



To: Assignment/News/Business Section Editor
(For Immediate Release)

Hong Kong Institute of CPAs Calls Budget Recommendations Prudent, but too Conservative

Institute Welcomes Measure to Broaden Tax Base, but Raises Concerns about Rejection of Group Relief for Companies and Drivers for Future Growth

(HONG KONG, 22 February 2006) — The Hong Kong Institute of Certified Public Accountants says today's budget proposed by Financial Secretary Henry Tang Ying-yen is prudent but too conservative in granting tax breaks for the middle class and enhancing the competitiveness of Hong Kong.

Paul M.P. Chan, president of the Institute, says accountants were hoping to see quicker action on fixing Hong Kong's narrow tax base, a problem it has called attention to for years. He cites as an example the Institute's long-standing advocacy of a goods and services tax.

"This is the right time to do a serious, comprehensive consultation of the GST – we're in an economic upswing and the discussion can be calm and rational – and we need a longer-than-normal discussion period for a complex issue like this," says Mr. Chan.

He says other conservative elements in the budget were the tax concessions for middle class taxpayers. "Increasing the relief of mortgage interest from seven years to 10 will help a good many people, but we were hoping the government would also raise the cap upwards from \$100,000. This would help taxpayers more, especially given the increase in interest rates during 2005."

Lowering the marginal salaries tax rates is welcome and will go some way in relieving the pressure on the middle class, according to Mr. Chan, but he and the tax experts at the Hong Kong Institute of CPAs say the government could have left the standard rate unchanged while giving more generous concessions without imperiling Hong Kong's budget too much.

Environmental Taxes

As a long-time proponent of the "user pays" principle for reducing waste and pollution, Mr. Chan, speaking for the Institute, says it is delighted to learn the government will introduce legislation to reduce pollution caused by plastic bags. While saying the exemption of first-year registration fees for electric vehicles is a good idea, he says the government could go further to implement the "user pays" concept with other polluters.

For Companies – Group Relief

The decision not to implement group relief, whereby group companies are allowed to offset their losses, is a point of concern for the Institute, which has advocated its adoption.

“The Financial Secretary’s insistence that this is prone to abuse is questionable. Many tax jurisdictions have adopted group relief, including Singapore, Japan, Australia, the U.S., the UK, and some European countries. We have no evidence that group relief is abused,” he says.

“Another subtle point is that Hong Kong’s full convergence to international accounting standards also has tax implications in that unrealised profits may now be subject to tax. Group tax relief and allowing loss carried back are measures that would help alleviate this problem.

“In this area, the Financial Secretary has underestimated the international competitive pressures on Hong Kong as businesses in other jurisdictions could benefit from such incentives.”

Quality Migrant Scheme

Mr. Chan notes that Hong Kong needs more talent. He says this scheme could help cover gaps in our economic transition, especially in the areas that help build our economic growth.

Macro View

“Hearing the confirmation that our economy has roared back from the previous financial crisis to surpass the record high GDP in 1997 is welcome news, as are the forecasts for real economic growth,” he says, but he notes that the budget is not just a budget, but a map for economic development.

“Missing from this speech are the numbers of the ‘key sectors’ (financial and commercial services, tourism and logistics) – how much do they contribute to GDP? How many jobs do they generate? What is the future for these sectors?”

“The logistics sector is a good example. It’s facing keen competition from the Mainland. It would have been helpful for the Financial Secretary to take stock of the economic significance of these sectors to Hong Kong and make some projections on their respective futures. We need to know where the next wave of growth is coming from and how the government intends to support that growth. What will be our engines of growth for the next decade?”

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Editor’s Notes

About Hong Kong Institute of Certified Public Accountants

The Hong Kong Institute of CPAs is the only body authorised by law to register and grant practising certificates to Certified Public Accountants in Hong Kong. The Institute has more than 25,000 members and nearly 10,000 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.

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