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Budget Commentary Forum 2012/13



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



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Agenda

- Overview of the tax / revenue measures in the Financial Secretary's 2012/13 budget
- The Institute's 2012/13 budget proposals "Supporting Three Pillars of Hong Kong's Success:
 - The Economy
 - The Community
 - The Competitiveness of the Tax System"



Overview of the Financial Secretary's 2012/13 budget

- 2011/12 revised estimated surplus: **HK\$66.7 billion**
- Key tax / revenue proposals:
 - Reduce profits tax, salaries tax and tax under personal assessment for 2011/12 by 75%, subject to a ceiling of HK\$12,000.
 - Increase basic and single parent allowances from HK\$108,000 to HK\$120,000
 - Increase married person's allowance from HK\$216,000 to HK\$240,000
 - Increase both the child allowance and the additional one-off child allowance in the year of birth from HK\$60,000 to HK\$63,000



Overview of the Financial Secretary's 2012/13 budget

- Key tax / revenue proposals:
 - Raise the dependent brother / sister allowance from HK\$30,000 to HK\$33,000
 - Raise the disable dependent allowance from HK\$60,000 to HK\$66,000
 - Raise dependent parents/grandparents allowance from HK\$36,000 to HK\$38,000 (for those aged 60 or above) and from HK\$18,000 to HK\$19,000 for those aged 55-59; the additional parents/grandparents allowance will also be increased in the above amounts respectively for taxpayers living together with their parents/grandparents
 - Increase the deduction ceiling for elderly residential care expenses from \$72,000 to \$76,000



Overview of the Financial Secretary's 2012/13 budget

- Key tax / revenue proposals:
 - Increase the maximum deduction for mandatory contributions to MPF schemes from HK\$12,000 to HK\$15,000
 - Grant each residential electricity account a subsidy of HK\$1,800
 - Extend the entitlement period for the tax deduction for home loan interest from 10 years of assessment to 15
 - Waive the business registration fees for 2012/13
 - Waive rates for 2012/13 subject to a ceiling of HK\$2,500 per quarter for each rateable property
 - Abolish capital duty levied on local companies



The Institute's 2012/13 budget proposals

The first pillar – The Economy

HKICPA	Financial Secretary
<ul style="list-style-type: none">▪ Reduce corporate profits tax rate to 15% for small companies with gross income <HK\$2million▪ Tax incentives for:<ul style="list-style-type: none">▪ Asset management and financial services▪ Innovation and technology▪ Regional operations▪ Environmental protection	√ (Islamic Finance)

The Institute's 2012/13 budget proposals

The second pillar – The Community

HKICPA	Financial Secretary
<ul style="list-style-type: none">▪ Increase brothers, sisters and disabled dependants allowances by 20%	√ (increase by 10%)
<ul style="list-style-type: none">▪ Increase basic and married personal allowances by 10%	√ (increase by 11%)
<ul style="list-style-type: none">▪ Adjust the price thresholds at which different levels of stamp duty rates apply on the sale or transfer of immovable property	
<ul style="list-style-type: none">▪ Home loan interest deduction extends to 15 years	√
<ul style="list-style-type: none">▪ Home rental deduction	
<ul style="list-style-type: none">▪ Stamp duty exemption for qualifying first-time home buyers	

The Institute's 2012/13 budget proposals

The second pillar – The Community

HKICPA	Financial Secretary
<ul style="list-style-type: none">▪ Waive rates (cap to HK\$1,500 per quarter for each rateable tenement)▪ Electricity charge subsidy (HK\$2,400 for each residential electricity account)▪ Deductions for voluntary contributions to MPF schemes (cap to HK\$48,000)▪ Deductions for private medical insurance (cap to HK\$12,000)▪ 150% super deductions for the salary costs of disabled persons▪ Accelerated deductions for disabled-facilities	<p>√ (cap to HK\$2,500)</p> <p>√ (HK\$1,800)</p>

The Institute's 2012/13 budget proposals

The third pillar –

Competitiveness of Hong Kong's tax system

- IRO was enacted in 1947.
- Last comprehensive review was conducted in 1976.

The Institute's 2012/13 budget proposals

Major tax legislative amendments in the past decade

- Deductions for capital expenditure on registered trademarks, copyrights and registered designs (2011/12)
- Amendments to the tax law that enable Hong Kong to adopt a wider exchange of information article in the double taxation arrangements (2010)
- Accelerated tax deductions for environmental protection facilities and vehicles (2008/09 & 2010/11)
- Introduction of offshore fund exemption (2006)
- Abolition of estate duty (2006)

The Institute's 2012/13 budget proposals

The Institute's tax proposals for considerations

- Clear, consistent and certain source rules
- Group loss relief
- Loss carry-back
- Regional headquarters incentives
- Broadening tax base
- Corporate tax rate
- Tax incentives for pillar industries

The Institute's 2012/13 budget proposals

Group loss relief and loss carry-back

	Group loss relief	Loss carry-back
Hong Kong	X	X
Singapore	√ (Effective from 2003)	√ (Effective from 2006)
Taiwan	X	X
Korea	√ (Effective from 2010)	√
Japan	√ (Effective from 2003)	√
Malaysia	√ (Effective from 2006)	X
Mainland China	X	X
Thailand	X	X

The Institute's 2012/13 budget proposals

Regional headquarters incentives

	Thailand	Singapore	Malaysia
Tax incentives	<ul style="list-style-type: none"> • 0% rate on income from overseas; • 10% rate on local income; • For 10 years with possibility of another 5 five years 	<ul style="list-style-type: none"> • 15% rate for 3 years on incremental qualifying income from abroad (with possibility of a 2-year extension) for RHQ; • 0%, 5%, or 10% on the income of an IHQ 	<ul style="list-style-type: none"> • Corporate income tax exemption for 10 years for specified sources of income
Examples		<ul style="list-style-type: none"> • IBM, Federal Express, SIEMENS, P&G and Unilever etc 	

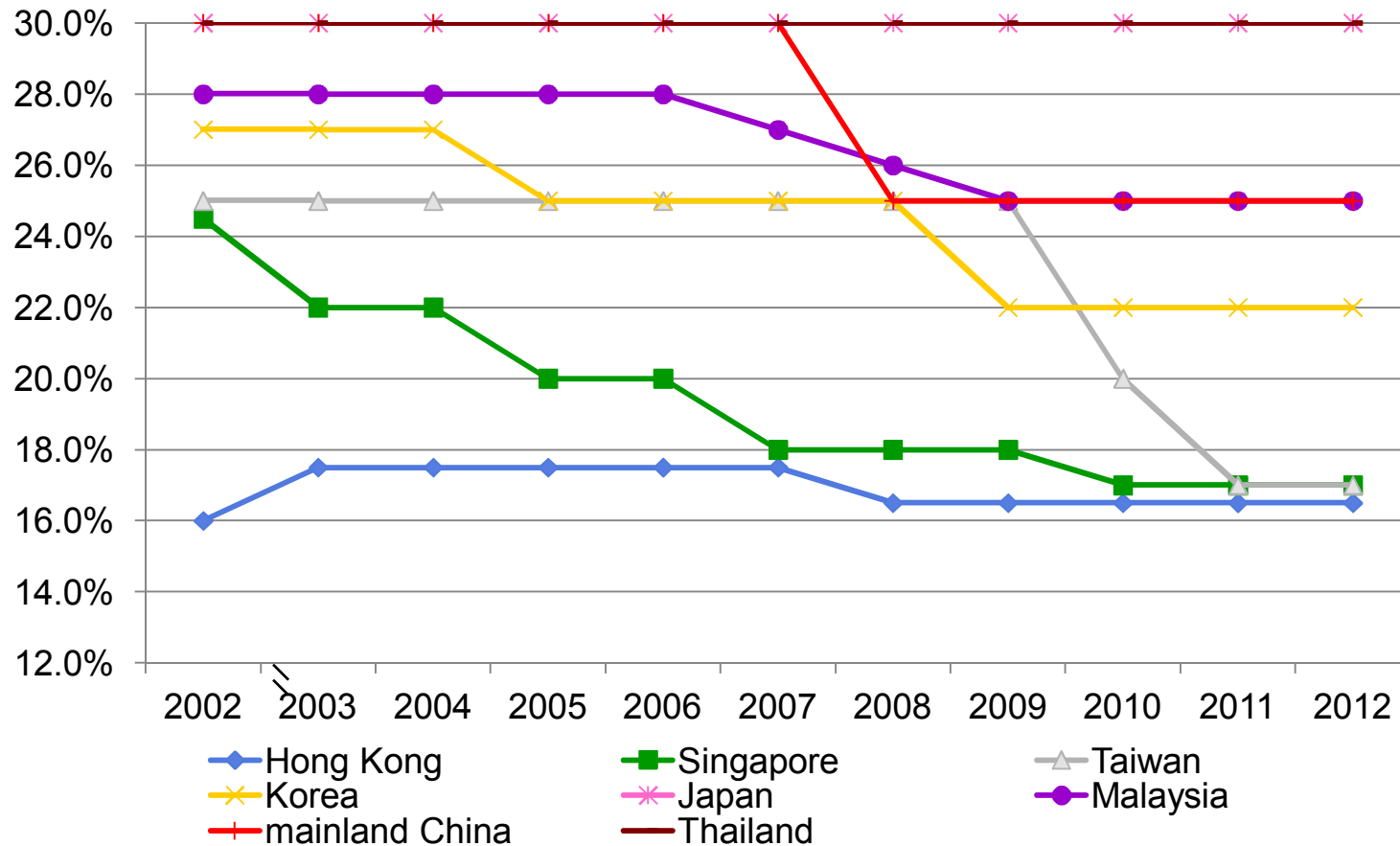
The Institute's 2012/13 budget proposals

Broadening tax base

	GST / VAT / sales tax rate
Hong Kong	Nil
Singapore	7%
Taiwan	5%
Korea	10%
Japan	5%
Malaysia	10%
Mainland China	17%
Thailand	7%

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Corporate tax rate



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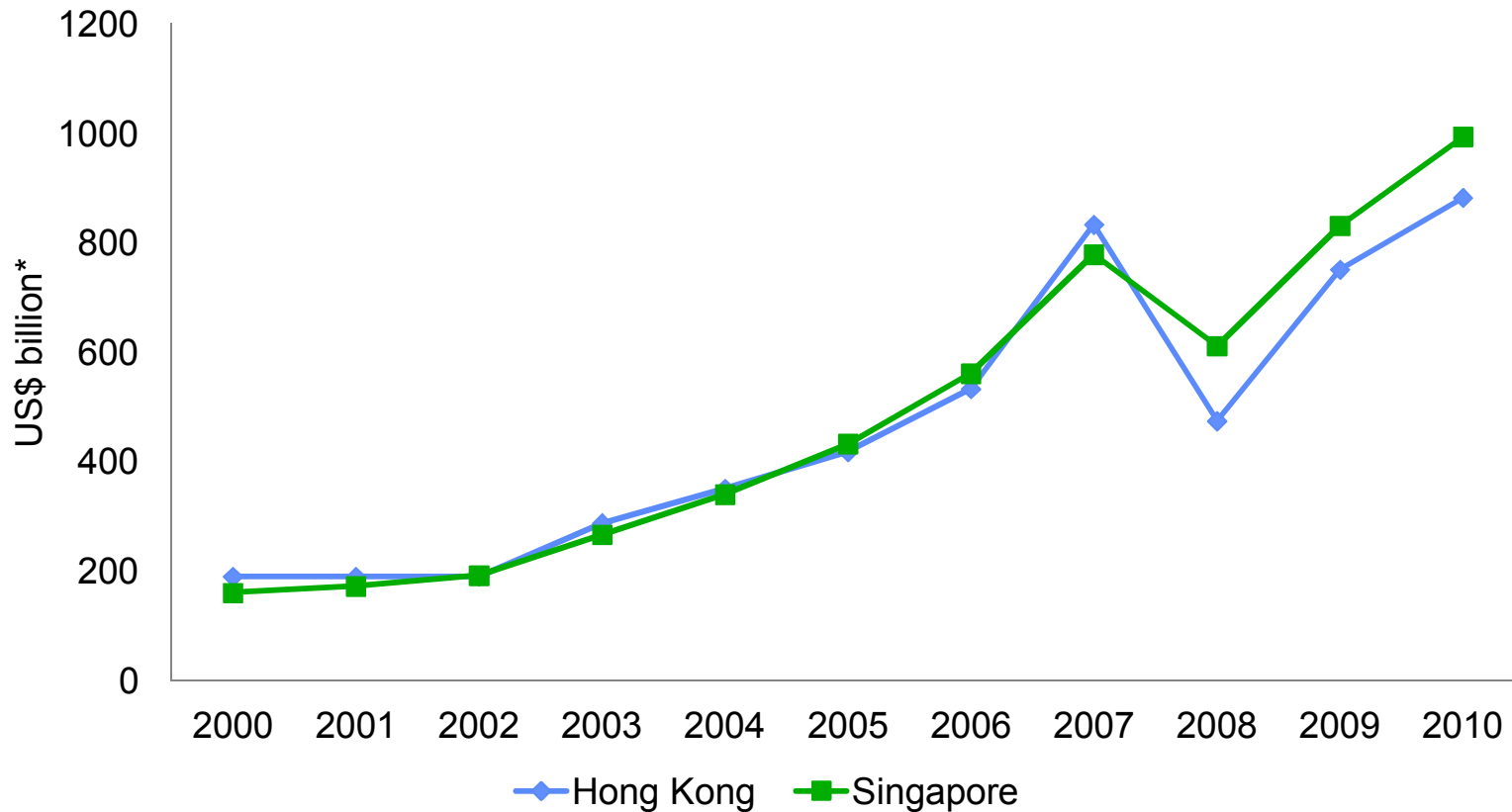
Tax incentives for pillar industries, e.g., financial services

- **Hong Kong**
 - Offshore funds
 - SFC authorized funds / widely held funds
- **Singapore**
 - Offshore funds
 - Singapore domiciled funds
 - Enhanced tier funds
 - Designated unit trusts and incentives for REITs etc



The Institute's 2012/13 budget proposals

Tax incentives for pillar industries, e.g., financial services



* Based on the monthly average USD:SGD and USD:HKD exchange rates of the respective years from Bloomberg
Sources: Singapore Asset Management Industry Surveys, 2000-2010 Monetary Authority of Singapore;
Fund Management Activities Surveys 2000 -2010, Securities and Futures Commission



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The Institute's 2012/13 budget proposals

The third pillar –

Competitiveness of Hong Kong's tax system

- Suggest to set up a tax research and policy unit to
 - assess the merits of conducting a review of the IRO;
 - conduct comparability studies with the tax regimes and developments in Hong Kong's competitors.



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