



Dear Assignment / News / Business Section Editor

A cautious maiden budget overall from the new financial secretary, but Institute welcomes implementation of its long-advocated initiative to set up tax policy unit

(Hong Kong, 22 February 2017) – The government's 2017-18 budget offers some immediate measures to stimulate the economy, helps boost growth to 2-3 percent in 2017, and provides support to the most needy in the community, which are to be expected given the large amount of surplus, according to the Hong Kong Institute of Certified Public Accountants.

While the focus remains on the pillar and creative industries, and innovation and technology, the Institute welcomes the additional attention given to reviewing tax policy.

Tax policy unit

"The establishment of the tax policy unit is a welcome move which the Institute has been advocating for a number of years," says Anthony Tam, chair of the Institute's taxation faculty executive committee. However, more information is needed about the composition as this will be crucial in driving the direction of tax policy.

"The unit should include taxation and industry experts, economists, academics, as well as representatives from the Financial Services and the Treasury Bureau, the Inland Revenue Department, and investment promotion agencies," says Tam.

"When it is developing proposals, the unit should communicate with and complement the work of other bodies, such as the Economic Development Commission. The unit should be able to invite specialists to join particular projects, and it could have a full-time, non-government head, similar to the arrangement for the Central Policy Unit," Tam adds.

In addition to the scope of work mentioned in the budget speech, the tax policy unit should also look at modernizing the Inland Revenue Ordinance, to accommodate new business models and to provide clarity of treatment. It should consider the impact of emerging international tax developments with a view to helping Hong Kong anticipate changes and position itself for these.

Economic measures

The Institute supports the proposals to consult on extending the profits tax exemption to onshore privately-offered open-ended fund companies. "We have argued for more flexibility in extending the existing offshore fund exemption to certain Hong Kong-resident funds, which would help make Hong Kong a more attractive location for the fund industry and create spin-off benefits in other sectors," says Curtis Ng, convenor of the Institute's budget proposals sub-committee.

While the financial secretary mentions that the tax policy unit will explore enhanced tax deductions for innovation and technology expenditure, "We recommended that innovation and technology start-up companies should enjoy a 10% corporate profits tax in the first two years that they generate assessable profits," says Ng. "These days, it is quite common for start-ups in the I&T field in other jurisdictions to be offered a reduced rate of profits tax or even a tax holiday in their early years."

The Institute also saw scope for more concrete measures to help SMEs generally such as a lower rate of profits tax.

Meanwhile, the plan to introduce legislation for tax concessions to support the further development of the aircraft leasing business in Hong Kong is welcomed.

The commitment to expanding the network of comprehensive avoidance of double taxation agreements is seen as another positive signal in the budget.

Community measures

The government proposes to extend the entitlement period for tax reduction for home loan interest to 20 years of assessment, which is helpful given that mortgages often extend beyond 15 years, but more could be done. "Many people, especially young people, still cannot envisage a time when they will be able to afford to buy their own homes. That's why the Institute's budget submission recommended allowing a deduction for rental payments for a taxpayer's primary residence, with an annual cap of HK\$100,000," explains Ng.

The government says it will provide a tax deduction for the purchase of regulated health insurance products, which is in the right direction but more details are needed. "To encourage more efficient use of public and private health care services, we recommended allowing a deduction for private health insurance premiums, with an annual cap of HK\$12,000, and additional deductions for premiums paid to cover dependent spouses and children," says Ng.

The Institute also supports the measures on sports development, although these are mainly to provide the funding for new sports facilities, as announced in the chief executive's policy address. On the other hand, facilities are only one part of the equation and the Institute recommended a deduction for expenditure on children's sports training courses, with an annual cap of HK\$12,000. "This could encourage a more active lifestyle, which is good for the long-term physical and mental well-being of the community," Ng adds, following a recent Chinese University of Hong Kong's study, which found that Hong Kong children do not get sufficient exercise.

The gradual increase in salaries tax allowances for disabled dependants and dependent siblings is also welcomed by the Institute, which, in its submission, pointed out the big disparity in increases between the allowances for different dependants in recent years. We recommended that the basis for the adjustments in these allowances should be rationalized and made more transparent, and, generally, that the increases be aligned in future, Tam explains.

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About the Hong Kong Institute of Certified Public Accountants

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 more than 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.

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