



Dear Assignment/News/Business Section Editor

Hong Kong Institute of CPAs Says Budget Could Do More to Soften the Impact of the Current Financial Crisis

Budget offers near-term relief but leaves long-term room for improvement

(Hong Kong, 25 February 2009) – The Hong Kong Institute of CPAs says the government’s budget does not go far enough to deal with the city’s economic downturn, given the severity of the global financial crisis.

“We welcome the budget’s principles of job creation, international competitiveness, and sustainable development,” says Ayesha Macpherson, chair of the Institute’s tax committee. “We particularly agree with the budget’s focus on job creation, but think that much more can be done to lessen the powerful aftershocks of the financial turmoil.”

For individual taxpayers, the budget proposals were not as generous as those offered last year. The Institute says the 50 percent tax rebate with a ceiling of \$6,000 proposed by the Financial Secretary falls short of the suggested rebate of 75 percent with a ceiling of \$25,000.

For corporate taxpayers, the Financial Secretary offered no substantial relief aside from the rates waivers. Even then, the government could have adopted the Institute’s proposal to waive rates for property owners for another full year, subject to a ceiling of \$5,000 per quarter for each property, instead of just two quarters with a ceiling of \$1,500. The Institute also recommended providing a profits tax rebate of up to \$25,000.

“What the government has proposed will help the community to some extent but given the sharp downturn and loss of consumer confidence that Hong Kong is now experiencing, more should be done to encourage consumption. We should use the wealth we’ve built up over the past two years to carry us through the difficult times,” says Macpherson.

The Financial Secretary’s proposal to offer subsidies for increasing graduate employment opportunities is a move in the right direction, provided the programme gives graduates a genuine opportunity for further development,” she says.

However, the Institute says the government could have done more to help those already made jobless. The Institute suggested the government allow an individual to make use of any unused funds for self-education, up to a limit of \$60,000 annually, to be carried forward for a year. In addition, the current statutory limits for redundancy and severance payments, treated as non-taxable, should be doubled.

While short-term and one-off measures are necessary during the downturn, it is also important for the government to consider longer-term measures to relieve the burden on the middle class, such as increasing child allowances and allowances for dependent family members.

The Institute's proposal to reduce the first three progressive rates of salaries tax to 1 percent, 5 percent and 9 percent, and to introduce a fourth rate of 13 percent while retaining the existing top rate of 17 percent could have helped lower- and middle-income earners.

The Institute's proposals called for the introduction of a new salaries tax deduction for private medical insurance, which would encourage taxpayers to use private medical services more often and reduce the burden on public healthcare services. "Unfortunately, the budget proposal did not deal with this issue," she says.

International Competitiveness

The Institute applauds the government's initiatives to expand the exchange of information and to develop Hong Kong's market for Islamic financial products. "Upgrading Hong Kong's exchange of information provisions will enable it to sign many more double taxation agreements while Islamic financial products open new channels for growth in Hong Kong's financial markets," says Macpherson. "These measures help to reinforce Hong Kong's status as an international finance hub."

For businesses, "We have repeatedly asked the government to adopt group loss relief and 'loss carry back' measures. Similar concessions are available in a number of important markets around the world and these measures could really help with cash flow and be beneficial during the credit crunch," Macpherson says. Loss carry back refers to the ability to use losses incurred in the current year of assessment to offset assessable profits from the previous year, while group relief allows the taxable profits generated by one group company to be offset by losses suffered by another company in the same group.

"In the current economic environment, it is important to take a long hard look at Hong Kong's future competitiveness," says Macpherson. Hong Kong's corporate profits tax rate is 16.5 percent while Singapore's is 18 percent and will be reduced to 17 percent in 2010; with other concessions, the effective tax rate in Singapore is even lower.

"To stay ahead of the game, we should continue to reduce our profits tax rate, once conditions permit, and face up to the need to broaden Hong Kong's tax base," she says.

Over the past decade, Hong Kong's profits tax rate has varied between 16 and 17.5 percent while Singapore's has been reduced by over 7 percent.

"The increasing lack of certainty and predictability in Hong Kong's tax administration is also becoming a major issue in our competitiveness and attractiveness to overseas investment. We have stressed to the government the need for decisive action to improve the situation," explains Macpherson.

The Institute has again urged the government to introduce rules to determine the source for profit and employment income. This will reduce uncertainty in tax

planning for businesses and help restore certainty for existing taxpayers and potential investors.

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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 28,000 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 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.

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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