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

Dear Assignment/News/Business Assignment Editor

Hong Kong Institute of CPAs' forward-looking budget proposals focus on enhancing the tax regime and keeping Hong Kong wealthy and healthy

Tax policies to ensure Hong Kong's competitiveness and specific measures to uplift the city's economy and community are recommended

(Hong Kong, 10 January 2017) – The Hong Kong Institute of CPAs' budget proposals, under the heading, *Joining the Dots… Connecting the tax system with the needs of the economy and the community*, call on the government to set up a more holistic tax system that balances the need to maintain a healthy revenue base, while supporting a strong economy and community and being responsive to international developments. The Institute urges the government to implement tax initiatives to sustain Hong Kong's role as a financial and commercial centre, foster an environment that is supportive of entrepreneurs and start-ups, and improve people's livelihoods.

<u>Tax policy and the economy</u>
The Institute renews its call to establish a tax policy unit comprising taxation and industry experts, as well as government representatives to make recommendations on how to enhance the overall competitiveness of Hong Kong's tax regime, modernize the Inland Revenue Ordinance, and address the potential impact of international tax developments. The unit's role should include helping Hong Kong to position and prepare itself in relation to global initiatives for greater transparency in tax matters, such as the OECD's base erosion and profit shifting initiative. This initiative has been endorsed by the G20 group of countries, including China.

Anthony Tam, chair of the Institute's taxation faculty executive committee, says, "While there is no 'one size fits all' approach to formulating more responsive tax policies, our proposal for a tax policy unit with expert and stakeholder input can add to and complement the work of different government departments and other relevant bodies. It will be able to develop more co-ordinated policies to help bolster the city's role as a major player in global finance and commerce over the longer term."

Given the government's emphasis, echoed by the community at large, on innovation and technology as a driver of the economy in the future, and the importance to Hong Kong of encouraging an entrepreneurial spirit, the Institute proposes to reduce the corporate profits tax rate to 15% to support small and medium enterprises whose gross income is below HK$5 million. It also advocates a special 10% rate for innovation and technology start-ups in the first two years that they generate assessable profits.

In addition, the Institute proposes a range of tax measures to promote Hong Kong's role as an intellectual property hub, including providing "super deductions" of 150% for research and development conducted in Hong Kong; allowing deductions to be claimed where R&D activities are sub-contracted outside Hong Kong, so long as control and risk-taking remain

37th Floor, Wu Chung House,
213 Queen's Road East, Wanchai, Hong Kong
香港灣仔皇后大道東213號胡忠大廈37樓
Tel電話: (852) 2287 7228
Fax傳真: (852) 2865 6776
(852) 2865 6603
Website網址: www.hkicpa.org.hk
Email電郵: hkicpa@hkicpa.org.hk

in Hong Kong; expanding the range of tax deductible IP rights; and providing incentives to support R&D in renewable energy and green industries.

The government itself also needs to enhance its own use of technology and streamline administrative procedures in some areas, in keeping with global trends to become paperless and improve efficiency. In this regard, the Institute urges the government to move more rapidly towards the introduction of comprehensive arrangements for electronic filing of tax returns. The facility for e-fling needs to be further extended to all taxpayers and accommodate existing practices, including filing by tax representatives.

As regards Hong Kong's competitive tax position, it is commonly understood that when selecting investment locations, businesses look not only at headline tax rates, but also effective rates, taking account of incentives and allowances.

“Hong Kong is in danger of falling behind the competition, if action is not taken. The headline tax rates in a number of other jurisdictions are now close to Hong Kong’s and they may also offer various specific tax incentives. This is another reason why we need to take stock of Hong Kong’s overall position and develop policy measures to serve our future needs,” Tam explains.

At the same time, the network of Comprehensive Avoidance of Double Taxation Agreements should be further expanded, including with countries involved in the Belt and Road initiative and especially those which offer greater potential for economic exchanges with Hong Kong.

The Institute emphasizes that Hong Kong must also continue to build on its traditional strengths, including encouraging investment from a broad range of financial service suppliers.

Tax measures and the community
The Institute recommends a number of measures to support the wellbeing of the community.

Curtis Ng, convenor of the Institute's budget proposals sub-committee, says, “Our proposed measures aim to build a stable, progressive and closer community, which we believe is essential for Hong Kong’s overall development. Factors that we considered include the high cost of accommodation faced by families, the need for people to hone their skill sets to succeed in today’s competitive workplace, the health and wellbeing of the population, and the importance of encouraging individuals to plan better for retirement."

Even with the stringent stamp duty measures introduced by the government, property prices remain largely unaffordable to the average household. Given the difficulty for many people to buy their own home, the Institute proposes an allowance with an annual limit of HK$100,000 for rental payments, which is equivalent to the home loan interest deduction. This will provide an alternative for those who will not be in position to purchase a home in the foreseeable future and are not eligible for subsidized housing.

To encourage the community to pay more attention to its own long-term health and wellbeing, and the younger generation to develop an active and less sedentary lifestyle, the Institute recommends a new deduction for expenditure on approved extra-curricular sports training courses at a maximum amount of HK$12,000 per child per year. While reports suggest that the government may soon propose a revised voluntary health insurance scheme, this is unlikely to be able to cover all those who may wish to obtain insurance and the tax deduction may be fairly limited. For this reason, the Institute continues to recommend a tax deduction for private health insurance premiums, capped at an annual limit of HK$12,000, with a similar cap per dependant, to encourage more efficient usage of Hong Kong's public and private healthcare services.

In addition, to encourage people to save more and earlier for their retirement, each taxpayer should be allowed an annual deduction of up to HK$60,000 for voluntary contributions to their mandatory provident fund accounts.

"To support the upgrading of skill sets and enable more people to improve their opportunities for career development, the Institute recommends extending the deduction for taxpayers' self-education expenses, so that any unused portions, up to the annual limit of HK$80,000, can be used by the taxpayer's spouse or dependent children," Ng adds.

Training courses in relation to innovation and technology as well as entrepreneurship offered by reputable providers, which might not otherwise meet the criteria, should also be eligible for self-education deduction, as these two areas are of growing importance to the future development of Hong Kong's economy.

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

– End –

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 40,000 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.

Hong Kong Institute of CPAs' contact information:
Margaret Lam
Head of Member and Public Relations
Phone: 2287-7053
Email: margaret@hkicpa.org.hk