

Hong Kong Institute of CPAs

Budget proposals 2010-11

Summary of measures proposed

Tax rates and allowances

1. Corporate profits tax rate: Reduce corporate profits tax rate to 16% in 2010-11, with further progressive reductions to 15% over time.
2. Allowances for salaries tax and personal assessment: Support for families and middle-income group as follows:
 - (a) Increase annual allowances by 20% for children, dependent parents, grandparents, brothers, sisters and disabled dependants.
 - (b) Increase the limit on the deduction for elderly residential care expenses by 20%.
 - (c) Increase the duration of the home loan interest deduction from 10 years to 15 years.
 - (d) Allow deductions for private medical insurance, subject to a HK\$12,000 annual cap per person.

Enhance competitiveness in the tax system

3. Source of profits: Introduce clear, appropriate criteria for determining the source of profits in the Inland Revenue Rules under the Inland Revenue Ordinance.
4. Source of employment income: Refer to the place where services are rendered as the test for determining the source of employment income. Further, where the 60-day exemption is not applicable, allow apportionment on a "days in days out" basis by reference to the place where the services are rendered.
5. Finalisation of tax affairs: Increase certainty through the following measures:
 - (a) Reduce the statutory time bar to three years.
 - (b) Accord a statement of loss the same status as a notice of assessment.
 - (c) Deem a tax return as final if no enquiry on it has been raised within 12 months from lodgement.
6. Transfer pricing: Introduce comprehensive transfer pricing rules, including legislation and arrangements for advance pricing agreements.
7. Group loss relief: Introduce a group loss relief system.
8. Loss carry-back: Introduce loss carry-back provisions.

Support for pillar and new industry sectors

9. Financial services:
 - (a) Extend the rules relating to the exemption from profits tax for qualified offshore funds.

- (b) Introduce further incentives for the fund management and insurance sectors.
- (c) Introduce appropriate tax legislation to facilitate development of Islamic finance products.

10. Innovation & technology:

- (a) Adopt “place of use” to determine source of royalty income.
- (b) Cap the taxation of gains on disposals of intellectual property rights.
- (c) Expand Hong Kong’s network of double taxation agreements to enable taxpayers to obtain, inter alia, more favourable withholding tax rates.
- (d) Offer unilateral tax credits for withholding tax on royalties where no double taxation agreements exists.
- (e) Allow “super deductions” (i.e. more than 100%) for research and development expenditure.

11. Producer and professional services:

- (a) Grant a 10% concessionary profits tax rate for regional offices in Hong Kong.
- (b) Exempt interest received by regional offices (except for financial institutions) on loans made to overseas associates.
- (c) Allow Hong Kong taxpayers involved in import processing arrangements overseas, to apportion their profits and to claim depreciation allowances on plant and machinery.