



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

Dear Assignment/News/Business Section Editor

## **HKICPA Welcomes the New Government's Bold Taxation Changes Announced in First Policy Address**

(HONG KONG, 11 October 2017) – The Hong Kong Institute of Certified Public Accountants (HKICPA) welcomed the proposed changes to the taxation system that were announced by HKSAR Chief Executive Carrie Lam in her first policy address today. The proposed changes to profits tax supporting small and medium sized enterprises (SMEs), and the proposed tax deduction for research and development are what the HKICPA has long campaigned for.

### **On the two-tier profits tax rate**

The Institute has proposed a special lower tax rate for SMEs in our budget submissions to the government for several years and is glad to see that the reduced tax rate proposed is even more competitive than we had campaigned for. SMEs constitute an important part of Hong Kong's economy, representing 98% of businesses. This new tax rate would significantly lower the tax paid by many SMEs. In 2014-15 roughly 80,000 companies (around 80 percent of tax-paying companies) had assessable profits of less than \$2 million.

At the same time, many governments around the world offer additional support for the SME sector, and this proposal will improve Hong Kong's international competitiveness and attractiveness to start-ups and small business operators.

We welcome the special measure proposed by the Chief Executive that only one enterprise nominated by each business group be eligible for the lower tax rate. This is to ensure that this is targeted at SMEs and that large companies do not abuse the concession.

However, we believe there should be a clear definition of "business group" and we look forward to more details from relevant government departments at a later stage.

### **On incentives for research and development (R&D)**

The proposed tax deduction for research and development is considerable and will support innovation and technology and start-up companies in Hong Kong. The Institute has been advocating "super deductions" for R&D expenditure for many years, as well as other R&D-related measures. The proposed deductions are more generous than we anticipated. R&D is essential to the success of innovation and technology, which is why many countries, including China, offer similar incentives.

The new proposals should also seek to simplify the incentives for R&D and intellectual property development and usage. Currently these incentives are too limited and too inflexible, which makes it difficult for Hong Kong to compete internationally. The current proposed tax deduction goes some way to remedy this situation.

We do not think these measures will have a significant impact on government revenue given that Hong Kong consistently generates large surpluses, as acknowledged by the Chief Executive, and the economic outlook is expected to be positive.

Indeed, more money invested in R&D will, in the longer term, boost the economy and bring in more revenue for the government.

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### **About the Hong Kong Institute of Certified Public Accountants**

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 41,000 members and 18,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designation 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 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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