



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

Hong Kong Institute of CPAs' budget submission focuses on modernizing the tax system for a better future

Proposal recommends setting up a tax policy unit and other measures to improve competitiveness and build even stronger economy and closer community

(Hong Kong, 11 January 2016) – The Hong Kong Institute of CPAs' budget proposals call on the government to establish a tax policy unit focusing on a coherent and effective tax regime to benefit the economy and the community.

According to the Institute's submission, the government needs to take a more holistic view of its tax system. An under-one-umbrella tax policy unit comprising taxation and industry experts, economists, academics, and government representatives would review how the tax system benefits Hong Kong competitively and what changes may be needed given the importance of balancing the revenue base with a maturing economy and an evolving community.

Florence Chan, chair of the Institute's taxation faculty executive committee, says, "With the government's upcoming policy address, the Institute has placed even more emphasis on big picture policy-level thinking as opposed to piece-meal, and sometimes one-off, measures for this year's budget proposal."

The Inland Revenue Ordinance has not been studied thoroughly for four decades following the "if it ain't broke, don't fix it" school of thought; however, the legislation was developed for an economic and business environment vastly different from the current one. A tax policy unit would help to kick-start a much-needed revision process.

With the myriad of domestic matters, such as an ageing population and a potential structural deficit; and foreign issues, including regional and international competitiveness, and the global developments spearheaded by the Organisation for Economic Co-operation and Development ("OECD") on tackling tax base erosion and profit shifting ("BEPS"), there is no better time to set up such a unit, adds Chan.

The ageing population in Hong Kong leads to a number of ramifications including a shrinking workforce, the need for better retirement planning, and the need for improved healthcare. As such, the Institute recommends providing additional deductions for voluntary contributions to mandatory provident funds of up to HK\$60,000 annually, and a deduction for annual private health care insurance premiums capped at HK\$12,000 per person for taxpayers and their dependants. The submission also proposes making the tax deduction for self-education expenses more flexible to include dependants. A proposed rental payment deduction of up to HK\$100,000 annually would help address home affordability and in turn help build a closer community.

A potential structural deficit was first broached in 2014 and could be exacerbated by an ageing population. According to the government's Working Group on Long-Term Fiscal Planning, if present trends continue and no remedial action is taken, a structural deficit will be inevitable. This is why reconsideration of broadening the tax base to meet the long-term needs of Hong Kong remains pressing, says Chan.

Hong Kong's status as a global logistics hub and international financial center, among other standings, is facing keen competition from its regional neighbours. While the city continues to punch above its weight and rank among the world elite on these fronts, the need for a modernised tax regime with a broader perspective has become increasingly evident, explains Curtis Ng, convenor of the Institute's budget proposals sub-committee.

The Institute recommends tax concessions to support small and medium enterprises, which are the backbone of the economy, through a reduction in the corporate profits tax rate to 15 percent for companies with gross income of up to HK\$5 million. At the same time, loss carry-back and group loss relief provisions should be introduced to strengthen Hong Kong's international competitiveness. The Institute emphasizes the need for Hong Kong to adopt timely tax measures in tune with industry trends, such as extending tax incentives for financial services, in particular for onshore funds, to consolidate Hong Kong's position as an international financial center.

According to Ng, the city should also do more to encourage and support local research and development, and to promote the development of an intellectual property trading hub. With the recent global agreement reached in Paris on a less carbon-intensive future, the government, in consultation with stakeholders, should draw up a coordinated set of policies on energy conservation and efficiency, making use of tax incentives and measures where appropriate.

Hong Kong's competitiveness will also be enhanced through a clearer interpretation of tax rules, an improved predictability of tax affairs, and an increased ability to respond to international tax developments such as the OECD's BEPS initiative, which could impact the city's appeal as a middleman in international trade, commerce and investment.

Ng adds, a tax policy unit would be able to conduct reviews and modelling on the benefits of existing and possible tax incentives, and provide input on policies that support the city as a major player in global commerce and finance.

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 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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