of 2026, as mentioned in the PA 2025 (para. 254). The government should continue to encourage experienced and skilled retirees to stay in. or return to. the workforce by promoting actively the arrangement to defer their retirement age in the civil service to 65 years old, with an option to stay on until, say, 68. In addition to incentives for new parents (see above), the government should consider significantly increasing (e.g. doubling) the basic allowances for retired individuals aged 65 or above, and offering employers enhanced deductions of 125% on their salaries, for up to two years.

As further support for the above proposal, a recent survey conducted by investment company T.Rowe Price Hong Kong[55] found that around 52% of HK residents do not plan to retire at the typical retirement age of 65. This is partly because many feel that they cannot achieve the savings target necessary for a comfortable post-work life, but, in addition, non-financial motivations are also important. According to the survey, 69% of respondents want to continue working to keep their minds active, while 40% seek the sense of accomplishment that work provides. Among 52% who do not plan to retire, about 80% prefer not to retire at all, or to opt instead for a "micro-retirement", which involves taking a break for several months to a few years before returning to work.

[50] https://news.mingpao.com/pns/%E6%95%99%E8%82%B2/article/20251015/s00011/1760462271228/talk-of-the-town-growing-the-silver-economy

[51] https://www.censtatd.gov.hk/en/data/stat_report/product/FA100061/att/B72310FA2023XXXXB0100.pdf

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

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

[54] https://www.info.gov.hk/gia/general/202407/15/P2024071200291.htm

[55] https://www.scmp.com/business/banking-finance/article/3321014/over-half-hong-kong-residents-plan-work-past-65-due-retirement-savings-shortfall

Proposals

- ***Facilitate experienced and skilled recent retirees to re-enter the labour market. In particular, the government should actively promote the arrangement in giving suitable staff the option to defer their retirement age to 65 - 68 (for both civilian and, where practical, disciplined services officers) and encourage employers to hire and retain experienced older people in employment.***
- ***Encourage local talent and experienced retirees back to the workforce. In addition to incentives for new parents (see above), provide significantly higher (e.g. double) basic allowances to retired individuals aged 65 and above, and enhanced deductions for employers of 125% on their salaries, for up to two years.***

<u>Theme III: Measures to ensure resilient and sustainable public finances and a competitive tax system</u>

Overview

For 2024-25, the deficit was revised to HK$87.2 billion, almost double the initial forecast of HK$48 billion, largely due to reduced revenues from land premium and stamp duties. With the sizable deficits, the fiscal reserves stood at around HK$647.3 billion (equivalent to 10 months of government expenditure) as the end of March 2025. The deficit to GDP ratio for HK in 2025 was around 4.8%. This compares with around 6% in the US and 5% in the UK. It was reported that, in 2025, the Central People's Government planned for a budget deficit to GDP figure of 4%. Against these benchmarks, HK's financial position should not be seen as anything extraordinary. While HK has also enjoyed extended periods of substantial surpluses in the past, this could arguably be seen as the more uncommon scenario compared with most other developed markets and not something that is easily sustainable in the long term. Moreover, HK's financial strength should not be measured by the size of the fiscal reserves alone, as the Exchange Fund managed by the Hong Kong Monetary Authority, which also includes the fiscal reserves, has total assets of over HK$4 trillion. Although the primary purpose of the Exchange Fund assets is to support the HK currency, nevertheless, this is indicative of HK's overall financial strength. Of course, this is just a snapshot, and the picture can change quickly, so we cannot afford to be complacent and must monitor the situation carefully. More recently, as noted above, the FS has indicated that HK could return to a current account surplus as early as this year due largely to much higher than anticipated revenue from stamp duty on stock market transactions.

We support the government's efforts to identify new revenue and funding sources while seeking to control the growth of total government expenditure. The "reinforced version" of the government's fiscal consolidated programme[56], as mentioned by the FS in the 2025/26 budget speech, aims at strictly containing public expenditure while minimizing the impact on public services and people's livelihood. A cumulative reduction of government recurrent expenditure of 7% is expected from 2025-26 to 2027-28. The reinforced programme has given a clear pathway towards the goal of restoring fiscal balance in a planned and progressive manner.

Certain targeted tax measures have been introduced in recent years, including a two-tier standard rate tax regime for salaries tax and tax under personal assessment, which imposes a higher rate of tax on high-income earners, and a progressive rating system for domestic properties with a higher ratable value. In addition, the FS has previously indicated that the implementation of the Base Erosion and Profit Shifting ("BEPS") initiative 2.0 Pillar 2 "GloBE rules", together with the introduction of a domestic minimum "top-up tax" and related measures in HK, commencing in 2025, should result in additional revenue in the years ahead, when HK-based constituent entities on in-scope of MNEs start to file their GloBE returns, in 2027.

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[56] https://www.news.gov.hk/eng/2025/02/20250226/20250226_093310_017.html#:~:text=Financial%20Secretary%20Paul%20Chan%20said%20in%20his,the%20impact%20on%20public%20services%20and%20livelihoods

Proposals

To ensure sustainable public finances, we call for more regular reviews of HK's tax base to consider issues of tax certainty and the competitiveness of the tax regime, exploration of options for broader-based taxes to stabilize revenues, and continuous monitoring of existing policies and incentives. In terms of new sources of revenue, in addition to the implementation of the GloBE rules, as noted above, measures such as a two-tier, standard-rate salaries tax regime can provide some additional revenue without significantly impacting the livelihood of citizens. In fact, we think that there is scope for a further moderate increase in the higher-tier standard rate.

At the same time, optimizing public expenditure is critical to controlling costs and ensuring that resources are allocated efficiently to essential services like housing, healthcare, education, welfare and digitalization.

By focusing on both enhancing revenue streams and managing expenditures effectively, HK can work towards restoring fiscal balance while continuing to support economic growth and public welfare initiatives. This approach is vital for maintaining the city's long-term financial health and competitiveness in an increasingly complex world.

(1) <u>Optimizing revenue streams</u>

Review the tax base regularly and establish realistic projections for long-term revenue needs

In response to the increasing challenges, including economic volatility, a rapidly changing global landscape, and greater competition, HK has introduced various preferential regimes in recent years, such as the two-tier profits tax system, patent box regime, unified funds exemption regime and family-owned investment holding vehicle regime, etc.

To ensure our tax policies and incentive schemes remain effective, we propose a regular review mechanism to ensure their continuing competitiveness and ability to generate more business and, ultimately, more tax revenue. In addition, it is essential to evaluate the composition of HK's tax base and consider exploring additional, preferably, broader-based taxes to ensure the stability of revenues in the future, to help address the longer-term public finance and development needs, and avoid structural deficits. This remains important given HK'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.

Evidence suggests that other factors are generally more important than stamp duty when it comes to the liquidity of the stock market. The buoyancy of the HK stock market in 2025 supports this view and, given also the significant retail element in HK stock market, stamp duty on securities transactions is, in practice, quite a broad-based tax. As such, we would not suggest any reductions in the stamp duty on securities transactions. As regards the real estate market, while property sales remain relatively quiet, albeit more active than in 2024, the rental market has been very active and likely to remain so, for a variety of reasons. We believe that, in this environment, consideration should be given to increasing the stamp duty on the leases of residential properties which is currently relatively low and had not been revised for many years.

Further, to help increase revenues and in keeping with the "affordable users pay" principle, we suggest increasing the higher-tier standard rate under the two-tiered standard rate regime for salaries tax and tax under personal assessment from 16% to 16.5% and/or lowering the income threshold for this rate from a net income of over HK$5 million to, e.g., income over HK$4 million.

Proposals

- ***Review the tax base regularly and establish clear projections for long-term revenue needs.***
  - ***Establish a regular review mechanism to assess the effectiveness of current tax policies and incentive schemes for their competitiveness and ability to generate more business, and, so, tax revenue.***
  - ***Conduct more regular reviews of the composition of the tax base and explore options for broader-based taxes to stabilize revenues and help address longer-term public finance and development needs, and also avoid structural deficits.***
  - ***Consider increasing the stamp duty on leases of residential properties.***
  - ***Consider increasing the higher-tier standard rate from 16% to 16.5% and/or reducing the income threshold at which it is triggered to, e.g., income over $4 million.***

Introduce a limited-time voluntary reporting scheme/ amnesty programme for small-scale businesses and taxpayers under tax audit

Practitioners have noted the growing expressions of concern among individuals, such as key opinion leaders and Instagram store owners, after receiving inquiries from the IRD for the first time. These inquiries request that individuals apply for business registration and report taxes for previous years. It appears that the IRD has begun to closely examine individuals who may have been operating small-scale businesses in HK without the business registration certificates, potentially leading to tax evasion.

The government should launch a public education campaign focused on the importance of business registration and tax compliance. This campaign could be complemented by a limited-time voluntary self-reporting scheme and an amnesty/ waiver of penalties for individuals who take the initiative and opportunity to register their businesses and rectify any failure to make past tax filings. We propose that the time limit for participation be set at six months for small businesses and individuals, and extended to one year for larger businesses (for example, platform operators such as ride-hailing companies). These initiatives would not only enhance compliance and expand the tax base but also reduce the IRD's administrative burden. Consider expanding this to non-HK entities looking to redomicile to HK, etc. and also consider encouraging more companies to redomicile by offering them some subsidies on consultancy and legal fees. They may also be attracted by our proposed stamp duty exemption for private companies' intra-group restructurings.

Proposals

- ***Launch a public education campaign on business registration and tax compliance, coupled with a limited-time voluntary self-reporting scheme and an amnesty/ waiver of penalties for small-scale businesses, including key opinion leaders, online store owners, taxi drivers, and other individuals who proactively register and rectify past failures to make tax filings, to enhance compliance, expand the tax base and reduce the IRD's administrative burden. Consider expanding this to non-HK entities looking to redomicile to HK, etc.***

- ***Offer subsidies for consultancy and legal fees for companies contemplating re-domiciliation; and also ensure that their tax position in HK and the Chinese Mainland is clear and certain.***

A boundary facilities fee and electronic tolls

Hong Kong's land boundary control points have varied operating hours and some control points operate limited hours due to demand, infrastructure, or cross-border coordination reasons. We understand that the government has indicated that it would review whether immigration clearance hours at certain boundary control points on weekdays should be extended. While there have also been discussions about extending operating hours at busy points to alleviate congestion during peak events, we suggest reviewing the operational hours of all boundary control points, not only on weekdays but also on weekends and during special occasions. This proactive approach would enhance the overall experience for visitors and improve the efficiency of border crossings, ensuring smoother transit during high-traffic periods.

Recent statistics indicate that HK's outbound travel fully recovered in 2024, with HK residents making 37.7 million departures in the first four month of 2025[57], a significant portion of which were to the Mainland. This trend highlights a growing pattern of cross-boundary and overseas travel that increases the demand for maintenance of facilities and infrastructure at various control points. The high volume of travellers strains existing resources and also necessitates enhanced services to accommodate the departures of residents seeking leisure and shopping opportunities in the Mainland. We suggest, therefore, that consideration be given to the introduction of a boundary facilities fee on private cars departing via land boundary control points, a measure we advocated for last year and which the government appeared support in principle.

At the same time, the government should periodically review and adjusting vehicular e-toll rates from time to time and consider expanding e-tolls to bridges as well as tunnels.

<u>Proposals</u>

- ***Review the operational hours of all HK land boundary control points.***
- ***Consider implementing a boundary facilities fee structure for private vehicles entering controlled zones at rates of, e.g., $80-100 per private car.***
- ***Periodically review and adjust vehicular e-toll rates from time to time. Consider increasing the number of road e-toll facilities, to include bridges as well as tunnels.***

(2) <u>Enhancing the efficiency of the tax system</u>

Make good use of the e-filing system for more streamlined tax administration

<u>Gather feedback to enhance the user-friendliness of the system</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

[57] https://www.itehk.com/travelexpo/doc/press/HK_Outbound_Report-Jul25_en.pdf

the e-filing of profits tax returns, initially by large MNE groups, with the ultimate goal of achieving full-scale implementation of mandatory e-filing by 2030.

We welcomed the launch of the three new tax portals under eTAX, namely the Individual Tax Portal, Business Tax Portal, and Tax Representative Portal, in July 2025[58]. We also appreciate the IRD's effort and commitment to promoting tax digitalization and upgrading electronic tax services to provide convenience to taxpayer and enhance the efficiency, reliability and accuracy of return filing.

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 HK with international best practices. With this objective in view, the Institute participated in consultations on the development of the e-filing system and took part in trial runs of aspects of the system, during 2023 to 2025. We have also assisted the IRD to promote the new tax portals to members and the public via newsletters and seminars.

Following the implementation of the new tax portals, the IRD should continue to solicit feedback from the market and the profession on the design and operation of the system. They should improve and fine-tune the system as appropriate to enhance efficiency and improve the user experience.

<u>Encourage early adopters by providing appropriate incentives</u>

Under the first phase of the implementation of mandatory e-filing, entities of MNE groups falling within the scope of BEPS are mandated to e-file their profits tax returns for a year of assessment beginning on or after 1 April 2025 (i.e. year of assessment 2025/26 onwards)[59].

While in-scope MNE groups will start their mandatory e-filing soon, other corporations and businesses should also take the opportunity to familiarize themselves with the eXtensible Business Reporting Language ("iXBRL") tax filing requirements. Voluntary e-filing of profits tax returns, together with financial statements and tax computations in iXBRL format, should be encouraged. This gives taxpayers and practitioners the opportunity to accustom themselves with the e-filing system, as well as the IRD's Taxonomy Package and the Preparation Tools, before the implementation of the full-scale mandatory e-filing, and to reflect their experience of using the system to the IRD, as early as possible. We understand that, so far, the take-up of voluntary e-filing has been slow, as taxpayers and tax representatives are not sufficiently incentivized to try using the system. This being the case, we suggest that more incentives be offered, such as a significantly extended filing deadlines, early tax refunds, and additional tax rebates, to encourage taxpayers to use the e-filing system on a voluntary basis. This is in the interests of all parties, in order to ensure a smooth and effective transition to e-filing and the promotion of digitalization.

<u>Leverage the data collected through e-filing</u>

Upon the full adoption of mandatory 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. We would hope that, over time, it will also help strengthen tax audit capabilities and, for example, enable shortening of the timeframes to review dispute cases and finalize tax positions.

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[58] https://www.info.gov.hk/gia/general/202507/22/P2025072200294.htm
[59] https://www.ird.gov.hk/eng/tax/bus_beps.htm#a07

Proposals

- ***Leverage on the e-filing system to streamline tax administration and enhance tax certainty***
  - ***Continue to collect feedback from the market and practitioners post implementation on the functionality of the eTax portals to ensure a practical and user-friendly interface.***
  - ***Provide early adopters of e-filing with incentives, such as a significant extension of the tax filing deadline, early tax refunds, or additional tax rebates.***
  - ***Over time, leverage on the efficiencies and data collected from e-filing to enhance tax administration and services for taxpayers, by, for example, strengthening the IRD's tax audit capabilities and shortening timeframes to review dispute cases and finalize tax positions.***

Modernize the stamp duty group relief regime

Section 45 of the Stamp Duty Ordinance *(Cap. 117)* ("SDO") establishes a framework for stamp duty exemption relief on the transfer of HK stock or immovable property between associated bodies corporate (known as "section 45 relief"). The Court of Final Appeal ("CFA") handed down a judgment in the John Wiley case in June 2025, which affirms that the section 45 relief is available only to companies with issued share capital and cannot be extended to limited liability partnerships given that they are not "bodies corporate" and do not have "issued share capital", within the meaning of section 45. The CFA also indicated that the question of whether the section 45 relief should be extended to other entities was a matter for the legislature.

This judgment highlights a significant limitation of the current regime, which has not been adequately updated to accommodate the diverse range of companies and structures present in today's market. Given these developments, we consider that it is essential to review and revamp the section 45 relief, to ensure its effectiveness and HK's competitiveness as a leading global business and financial hub.

In view of the above, the Institute made a separate submission to the Secretary for Financial Services and the Treasury in November 2025[60], to explain the context and put forward detailed recommendations, which we will not repeat here. We would simply urge the government to consider initiating the process as early as possible and suggest that consideration be given to issuing a public announcement, e.g., in the Budget Speech, that a review will be undertaken, to reinforce confidence in HK's competitiveness and commitment to a maintaining a business-friendly environment. Following that the IRD could consider granting the section 45 relief in cases involving limited liability partnerships, pending a change in the law.

In the meantime, we hope that the Stamp Office could issue guidance on which types of commonly-used foreign corporations are, currently, regarded as bodies corporate for the purpose of section 45, and how the existing test of "association" (i.e., 90% of the issued share capital) should be determined, given that shares of a company no longer have a nominal or par value under the Companies Ordinance.

Proposals

- ***Modernize the stamp duty group relief regime under section 45 of the SDO to cover entities that are not bodies corporate with share capital, such as certain types of limited liability partnerships.***

[60] https://www.hkicpa.org.hk/-/media/Document/APD/TF/submission/TFEC_stamp-duty-group-relief-submission_251120.pdf

- ***Consider issuing a public announcement that a review will be undertaken, to reinforce confidence in HK's commitment to a maintaining a business-friendly environment, and granting the relief administratively in cases involving limited liability partnerships, pending a change in the law.***
- ***Issue guidance how the existing test of "association" (i.e., 90% of the issued share capital) should be determined, given that shares of a company no longer have a nominal or par value under the Companies Ordinance.***

(3) Contain the growth of public expenditure

Control public expenditure and prioritize for impact

The government's expenditure has grown almost three times faster than revenue over the past decade, affecting the city's fiscal reserves. The current situation has sparked calls from economists and politicians to review the administration's approach to spending. Faced with the pressure on public finances, the government has decided to implement a Productivity Enhancement Programme, under which bureaus and departments are required to cut 1% recurrent expenditure allocation in 2024-25 and a further 1% in 2025-26. In the 2025/26 budget speech, a "reinforced version" of the fiscal consolidation programme, including a cumulative reduction of government recurrent expenditure by 7% from February 2025 through 2027/28, was proposed. The approach reflects the government's concerted effort to minimize the impact on public services and people's livelihoods while restoring fiscal balance, in a planned and progressive manner.

We support these efforts to control public expenditure and save costs in the current fiscally-constrained environment. Traditionally the government has sought to follow the principle of keeping expenditure within the limits of revenues in drawing up the budget, striving to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of GDP. This is a fiscally prudent approach, which should continue to be the overall guiding principle, even if, from year to year, certain adjustments and accommodations may need to be made, depending on the state of the economy. The government should continuously assess its spending to identify opportunities for cost reductions, streamline operations, eliminate inefficiencies, and where possible, enhance automation.

To further strengthen fiscal discipline and ensure effective resource allocation, the government may also need to prioritize public spending on critical areas, such as housing, healthcare, education, welfare, and digitalization. This would help address pressing societal needs, enhance citizens' quality of life, promote community wellbeing, and contribute to long-term economic development through upskilling the workforce, and driving innovation, efficiency, and competitiveness.

Proposals

- ***Continuously assess public spending to identify opportunities for cost reductions, streamline operations, eliminate inefficiencies, and where possible, enhance automation.***
- ***Prioritize public spending for impact: Focus spending on essential public services such as housing, healthcare, education, welfare and digitalization i.e., areas that provide the greatest benefit to the community and measures to stimulate economic growth.***

Theme IV: Measures to support the community and sustainable development

Overview

In light of the economic challenges facing our community in recent years, it is essential to explore measures that provide targeted relief while fostering sustainable development. Relief measures such as tax rebates and stamp duty concessions can alleviate the financial burden on residents and local businesses, encouraging spending and stimulating the economy. Implementing targeted support for vulnerable populations can also enhance social welfare and foster community resilience. By ensuring access to resources and opportunities for all, we can pave the way for a growing and sustainable economy that not only benefits our community, but also protects and preserves the environment for future generations.

The government is committed to achieving carbon neutrality by 2050. Hong Kong's Climate Action Plan 2050 ("CAP")[61], published in October 2021, set out the vision of "Zero-Carbon Emissions-Liveable City-Sustainable Development", and outlined the strategies and targets for combating climate change and achieving carbon neutrality, together with certain quantitative targets. The government launched a roadmap on sustainability disclosure in HK ("Roadmap")[62] in December 2024. The Roadmap sets out HK's approach to requiring publicly accountable entities to adopt the International Financial Reporting Standards ("IFRS") Sustainability Disclosure Standards (the "ISSB Standards"), providing a well-defined pathway for large publicly accountable entities to fully adopt the ISSB Standards no later than 2028.

The Institute fully supports HK's efforts to achieve carbon neutrality by 2050 and we are committed to helping the HK business community to understand and adopt international sustainability reporting standards. As the sustainable development standard setter in HK, the Institute has published HKFRS SDS, which are fully aligned with the ISSB Standards, i.e., HKFRS S1 and HKFRS S2 on general and climate-related disclosures, respectively. These standards became available for adoption from 1 August 2025[63] (on a voluntary basis). Further, with effect from 1 January 2025, Hong Kong Exchanges and Clearing ("HKEX")'s ESG Reporting Code[64], requires listed companies to make climate-related disclosures in phases, reflecting HKEX's commitment to driving the sustainability agenda among listed companies, and to preparing companies for sustainability and climate reporting, in accordance with IFRS/ HKFRS SDS.

Meanwhile, we also propose various measures to help achieve long-term and interim decarbonization targets through green incentives and support.

(1) Community measures

Firstly, the Institute fully supports the tax waivers for citizens affected by the Wang Fuk Court fire tragedy and applauds the government's initiative to treat donations to "Support Fund for Wang Fuk Court in Tai Po" as Approved Charitable Donations for tax deduction purposes.

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[61] https://www.eeb.gov.hk/sites/default/files/pdf/cap_2050_en.pdf
[62] https://www.fstb.gov.hk/fsb/en/publication/report/docs/FSTB_Roadmap2024_eBooklet_EN.pdf
[63] fhttps://aplus.hkicpa.org.hk/2025-issue-1-institute-news/
[64] https://en-rules.hkex.com.hk/sites/default/files/net_file_store/HKEX4476_3841_VER36624.pdf

Since 2019, HK has consistently held the title of the world's most expensive city for expats, as reflected in Mercer's Cost of Living survey[65]. The combination of limited housing supply and increasing demand has further exacerbated the situation, making it increasingly challenging for residents to afford basic living expenses. HK residential leasing market demonstrated robust performance in the first quarter of 2025, extending its upward trend with a notable year-on-year increase of 3.64%. With an influx of overseas talent and non-local university students, in mid-2025, Savills forecasted a full-year rental growth of approximately 5% in 2025[66]. This ongoing trend underscores the financial burden placed on individuals and families.

On the business front, HK'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 HK people spending their weekends in Shenzhen, as explained above. Various sectors of the community will continue to need some additional help in the present economic climate. Furthermore, given rising costs, working people will inevitably need to save more for their retirement.

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

Proposals

- ***For a limited period, e.g., the next five years, allow purchasers of residential property for self-use, to pay the stamp duty, in equal annual instalments over a 3-year period from the original stamp duty due date.***
- ***If further stimulus to the property market is desirable, consider reducing stamp duty (e.g., by 50% for property values or considerations up to, say HK$12 million) for first time buyers of self-use residential properties, over the next three years.***
- ***The Institute fully supports the tax waivers for citizens affected by the Wang Fuk Court fire tragedy and the initiative to treat donations to "Support Fund for Wang Fuk Court in Tai Po" as Approved Charitable Donations for tax deduction purposes.***
- ***For other taxpayers, provide a tax reduction of 100%, subject to a ceiling of HK$5,000, on salaries tax, tax under personal assessment and profits tax for 2025-26. Alternatively, increase basic personal allowances, at least, in line with inflation, since the previous increase occurred nearly 10 years ago.***
- ***Provide a rates concession for properties owned by natural persons for two quarters, subject to a ceiling of HK$1,200 per quarter. Consider restricting the concession only to properties with a ratable value of up to, say, HK$200,000, or to lower-band properties under the progressive rates system.***
- ***Extend the electricity charges relief scheme for one more year to December 2026, in conjunction with promoting energy conservation measures.***
- ***Consider expanding the scope of "qualifying tenancy" eligible for the rental deduction, for salaries tax purposes, to include rental of a serviced apartment by means of a licence.***
- ***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.***

[65] https://www.mercer.com/insights/total-rewards/talent-mobility-insights/cost-of-living/?utm_source=google&utm_medium=cpc&utm_campaign=Cost_Of_Living_Search&gad_source=1&gclid=EAIaIQobChMI2drXqoGfiQMVFNMWBR2OdwehEAAYASAAEgL4UPD_BwE#full-ranking

[66] https://www.savills.com.hk/insight-and-opinion/savills-news/222957/hong-kong-residential-leasing-market-continues-to-heat-up--driven-by-demand-from-asian-talent-and-expatriates

- ***Increase the maximum tax deduction for qualifying annuity premiums and voluntary mandatory provident fund contributions to HK$80,000.***

(2) Further development of the silver economy

We support the initiative to establish the Working Group on Promoting Silver Economy, which has already suggested a package of specific measures to benefit seniors. Against the background of an ageing population, we suggest that the government consider implementing a comprehensive set of policies on seniors, with objectives that include enabling experienced people who wish to do so to work for longer, as proposed earlier, encouraging more active lifestyles, which should, in the longer run, help reduce the burden on the public purse (with fewer claims for Comprehensive Social Security Assistance, less pressure on the public health services, etc.) and, more generally, improving quality of life for seniors.

Under this proposal, policies could cover a range of different areas, such as those referred to above regarding extending the working life of willing, capable seniors and encouraging employers to adopt more flexible work arrangements. In addition, we would suggest measures such as:

- Encouraging more healthy and active lifestyles from an early age, with continuing support for older citizens to engage in physical activities. This can improve the quality of life as people age and, ultimately, reduce the burden on the public health service.
- Work with health insurers to develop better, more affordable products for seniors to take out/ continue private healthcare insurance after the age of 65.
- Consider the need for more coordinated policies on concessions for transportation and in other areas.
- Consider setting up one-stop shop for seniors to learn more about suitable income and investment options - silver bonds, annuities, reverse mortgages, etc.
- Increase tax deductions for voluntary contributions to mandatory provident fund accounts, particularly in the 10 years before retirement age.
- For seniors who are fit and healthy and do not wish to continue working, encourage and facilitate them to offer their experience and expertise to community organizations and engage in voluntary work.

Proposal

Implement a comprehensive set of policies to promote and support the silver economy, with objectives including enabling capable and experienced people who wish to do so to work for longer, and encouraging more active lifestyles, which should help reduce the burden on the public purse, and, more generally, improving quality of life for seniors.

3) Policies to promote sustainable development in HK

According to scientists at NASA's Goddard Institute for Space Studies, August 2024 set a new monthly temperature record, capping Earth's hottest summer since global records began in 1880[67]. Global sea levels have also been rising at unprecedented rates[68]. Various extreme weather events continued to batter different parts of the world, including heatwaves, blizzards, severe drought, extreme rainfall-triggered flooding, tornadoes, and tropical cyclones.

Like other coastal cities, HK is prone to the impacts of climate change. The mean sea level in Victoria Harbour went up at a rate of 32mm per decade from 1954 to 2024 on average[69]. Over the past century or so, the number of very hot days in HK increased by more than 7 times, and the number of hot nights increased by more than 38 times. October 2024 in HK was the hottest October on record. We are also facing more severe tropical cyclone threats caused by extreme weather. We are all affected and HK must continue to play its part in combating global warming[70]. As noted above, the CAP outlines the strategies and targets for combating climate change and achieving carbon neutrality, together with certain quantitative targets.

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 incentivizing businesses to explore renewable energy options (installation of solar panels, etc.), as well as looking into energy storage and other technologies. In addition to the revision of the Green Transformation Roadmap of Public Buses and Taxis, we believe it is time to revisit various blueprints and roadmaps, including the Waste Blueprint published in 2021, and Energy Saving Plan for HK's Build Environment, published in 2015, to ensure HK is not falling behind its targets.

In recent years, the government has been embarking on major infrastructure projects, including the Northern Metropolis. These projects need to take HK's carbon neutrality target into account. They should make maximum use of eco-friendly materials, processes and designs. 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. Leverage on the construction of a more sustainable infrastructure to further develop HK's active green bond market.

The public will also look to the government to do its utmost to ensure a safe and secure work environment on construction projects, even more so in the wake of the Wang Fuk Court fire tragedy, and ensure confidence in the implementation of environment impact assessments and the oversight of other aspects of the work, so as to avoid large cost overruns, while ensuring safety, quality and the proper use of public funds.

We welcome the government's efforts to promote waste reduction and recycling, including the GREEN@COMMUNITY recycling facilities, and the construction of I·PARK 1 & 2. However, overall, support for recycling in HK is still patchy. There is a need for a more coordinated set of

67 https://www.nasa.gov/earth/nasa-finds-summer-2024-hottest-to-date/
68 https://www.weforum.org/agenda/2024/09/rising-sea-levels-global-threat/
69 https://www.hko.gov.hk/en/climate_change/obs_hk_sea_level.htm#:~:text=Tide%20gauge%20records%20in%20Victoria%20Harbour%20since,was%2032%20mm%20per%20decade%20during%201954%2D2024.
70 https://www.legco.gov.hk/yr2024/english/panels/ea/papers/ea20240325cb1-321-6-e.pdf

policies in this area, which can help both to reduce waste and also change mindsets and influence lifestyle choices within the community.

We also welcome the formulation of the subsidiary legislation regarding the producer responsibility schemes on EV batteries, plastic beverage containers and beverage cartons as mentioned in the PA 2025 (Annex, section I, para. 65), expanding HK waste-to-resources capacities progressively. With an increasing number of EVs on the roads, among other things, we should also develop policies on the recycling of EV batteries. Meanwhile, we will expect to see the proposed approach of hydrogen standard certification suitable to HK, and hydrogen facilities in HK by 2027, as mentioned in the PA 2025 (Annex, section II, para. 4).

To enhance HK's sustainability goals, we propose that a greater portion of funding raised through green bonds be allocated specifically to waste management and resource recovery initiatives. This could include offering suitable venues and premises at subsidized rents to support operations focused on recycling and waste reduction.

Proposals

- ***Revisit the blueprints and roadmaps previously published, to establish effective interim targets toward achieving carbon neutrality by 2050 and ensure HK is not falling behind.***
- ***Ensure major new infrastructure projects incorporate sustainability goals in terms of planning, processes, materials and designs, etc. and ensure a safe and secure work environment on related construction projects.***
- ***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.***
- ***More funding from the green bonds should be deployed for waste management and resource recovery, such as providing suitable venues and premises at lower rent.***

(4) Measures to encourage sustainable development in specific areas

(a) Electric vehicles ("EV") 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, livable environment, comprehensive emissions reduction, clean energy, scientific management and regional collaboration. In the 2022/23 budget, the government committed that it would continue to promote new energy transportation so as to further enhance air quality and, as mentioned in the PA 2024 (para. 85), earmark around HK$750 million under the New Energy Transport Fund to subsidize the taxi trade and franchised bus companies to purchase EVs, and launch the Subsidy Scheme for Trials of Hydrogen Fuel Cell Electric Heavy Vehicles. From the PA 2025 (para. 222), we understand that the government will invite tenders for the smart and green mass transit systems project in Kai Tak, East Kowloon, and the Hung Shui Kiu/ Ha Tsuen New Development Area in 2026.

Private cars

In 2021, the government issued the *Hong Kong Roadmap on Popularisation of Electric Vehicles*[71], and introduced a series of measures and targets, such as stopping the registration of fuel-propelled private cars in 2035 or earlier; and promoting trials for electric public transport and commercial vehicles, including buses, public light buses, taxis and goods vehicles. Furthermore, the government has been formulating the relevant subsidiary legislation regarding the producer responsibility schemes on retired EV batteries, and the consultation will be conducted in 2026 (para. 65). It is pleasing to note that HK has become one of the regions with the fastest penetration of EVs in the world in recent years. As of October 2024, over 16% of private cars in HK are electric private cars ("e-PCs"). As of December 2024, the number of EVs in HK has exceeded 110,000, a significant increase to approximately seven times that of five years ago. The proportion of e-private cars among HK's newly registered private cars has increased from some 20% in 2021 to about 70% now. The growth rate is among the highest in the world.

According to the Legislative Council Paper on HK's CAP 2050[72], the government aims to increase the total number of parking spaces with charging infrastructure in HK to about 200,000 by mid-2027. The EV-charging at Home Subsidy Scheme is expected to achieve the installation of EV charging-enabling infrastructure ("EVCEI") in about 140,000 existing private residential parking spaces, while the gross floor area concessions encourage the installation of EVCEI in parking spaces of new private buildings, covering about 46,000 parking spaces as of December 2024. In addition, the government has earmarked HK$300 million to launch the Fast Charger Incentive Scheme to provide support for 160,000 EVs, and it is expected that all fast chargers will be put into service gradually from 2026 to the end of 2028 (para. 236). The government is also gradually transforming some existing petrol filling stations ("PFSs") into fast charging stations or petrol filling cum charging stations. In mid-2024, the government awarded the first two vacant PFS sites in Kowloon Bay and Fo Tan to operators for use as fast charging stations, which are expected to provide at least 20 fast chargers by the third quarter of 2026. In addition, the government is providing incentives to existing PFS operators, including extension of current land lease, to encourage them to retrofit EV charging facilities at existing PFSs. It is expected that about 180 fast chargers could be retrofitted at about 60 existing PFSs by 2026.

To further facilitate the popularization of EVs, the Institute would reiterate that the infrastructure for EVs needs to be further enhanced. In addition to the extension of EV-charging at Home Subsidy Scheme[73], the government may also consider other options to alleviate taxpayers' upfront costs associated with the installation, such as providing a tax deduction for the installation costs for EV home chargers by individual taxpayers.

We note that, given the rapid take up of e-PCs in HK in recent years, there have been some discussions on discontinuing the first registration tax ("FRT") concessions for them. Although the government announced in the 2024/25 budget that the FRT concession arrangement for EVs will be extended for two years up to 31 March 2026, the FRT concession cap has been reduced from HK$97,500 to HK$58,500. For PC owners who arrange to scrap and de-register their own eligible old PC with an internal combustion engine and then first register a new e-PC under the "One-for-One Replacement" Scheme, the FRT concession cap has been reduced from HK$287,500 to HK$172,500. We recommend that these concessions remain in place, even if the caps are further

[71] https://www.evhomecharging.gov.hk/downloads/ev_booklet_en.pdf
[72] https://www.legco.gov.hk/yr2025/english/panels/ea/papers/ea20250630cb1-1057-3-e.pdf
[73] https://www.evhomecharging.gov.hk/en/

adjusted. It would send the wrong signal now to discontinue the concessions when all purchasers of new PCs 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

Public buses and taxis generate over 1.4 million tonnes of carbon emissions each year, accounting for about 4% of HK's total carbon emissions. The adoption of electric buses and electric taxis will achieve not only a better score card in carbon reduction and air quality, but also a better environment for the general public to live, work and enjoy. Looking forward, new and smarter technologies like fast charging mentioned above are emerging, and new models of EVs also continue to enter the market. As the availability of electric buses and taxis continues to increase, their prices are decreasing and the government may no longer need to provide subsidies. In December 2025, the government published the Green Transformation Roadmap of Public Buses and Taxis[74] to outline strategies for a comprehensive green transformation of public buses and taxis in the most cost-effective manner step, so as to achieve zero vehicular emissions and attain carbon neutrality before 2050.

According to the 2025/26 Budget Speech (para. 180), the government has earmarked $470 million under the New Energy Transport Fund to subsidize franchised bus operators in purchasing about 600 electric buses. Also, $135 million was earmarked to subsidize the taxi trade in purchasing 3,000 electric taxis. Apart from buses and taxis, the government will also continue to subsidize trials of other types of new energy vehicles, such as hydrogen fuel cell vehicles, through the New Energy Transport Fund.

We understand that the government will further promote the development and use of new energy in sea, land and air transport, so as to spearhead green transformation of the relevant trades. In addition to the New Energy Transport Fund as mentioned above, the Strategy of Hydrogen Development in Hong Kong[75] was published in June 2024 and the Gas Safety (Amendment) Ordinance was gazetted in July 2025 to regulate hydrogen as a fuel.

We fully agree with the policy to encourage and support public transport operators to explore, test and adopt and apply green innovative transport technologies, e.g., hydrogen fuel cell EVs, more widely. Although not all internal combustion engine vehicles can be replaced with EVs or a new energy equivalent at this stage, efforts should continue to be made to have older polluting vehicles removed from HK's roads.

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. We understand that the Transport Department is studying the regulatory arrangement for the use of EMDs in HK and associated certification arrangement to ensure their compliance with relevant technical and safety standards. It is suggested that only certified (labelled) EMDs be allowed on designated cycling tracks in the future. Meanwhile, we suggest

[74] https://www.eeb.gov.hk/sites/default/files/pdf/Bus_Taxi_Roadmap_eng.pdf
[75] https://cnsd.gov.hk/strategy-of-hydrogen-development-in-hong-kong_booklet_en.pdf

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.

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

Proposals

- ***Extend the EV-charging at Home Subsidy Scheme, and streamline and expedite the approval process. Consider other options as well, such as providing a tax deduction for installation costs for EV home chargers by individual taxpayers.***
- ***Continue to offer first registration tax concessions for private car EVs.***
- ***Continue to encourage and support public transport operators to explore, test and adopt more widely, the application of green innovative transport technologies, e.g., hydrogen fuel cell EVs.***
- ***Explore setting up of battery swapping stations for e-motorcycles.***

(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 HK include the Leadership in Energy and Environmental Design ("LEED"[76]) by the US Green Building Council and BEAM Plus[77] New Buildings by the Hong Kong Green Building Council. Buildings constitute the largest source of energy usage in HK. The CAP notes: "Buildings account for about 90% of HK'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 HK, remain voluntary. In recent years, we are pleased to note the government's application of renewable energy in government buildings and facilities, as well as support for public and private organizations to use renewable energy to help HK realize its carbon neutrality target. We agree that the measures should be extended to the private sector. The government should explore incentives to drive the development of more private green buildings and consider mandating certain minimum standards of energy efficiency. Developers should also be encouraged and incentivized to use of green building materials, including green cement, in construction.

In addition to the support provided to the Hong Kong Green Building Council and the BEAM Society to promote green building assessment tools among Belt & Road countries (PA, para. 85), the government should actively encourage the adoption of the WELL label[78] in HK, which emphasizes occupant health and well-being in the built environment, by educating stakeholders about the benefits of WELL-certified spaces. Allocating resources to research on the health

[76] https://www.usgbc.org/leed/why-leed
[77] https://www.hkgbc.org.hk/eng/beam-plus/beam-plus-new-buildings/index.jsp
[78] https://www.wellcertified.com/

effects of building environments will underscore the significance of these initiatives, leading to the cultivation of a healthier community and the improvement of the overall quality of life.

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 HK, providing enhanced commercial and industrial building allowances 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.

Incentivize owners of old residential buildings to renovate their buildings sustainably

There are many older residential buildings in HK 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 works. 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[79].

The government should actively advocate the Energy-efficient Equipment Subsidy Programme and Electrical Equipment Upgrade Scheme offered by Hongkong Electric and CLP respectively, so that more companies can apply for subsidies to upgrade their premises with energy-efficient lighting and air-conditioning systems.

Proposals

- ***Adopt best practice standards for energy-efficient buildings in HK and mandate some requirements. Consider introducing enhanced industrial and commercial building allowances for buildings that follow these standards (e.g., an initial allowance of 25% and an annual allowance of 5% for industrial buildings and an annual allowance of 6.5% for commercial buildings).***
- ***Incentivize the use of green building materials, including green cement, in construction.***
- ***Encourage the adoption of the WELL label by educating stakeholders about the benefits.***
- ***Incentivize owners of old residential buildings to renovate their buildings sustainably.***

(c) Encourage energy efficiency among consumers – Introduce a "replace old items with new ones" initiative

To make it easier for the public to choose energy efficient products, the Electrical and Mechanical Services Department operates a voluntary Energy Efficiency Labelling Scheme for appliances and equipment used both at home and office, as well as for vehicles. The scheme aims to save energy by informing potential customers of the product's level of energy consumption and

[79] https://www.brplatform.org.hk/en/sustainability-in-building-rehabilitation/green-item-subsidy

efficiency rating, so that buyers can take these factors into consideration when making their purchasing decisions. We suggest that the government should make use of the scheme and introduce and promote a "replace old items with new ones" initiative, by providing subsidies to consumers who purchase specified energy-efficient appliances, such as air-conditioners, refrigerators, washing machines, and televisions, etc., with a high-grade energy efficiency label. This approach not only encourages residents to upgrade to more efficient models, but also contributes to significant energy savings and, at the same time, may give a boost to local consumer spending. Also, incorporating a "trade-in" programme could further incentivize consumers to recycle their old equipment responsibly. By allowing customers to trade in their outdated appliances for discounts on new purchases, the government can ensure that these items are disposed of properly or refurbished, reducing waste and promoting a circular economy.

By making energy-efficient appliances more affordable through subsidies and trade-in options, the government can foster a culture of sustainability while improving the overall quality of life for residents. Such a scheme could also encourage manufacturers to produce more energy-efficient appliances. Consequently, this initiative could lead to both economic and environmental benefits for HK.

Proposal

- ***Introduce and promote to the public a "replace old items with new ones" initiative: Provide subsidies to consumers who trade in old appliances for specified energy-efficient appliances, e.g., air-conditioners, refrigerators, washing machines, televisions, etc., with a high-grade energy efficiency label, and provide for the safe disposal of the old, traded-in items.***

(d) Green finance

With the government's strong support, HK has become a leading sustainable finance hub in Asia. Our green and sustainable debt market has been expanding rapidly over the past few years, and an international carbon market, Core Climate, has been launched by HKEX, becoming the only carbon market to offer HK dollar and renminbi settlement for trading of international voluntary carbon credits. We note that Core Climate will deepen pilot co-operation with the GBA carbon market, testing the means of cross-border trade settlement, and jointly building a regional carbon market ecosystem. Working with relevant Mainland regulatory departments and authorities, the government will also study issues surrounding the country's participation in the international carbon market, including the formulation of voluntary carbon credit standards and methods, as well as the registration, trading and settlement of carbon emission reduction (PA 2025, para. 105).

Taxpayers may purchase renewable energy credits ("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 support more taxpayers to participate in ESG initiatives, as interim measure to help companies meet their carbon reduction targets and to support Core Climate, we suggest that the government consider allowing a deduction on the costs incurred on purchasing appropriately certified RECs or carbon credits by companies chargeable to HK profits tax, possibly up to a certain limit, to recognize that corporate responsibility is, increasingly, seen as an essential part of the normal course of business. Such deductions should also be extended to the costs shared among group companies in relation to the purchase of RECs or carbon credits. This concession should be reviewed after, say, five years. Ultimately, companies need to be encouraged to reduce their own emissions directly.

Proposal

- ***As an interim measure, and to promote the further development of Core Climate allow a deduction up to a certain ceiling, of the costs incurred on purchasing appropriately certified renewable energy and carbon credits.***

Appendix 1: Proposed changes for salaries tax allowances and deductions[80]

Allowances and deductions	Existing (HK$)	Proposed (HK$)
Allowances[81]:		
- Basic	132,000	133,980
- Married person	264,000	267,960
- Child (annual, each dependant, the 1st to 9th child)	130,000	131,950
- Child (initial, each dependant, the 1st to 9th child)	130,000	131,950
- Dependent brother or sister (each dependant)	37,500	38,062
- 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	50,750
- aged 55 or above but below 60	25,000	25,375
- 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	50,750
- aged 55 or above but below 60	25,000	25,375
- Single parent	132,000	133,980
- Personal disability	75,000	76,125
- Disabled dependant (each dependant)	75,000	76,125
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 (basic) 2,000 (additional)	100,000 (basic) 2,000 (additional)
- Home loan interest	100,000 (basic) 2,000 (additional)	100,000 (basic) 2,000 (additional)

[80] The forecast rates of underlying and headline consumer price inflation for 2025 are maintained at 1.5% and 1.8% respectively.

https://www.hkeconomy.gov.hk/en/situation/development/index.htm
https://www.hkeconomy.gov.hk/en/pdf/24q2_pr.pdf

[81] For illustration purposes, the proposed allowances are increased on the assumption that the benchmark is set at current levels and the inflation rate is 1.5%.

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

Example: Single person

This example illustrates the impact of[82]:

- an increase of basic allowance to HK$133,980
- an increase of the annual limit on the deduction of qualifying premiums paid under VHIS policy to HK$12,000

	Existing (HK$)		Proposed (HK$)		Savings (HK$)	Savings (%)
Income		300,000		300,000		
Allowances/ deductions:						
Basic allowance	132,000		133,980			
Mandatory MPF contribution	18,000		18,000			
Qualifying premiums paid under VHIS	8,000		12,000			
Home loan interest/ Rental payments	100,000		100,000			
Total allowances/ deductions		258,000		263,980		
Net chargeable income		42,000		36,020		
Tax payable		840		720	120	14%

[82] 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[83]:

- an increase of basic allowance to HK$133,980
- an increase in child allowance to HK$131,950
- an increase in dependent parent allowance and additional allowance to HK$50,750
- an increase of the annual limit on the deduction of qualifying premiums paid under VHIS policy to HK$12,000

	Existing (HK$)			Proposed (HK$)			Savings (HK$)	Savings (%)
Income			750,000			750,000		
Allowances/ deductions:								
Basic allowance		132,000			133,980			
Child allowance	1 children 130,000 each	130,000		1 children 131,950 each	131,950			
Dependent parent allowance and additional allowance	2 parents 100,000 each	200,000		2 parents 101,500 each	203,000			
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		120,000			120,000			
Total allowances/ deductions			616,000			630,930		
Net chargeable income			134,000			119,070		
Tax payable			7,400			5,907	1,493	20%

[83] Assumptions are as for Appendix 1.