



Government budget focuses on competitiveness but falls short on direction

Budget requires more concrete ideas

(Hong Kong, 26 February 2014) – The second budget proposal of the Leung administration needs to add more vision and substance to its stated theme of competitiveness, according to the Hong Kong Institute of Certified Public Accountants.

The Institute supports the budget measures related to interest expense reductions for treasury operations, the stamp duty waiver on ETFs, and allowances for dependent parent and grandparents which are in-line with Institute proposals and target specific needs, according to Florence Chan, chair of the Institute's taxation faculty executive committee.

"The government's proposed measures targeted at low-income households and the middle class, such as reducing salaries taxes, waiving rates, paying one month's rent for public housing tenants, and providing an extra Comprehensive Social Security Assistance allowance, are welcome but nothing new or innovative," says Chan.

Other areas of the budget speech requiring more clarity and concrete ideas include: the need for a "Future Fund" when reserves already exist, are healthy, and can serve a similar purpose; the development of Hong Kong as an intellectual property hub without a favorable tax structure to support it; and the encouragement of research and development and innovation without sufficiently targeted tax incentives, amongst others.

Curtis Ng, convenor of the Institute budget proposal subcommittee, says, "The most disappointing point for us is that there was no attention paid to the idea of establishing a tax policy unit. The financial secretary raised the spectre of a future structural deficit in his speech, based on the findings of the working group on long-term fiscal planning. If that is the case, then it lends further support to the proposal for a tax policy unit to be set up."

A tax policy unit would help to look at international developments and Hong Kong's overall tax competitiveness. Right now, the tax measures come across as too piece-meal and ad hoc.

"Hong Kong needs a sound, secure and world-class tax system to serve the city's long-term interests and to uphold its status as a global hub of finance and commerce. We also need to ensure that we are prepared for major international initiatives that are likely to have an impact on Hong Kong," Ng continues.

The Institute proposed deductions for private healthcare insurance premiums, extending the availability of unused self-education deductions to taxpayers' dependants, and increasing child allowances for the second and third child in its earlier submission to the government. The Institute also recommended that the basis for revising the various salaries tax allowances be rationalized, which would help to put future changes on a firmer footing.

While the budget was short on ideas to protect the environment, the Institute previously recommended providing allowances for buildings with environmentally-friendly designs, setting up a heritage body to better preserve the city's historical buildings and sites, and further supporting the redistribution work of food banks in Hong Kong—all measures that would have made Hong Kong more livable, sustainable and, ultimately, more competitive.

"While we certainly need to take care of those in need, we need to give our future competitiveness the full attention that it deserves," Chan adds.

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About the Hong Kong Institute of CPAs

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

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

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

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

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