



Dear Assignment / News / Business Section Editor

Accountants say government's budget too cautious for People and business

Economic recovery gives an opportunity to do more

(HONG KONG 24 February) – The government's budget announced today is too cautious given the economic recovery, the fiscal measures are mainly short-term and one-off, and the budget does not sufficiently address long-term tax competitiveness, according to the Hong Kong Institute of Certified Public Accountants.

On the other hand, the Hong Kong Institute of CPAs supports Financial Secretary John Tsang's proposals to build the asset management business by extending stamp duty and profits tax concessions. The Institute also welcomed his proposal to extend tax deductions to trademarks, copyrights and registered designs. The Institute, however, also had recommended "super deductions" (i.e. more than 100%) for research and development expenditures to speed up innovation in Hong Kong companies.

The Institute was disappointed with the budget's lack of attention to the long-term competitiveness of Hong Kong's tax system.

"We compete with other jurisdictions for business, but we don't clarify significant uncertainties in our tax system," according to Ayesha Macpherson, chair of the Institute's tax committee.

Craving certainty

The Institute had asked the government to give businesses the certainty it craves in matters of taxation by clarifying treatments concerning the source of profits – the location where profits are made and whether they are taxable in Hong Kong – and source of employment income. The Institute wants the definition for source of employment income to refer to the place where services are rendered.

The Institute had also recommended the government shorten the time limit for finalization of tax affairs from six to three years and to deem tax returns as final if the tax authorities do not raise an inquiry within 12 months.

The Institute also recommended, as it has for many years, the adoption of group loss relief and loss carry-back.

More for families

Florence Chan, deputy chair of the tax committee, says the Institute had encouraged the government to allow deductions for private medical insurance, subject to a HK\$12,000 annual cap per person.

“The financial secretary talked a lot about the burden an aging population puts on our public finances,” she says, “and this type of deduction, which would give a break to people who want private insurance, would help alleviate these costs.”

The Institute had asked for allowances for salaries tax and personal assessments to support families, and while the budget gives some one-off concessions, the Institute had asked for an increase in the annual allowance by 20 percent for children, dependent parents, grandparents, siblings and disabled dependants.

“Most of what the government is giving out in this budget is too little and too slow,” says Macpherson. “Our financial situation is very good and we could be doing more to enhance the long-term competitiveness of our tax system and for people with heavy family burdens.”

On other matters, the Institute is an advocate of the introduction of a corporate rescue procedure and supports the financial secretary’s intention to introduce this soon.

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Note to editor

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 29,000 members and 13,000 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 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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