



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

Dear Assignment/News/Business Editor,

Hong Kong Institute of CPAs' budget submission asks government to use tax policies and budget measures to help families and lower income groups and boost support for SMEs and overall business competitiveness

Submission focuses on measures to improve quality of life for the community and tax policies to strengthen Hong Kong's economy.

(Hong Kong, 10 January 2013) – The Hong Kong Institute of CPAs says that, financially, Hong Kong remains in a sound position. The Institute expects a budget surplus in excess of HK\$ 25 billion for 2012-13 and fiscal reserves of about HK\$ 695 billion by 31 March 2013. In its budget proposals 2013-14, it calls on the government to offer more help to families and to increase the city's international competitiveness.

According to the Institute's submission, one of the main concerns of the city's taxpayers is keeping up with rising costs. The proposal suggests a range of measures to help families and individuals, including widening the marginal tax bands from HK\$40,000 to HK\$50,000, increasing child allowances from HK\$63,000 to HK\$70,000, allowing deductions for voluntary MPF contributions with an annual cap of HK\$60,000, allowing deductions for private healthcare insurance premiums with an annual cap of HK\$12,000, offering a rental payment deduction as an alternative to the home loan interest deduction, adjusting the price thresholds of different stamp duty rates in line with property price inflation, providing a waiver on property rates of up to HK\$ 2,500 per quarter, and an electricity subsidy of HK\$ 1,800 for the coming year.

Florence Chan, chair of the Institute's taxation faculty executive committee, says, "Lower and middle income groups face continuing pressure from rising costs. The Institute's proposal would give a helping hand to families with children and other dependants, in relation to significant costs such as education, housing and healthcare. Families are the building blocks of the Hong Kong community and the heart of future generations, so tax measures devised to assist them should always be a priority," she adds.

The Institute's proposals also call for tax incentives focusing on the city's international competitiveness. The recommendations include: a reduction of the corporate profits tax rate to 15 percent for companies with gross income not exceeding HK\$2 million, a tax waiver on assessable profits up to HK\$500,000, a business registration fee waiver, an extension of the profits tax exemption for offshore funds and exemptions for onshore funds meeting specific criteria, an extension of tax deductions for research and development and intellectual property usage, and tax concessions for regional headquarters and offices.

"Hong Kong's international competitiveness cannot be taken for granted," says Chan. "There are other jurisdictions and cities in the region that are seeking to attract business and are introducing tax measures which narrow the differences between them and Hong Kong. This poses a challenge to Hong Kong's role as the international financial and business hub in the region. This city is still the primary gateway to the world's second largest economy, China and we need to capitalize and build on that," she adds.

The Institute has taken advantage of the proximity and likely linkages between the policy address and the budget in 2013 to put forward several higher-level tax policy proposals. The Institute believes that the policy address should recognize the strategic role of the tax system in Hong Kong's overall competitiveness and development. The proposals include a recommendation that a cross-sector tax policy group should be set up within the government, with non-government experts as part of the group. Its main function will be to conduct strategic reviews and research Hong Kong's and other tax systems and recommend changes to enhance the city's leading position as a centre of business and finance.

The Institute also advocates changes to improve the certainty and clarity of the tax system, which it sees as having diminished over time.

"The predictability of their tax liabilities and the inland revenue's attitude towards transfer pricing issues are important to international companies. Uncertainty in these areas has a negative impact on Hong Kong's competitive position as a business location," Chan says. "In this regard, it is also important for the government to keep up its good work on expanding the network of double tax treaties," she adds.

Wilson Cheng, convenor of the Institute's budget proposals sub-committee, says that while Hong Kong remains in a good financial position it is vital to ensure that growth continues and is viable and sustainable.

"Small and medium-sized enterprises remain a cornerstone of our economy and a source of employment for many workers in Hong Kong, say Cheng. "By providing additional tax concessions for SMEs, we can help them cope with increased regulatory, and other, costs. We can also encourage more companies to look to Hong Kong as the right place to establish a regional presence," he explains.

The Institute's tax policy and budget proposals 2013-14 also put forward measures to improve the environment, including accelerated commercial and industrial building allowances for environmentally-sustainable buildings and measures to reduce traffic pollution.

"The quality of life in Hong Kong is not only dependent on our economic development, but on having a physical environment which is conducive to raising a family, which includes better air quality," says Cheng.

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

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About the Hong Kong Institute of CPAs

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has more than 34,000 members and 17,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designatory letters *CPA*.

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

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

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

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