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

HKICPA finds 2019-2020 Budget reasonable amid challenges

(Hong Kong, 27 February 2019) Hong Kong Institute of Certified Public Accountants (HKICPA) believes that the 2019-2020 Budget shows the financial secretary (FS) adopting a fairly prudent approach to managing expenditure overall in order to meet the community's expectations while seeking to solidify the city's position as a financial service centre, strengthening its role in innovation and technology, and diversifying the economy.

HKICPA understands the challenges the government was facing in preparing for this year's Budget and finds it reasonable amidst the continuing global economic uncertainty, brought about by the lingering China-US trade conflict and expectations of slower global growth. However, HKICPA believes that there is room for certain more specific tax-related measures to be introduced.

Early in the Budget speech, the FS highlighted the slowdown in Hong Kong's fourth quarter GDP growth, as a result of external factors, and the weakened business sentiment in Hong Kong. Looking ahead, he also painted a cautious picture of the local economy with growth forecasts of 2-3 per cent in 2019-20 and beyond.

The reallocation of Housing Reserve, established in 2014 to support public housing development, back to the fiscal reserves, over the next four years, will boost medium-term surplus forecasts. "Without this, the Budget could slide into deficit for a year or two, particularly in the event of further negative headwinds. However, the FS is forecasting a surplus of HK$16.8 billion in the consolidated account in the coming year, which means that fiscal reserves are estimated to reach about HK$1.2 trillion by the end of March 2020, equivalent to 39.4 per cent of GDP; so barring any further major shock, Hong Kong's financial standing should remain in a good shape," said Mr. KK So, Chairman of HKICPA's Taxation Faculty Executive Committee.

"The FS announced that the Tax Policy Unit (TPU) would be moved directly under his office and will be given more resources, as and when necessary. We hope this means that the TPU will be looking at more strategic tax policy issues, including reviewing the effectiveness of our tax incentives," said Mr Curtis Ng, Convenor of the Budget Proposals Sub-committee, HKICPA.

While the TPU has yet to fulfil some of the expectations practitioners had of it when it was set up, to investigate certain more fundamental tax issues, HKICPA reiterates that the government should expand its remit and expertise to include taxation and industry experts, economists and academics, as well as government representatives. The TPU should study how taxation could help drive the economy, with the aim of achieving a more holistic system that balances the need to maintain a healthy revenue base, while supporting a strong economy and community.

The key tax concessions and rebates, such as profits and salaries tax rebates, and rates waivers, are a continuation of past years' measures, albeit reduced from last year's levels. The extra allowance to be granted to social welfare beneficiaries has been cut to one month’s top-up from last year’s two months’ extra. "In the past few years, personal tax rebates have helped relieve some financial pressure on the middle-class. But given the continuing unaffordability of residential property for many people, we have been advocating an additional allowance of up to HK$100,000 annually for rental payments by taxpayers on their primary residence. The FS suggested last year that something was in the pipeline, so many people will be disappointed to see no mention of this measure in this year's Budget," Mr. Ng explained.

As Hong Kong is now positioning itself as a tech innovation hub in addition to being an international financial centre, the government is committed to supporting research and development (R&D). Therefore, HKICPA urges the government to relax the rules for super deductions of R&D expenses to allow deductions for subcontracted R&D expenses.

HKICPA welcomes the government’s renewed commitment in the budget towards improving the quality of life in Hong Kong by increasing recurrent funding for the public healthcare system, as well as funding for elderly services and social welfare facilities, in addition to capitalising on the harbourfront development and smart city blueprint, as part of its mission to make Hong Kong a more liveable city.

Last but not the least, HKICPA welcomes the government’s consideration of establishing a limited partnership regime and introducing tax arrangements to attract private equity funds to set up and operate in Hong Kong. This is in line with HKICPA's proposals to the government to enhance Hong Kong's role as fund management centre. The provision of tax concessions for marine insurance and underwriting of specialty risks, and to facilitate them to issue insurance-linked securities, should also help to promote Hong Kong as a ship leasing hub.

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About HKICPA

The Hong Kong Institute of Certified Public Accountants (HKICPA) is the statutory body established by the Professional Accountants Ordinance responsible for the professional training, development and regulation of certified public accountants in Hong Kong. The Institute has more than 43,000 members and 18,000 registered students.

Our qualification programme assures the quality of entry into the profession, and we promulgate financial reporting, auditing and ethical standards that safeguard Hong Kong's leadership as an international financial centre.

The CPA designation is a top qualification recognised globally. The Institute is a member of and actively contributes to the work of the Global Accounting Alliance and International Federation of Accountants.

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