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

Government budget measures aim mainly at boosting short-term spending and targeting ageing population

Financial secretary provides short-term reliefs but misses opportunity for long-term tax policy measures

(Hong Kong, 24 February 2016) – The government's 2016-17 budget offers immediate measures to stimulate the economy, boost gross domestic product 1.1 percent in 2016, and provide some support to the community, but it could have provided more in terms of big-picture vision, according to the Hong Kong Institute of Certified Public Accountants.

Given the financial secretary's claim of a government commitment to modernizing the tax system, the lack of any mention of a review and non-take up of calls to establish a tax policy unit is surprising, according to Curtis Ng, convenor of the Institute’s budget proposals sub-committee.

The Institute's own budget recommendations, submitted to the government last month, identified Hong Kong's competitiveness, the ageing population, the potential structural deficit, and the Organization for Economic Cooperation and Development's base erosion and profit shifting initiative as issues, among others, that a tax policy unit would comprehensively look at.

The government has announced a salaries tax reduction of up to $20,000, an increase in personal allowances, and a rates waiver. There are also measures aimed more specifically at the ageing population, such as: increasing allowances for maintaining a dependent parent or grandparent aged 60 or above from $40,000 to $46,000, increasing the same allowance for those aged between 55 and 59 from $20,000 to $23,000, raising the deduction ceiling for elderly residential care expenses from $80,000 to $92,000, $200 billion earmarked for a ten year hospital development plan, and the pilot Silver Bond scheme targeted at residents aged 65 or above.

Anthony Tam, chair of the Institute’s taxation faculty executive committee, says, "These measures are to be welcomed of course, but their impact will be limited as they address the ageing population issue only from a community perspective. We need to look at it from a more macro point of view and consider, for example, ramifications such as how a shrinking workforce will affect business development and tax revenues."

In its budget submission to the government, the Institute recommended mandatory provident fund and private healthcare-related tax measures also aimed at issues arising from an ageing population, adds Tam.

To deal with the potential structural deficit, the financial secretary has set up the Future Fund to put aside revenues for long-term investments. $220 billion from the Land Fund has been allocated as an initial endowment to the Future Fund. This is essentially a transfer of money from one government pocket to another. While this may facilitate better investment returns, it would be helpful if the financial secretary explained how these funds could be used in the future, Tam explains.

Ng says, in the short term, the measures to boost local businesses including, the 75 percent profits tax reduction subject to a ceiling of HK$20,000, the business registration fee waiver, and the technology voucher programme will benefit small to medium sized enterprises; however, more needs to be done to address the larger issue of long-term and international competitiveness.

In the face of global developments such as base erosion and profit shifting, the financial secretary mentioned conducting analyses and considering participation in an OECD-developed international framework. This comes across, to some extent, as paying lip service given the lack of specifics, Ng continues.

"We would like to see the government pay more attention to the many voices calling for a proper review of the tax system and to the Institute's proposal of establishing a tax policy unit. The financial secretary's less-than-rosy picture of Hong Kong's longer-term challenges means that the city needs a broad-perspective approach to its tax and budget considerations. A tax policy unit could provide a much-needed comprehensive look and help maintain a world-class tax system to uphold Hong Kong's status as a global hub of finance and commerce," adds Ng.

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About the Hong Kong Institute of CPAs

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has more than 39,000 members and 18,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designatory letters *CPA.*

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

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

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

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