



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

HKICPA calls for tax measures to enhance competitiveness amid challenging outlook

(Hong Kong, 28 January 2019) The Hong Kong Institute of Certified Public Accountants (HKICPA) today shared its tax-related recommendations for the 2019-20 Budget, which will be announced on 27 February 2019. Under the heading "Rising to Challenges and Staying Competitive", the Institute's budget proposal focuses on tax policies and measures on the revenue side of the budget.

Hong Kong's fiscal reserves stood at HK\$1,102.9 Billion at the end of March 2018. HKICPA estimates that the fiscal surplus for 2018/19 will reach HK\$50 Billion at the end of March, and the fiscal reserves will increase to over HK\$1.15 Trillion. These projected figures are similar to the government's budgeted position.

Investing in a review of Hong Kong's tax system

This year, HKICPA reiterates its view that there needs to be an extensive review of the tax system to support Hong Kong's competitiveness, against the background of a changing business environment and a tax system that is becoming progressively less simple.

Hong Kong used to enjoy the advantages of a low tax rate and simple system. However, the city's tax system has become much more complex in recent years. Meanwhile, many jurisdictions have been reducing their corporate tax rate, putting more emphasis on indirect taxation, whereas Hong Kong's headline profits tax rate has remained unchanged at 16.5%. Governments around the world are also taking steps to simplify their tax regimes.

"The Financial Secretary Paul Chan has indicated his preference for driving economic development through specific tax policy measures instead of lowering the general profits tax rate. Various incentives will be used to promote the development of different industries, which will make Hong Kong's tax system more and more complex. With the international tax developments that are also affecting Hong Kong and the needs of a dynamic business sector, with new business models, a comprehensive review of the tax system is called for, in order to ensure that Hong Kong can maintain its competitive edge in the long term," said Mr. KK So, Chairman of HKICPA's Taxation Faculty Executive Committee.

HKICPA believes that to remain a leading location for investment in a global marketplace and to maintain an efficient tax system, Hong Kong should be reviewing not only the headline tax rates, but also the existing preferential treatments and tax incentives, to evaluate whether they are achieving their objectives and are cost effective. Given the importance of continuing to develop Hong Kong's infrastructure and economy, and addressing challenges such as an ageing population and increasing healthcare

costs, a more detailed study of options to broaden and stabilise the tax base should also be undertaken.

"The government's tax policy unit has successfully completed its initial tasks of helping implement the two-tier tax system and the super-deductions for research and development (R&D), proposed by Chief Executive Carrie Lam. It should now expand its scope of work and expertise to consider more fundamental issues, such as looking into tax policies needed to support Hong Kong's long-term economic growth and infrastructure development," added Mr. So.

Hong Kong as a Smart City

Taking a broader view of Hong Kong as a Smart City, the HKICPA calls for several specific measures.

HKICPA welcomes the introduction of the R&D super-deductions, as a significant first step in the right direction of encouraging more R&D activities in Hong Kong. At the same time, the government should adopt a more flexible approach towards granting these additional deductions. Consideration should also be given to offering tax credits to support R&D by start-up companies, which may not be profitable in their early years and so be able to benefit from the super-deductions. Tax credits are made available to start-ups in a number of overseas jurisdictions.

While the government and regulators may still be ambivalent towards cryptocurrency business, including initial coin offerings, these activities continue to take place in Hong Kong. As such, HKICPA believes that the government needs to clarify the tax treatment of profit generated by these activities.

Turning to the efficiency of tax collection, Mr. Curtis Ng, Convenor of the Budget Proposals Sub-committee, HKICPA said "The digitalisation of tax administration around the world has been gaining momentum in recent years and some governments require taxpayers to file online. With the vision of building Hong Kong into a world-class smart city and improving efficiency, the government should embrace innovation and technology as widely as possible, including in tax administration." While HKICPA notes that some efforts are already being made in this direction, "We hope that the development of tax e-filing platforms can progress at a faster pace and with a clear timetable. This will help support Hong Kong's development as a business-friendly efficient, and smart city," said Mr. Ng.

Improving roadside air quality and reducing greenhouse gas emissions

Tackling climate change is undoubtedly one of the most serious challenges currently faced by many cities around the world, and Hong Kong is no exception. "To reduce carbon emissions and improve roadside air quality, we recommend various measures including wider use of electric vehicles," said Mr. Ng.

However, the demand for electric vehicle charging stations cannot be met by the current supply. Therefore, HKICPA suggests introducing a scheme to provide a full refund of the

vehicle first registration tax on electric private cars if the purchasers also arrange the installation of a charging station. At the same time, the existing incentive measures of the basic HK\$97,500 exemption on the first registration tax, and the HK\$250,000 exemption on a 'one-for-one replacement' of an electric vehicle for an old petrol vehicle, should also be retained.

"In addition, to further improve air quality in Hong Kong, the government should consider providing further incentives to speed up the early replacement of old diesel commercial vehicles with vehicles that meet the latest emission standards. This should have a very positive impact, as diesel-engine commercial vehicles remain the biggest cause of roadside pollution," said Mr. Ng.

HKICPA supports the introduction of electronic road pricing in busier areas, as a means of reducing localised road traffic congestion and improving air quality in those areas. It also sees the government's proposal to introduce an electronic tolling system for tunnels to be worth exploring, as it should help improve the traffic flow. Both these measures are suggested in the Hong Kong's "Smart City Blueprint".

Introducing rental deductions and other community measures

"In the face of uncertainties and challenges in the year ahead, we hope to see more community measures from the government to relieve the impact of economic pressures on Hongkongers' daily lives," said Mr. Ng.

HKICPA's budget submission proposes a number of measures aimed at benefiting the community. These include measures to support employees to upgrade their job skills and improve their opportunities in the market and, given the continuing unaffordability of residential property for many people, a tax deduction of up to HK\$100,000 annually for rental payments by taxpayers on their primary residence.

With the government promoting increased integration and collaboration between cities within the Greater Bay Area (GBA), it is expected that people will be commuting more frequently between Hong Kong and other GBA cities in future. "In view of the increasing mobility of Hong Kong taxpayers, the government should explore the feasibility of allowing the proposed rental deduction, or the home loan interest deduction to be claimed by taxpayers who may be working in Hong Kong while maintaining their primary residence elsewhere in the GBA," said Mr Ng.

Other community measures proposed by HKICPA include a tax incentive to encourage more people to adopt a healthier lifestyle, which in the long run should help improve Hong Kong people's quality of life and reduce pressure on an over-burdened health service.

For the business sector, HKICPA's proposals include group relief and loss carry-back, as well as reviewing the restrictions on deductions for plant and machinery used in manufacturing outside of Hong Kong. "While these are long-standing requests, they reflect real business needs and would make Hong Kong more competitive," said Mr. So.

HKICPA's Budget Proposals 2019-20 are available online at: https://www.hkicpa.org.hk/-/media/Document/APD/Gov-Budget/Budget_Proposals_2019-20_submission_190118.pdf

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About HKICPA

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the statutory body established by the Professional Accountants Ordinance responsible for the professional training, development and regulation of certified public accountants in Hong Kong. The Institute has more than 43,000 members and 18,000 registered students.

Our qualification programme assures the quality of entry into the profession, and we promulgate financial reporting, auditing and ethical standards that safeguard Hong Kong's leadership as an international financial centre.

The CPA designation is a top qualification recognised globally. The Institute is a member of and actively contributes to the work of the Global Accounting Alliance and International Federation of Accountants.

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