



## **Hong Kong Institute of CPAs' budget proposal asks government to use taxes to support the community and raise international competitiveness**

### ***Proposal stresses a stable housing market and stronger pillar industries***

(Hong Kong, 27 January 2011) – The Hong Kong Institute of CPAs' budget proposal gives ideas to the government for changing the tax system to satisfy community needs and boost international competitiveness.

According to the Institute's proposal, given the high cost of housing more people in Hong Kong need help to get on the road to home ownership. The proposal makes the case for adjusting the price thresholds for different stamp duty rates on property, creating a home rental tax deduction, and exempting first-time home buyers from stamp duty when their property is their primary residence and costs up to HK\$6 million.

Florence Chan, convenor of the Institute's budget proposal committee, says these housing-related measures should assist young people and the middle-income group, who may not benefit from existing housing schemes. In light of the government's earlier efforts to cool down the city's housing market, these measures will be helpful. In addition, the Institute recommends that home loan tax deductions last 15 years instead of 10.

Other community-related aspects in the proposal include tax measures that acknowledge Hong Kong's aging population: a 20 percent increase in dependant allowance for parents, grandparents, siblings and the disabled, and a 20 percent increase in tax deductions for elderly residential care expenses. The proposal also calls for deductions for voluntary contributions to mandatory provident fund schemes and for private medical insurance, aimed at improving Hong Kong people's longer retirement years.

For more help for existing families, and to encourage young people to start a family, the proposal calls for a 20 percent increase in initial and annual child allowances for the first three children in a family.

"The elderly and disabled are two of Hong Kong's most vulnerable groups," says Ayesha Macpherson, the Institute's tax committee chair. "That's why we have come up with tax measures to help out families with responsibilities for elderly or disabled people."

The proposal calls for a 150 percent "super deduction" for a disabled person's salary, which is designed to get businesses to employ disabled people, and a 100 percent allowance for businesses that build facilities for the disabled, such as ramps, handrails and special toilets.

## **Business boost**

The Institute is asking for tax incentives to strengthen three of the city's pillar industries: financial services, intellectual property use and development and regional operations. These incentives are profits tax exemptions for onshore and offshore funds and tax incentives for fund managers and insurers and tax deductions for intellectual property acquisition, among others.

As regional peers catch up to Hong Kong in international competitiveness, the city needs to inject some "tax life" into its pillar industries, according to Macpherson. "The past couple of years have seen Hong Kong's capital markets topping the table in terms of funds raised and last year the Hong Kong Stock Exchange hosted the largest initial public offering in world history. The city needs to keep up the momentum," says Macpherson.

The Institute is asking the financial secretary to boost financial services and intellectual property and innovation and technology-related industries by including a 100 percent deduction for a broader range of intellectual property acquisitions and super deductions of 150 percent for research and development expenses. To make Hong Kong the choice for regional headquarters, the Institute is suggesting a concessionary tax rate of 10 percent for regional offices in the city and loan interest exemption for regional offices lending to overseas associates.

On top of these proposed tax measures, the Institute suggests expanding the city's network of comprehensive double taxation agreements. According to Macpherson, they play a huge part in Hong Kong's competitiveness since a jurisdiction's tax system affects the business decisions of multinational companies.

In addition to support for the pillar industries, the proposal highlights the need to help those small and medium sized enterprises with gross revenue of less than \$2 million. The Institute proposes that their corporate profit tax should go down to 15 percent. Reducing taxes for this category of businesses would sharpen our international competitiveness and attract more small and medium sized foreign companies to set up shop here, says Chan.

## **Cleaning up our act**

The Institute's budget proposal includes measures to improve Hong Kong's environmental standards such as introducing improved allowances for new buildings adopting approved environmental designs, and a higher first registration tax and annual licence renewal fees for polluting vehicles.

The environment affects Hong Kong as a local community and as an international business hub, says Chan. "There's no way around this problem so we need to do more to address it."

The full budget proposal is available online at the Institute's website [www.hkicpa.org.hk](http://www.hkicpa.org.hk).

## **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 nearly 31,000 members and more than 14,000 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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