Tax policy and budget proposals 2013-14

Nurturing the future of Hong Kong

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

Composition of the HKICPA Taxation Faculty Executive Committee 2012

Chair:	Florence Chan
Deputy Chair:	Anthony Tam
Members:	Brenda Chan Patricia Gooi Gary James Alice Lam Ayesha M. Lau Julian Lee Sandra Leung Christina Ng Curtis Ng So Kwok Kay Catherine Tse
Secretaries:	Peter Tisman Elena Chai

Composition of Budget Proposals 2013-14 Sub-committee

Convenor:	Wilson Cheng
Members:	Florence Chan Julian Lee Sandra Leung Anthea Li Curtis Ng So Kwok Kay
Secretaries:	Peter Tisman Elena Chai

Table of contents

Nurturing the future of Hong Kong
Key measures proposed

The Institute's 2013-14 budget proposals, developed by the Taxation Faculty Executive Committee, focus on tax policies and measures on the revenue side of the budget.

Under the heading "Nurturing the future of Hong Kong", our recommendations relate to a few key areas, including:

- Understanding and reinforcing Hong Kong's competitiveness to ensure continuing economic success.

- Helping families with the financial burden of setting up homes and raising children; and

- Improving the overall quality of life for the community.

Outlined below are the main measures proposed by the Institute.

Tax policy

1. Establish a standing tax policy group within the government to research and review Hong Kong's competitiveness and recommend refinements to the tax system and policies.

2. Strengthen the transfer pricing framework by providing a basic legislative framework and more extensive interpretative material and guidance.

3. Improve the certainty of the tax system, by looking to:

   (a) Clarify rules for source of profits by providing more guidance and codifying the tests for determining source for some specific types of income.

   (b) Clarify rules for source of employment by codifying the key tests.

   (c) In respect of finalisation of tax affairs, reduce the statutory time bar to three or four years and accord a statement of loss the same status as a notice of assessment.

4. Allocate sufficient resources to address expeditiously implementation issues arising from double tax treaties.

5. Establish a full-time panel with extensive tax expertise to hear complex Board of Review cases.

Budget measures

6. <u>Salaries tax measures</u>

   (a) Widen the marginal tax bands to HK$50,000.

(b) Review personal allowances, by identifying an appropriate base year to be used as benchmark for future, more regular, adjustments.

(c) Increase the child allowances to HK$70,000. Increase the allowances for other dependants in line with inflation.

(d) Allow deductions for individual taxpayers' voluntary contributions to their mandatory provident fund schemes, subject to an annual cap of HK$60,000 (i.e., additional to their mandatory contributions).

(e) Allow a deduction for private healthcare insurance premiums, subject to an annual cap of HK$12,000 per taxpayer. For those not covered by healthcare insurance, permit a deduction up to HK$12,000 per taxpayer and dependants annually for essential in-hospital treatment.

7. Housing

(a) Expand the home loan interest deduction into a home loan interest/ home rental deduction, which can also be used towards rental payment for the taxpayer's primary residence, for the same maximum duration, and subject to the same annual cap, as the home loan interest deduction.

(b) Adjust the price thresholds for the different rates of stamp duty on the sale or transfer of immovable property, in line with property price inflation.

8. Property and utility concessions

(a) Waive rates for 2013-14 with a ceiling of HK$2,500 per quarter for each rateable tenement, limited, if administratively practicable, to self-use properties.

(b) Grant an electricity charge subsidy for 2013-14 of HK$1,800 to each residential electricity account. To encourage energy conservation, consideration should be given to restricting this concession to households whose energy consumption levels are below a certain limit.

9. Profits tax measures

(a) For companies whose gross income does not exceed HK$2million, reduce the corporate profits tax rate to 15%, in line with the rate for unincorporated businesses.

(b) Introduce a profits tax waiver on the first HK$500,000 of assessable profits.

(c) Waive the business registration fee for 2013-14.

10. Asset management and financial services centre

(a) Extend the rules relating to the exemption from profits tax for qualified offshore funds.

(b) Introduce exemptions for onshore funds that meet specific criteria.

(c) Introduce further tax incentives for the insurance sector.

11. Innovation and technology sector

(a) Allow deduction of costs relating to research and development (R&D) activities outsourced to external parties and intellectual property (IP) provided to third parties to produce goods outside Hong Kong.

(b) Grant “super deductions” of 150% for expenditure on R&D conducted in Hong Kong.

(c) Offer unilateral tax credits for withholding tax on royalties where no double taxation agreement exists.

12. Regional operations for trading, headquarters and treasury

(a) Grant a 10% concessionary rate of profits tax 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 "approved" treasury companies to qualify for deductions of interest paid to associates.

13. Promoting a sustainable community

(a) Offer accelerated building allowances for commercial and industrial complexes adopting environmentally-sustainable designs.

(b) Introduce traffic measure to reduce pollution, such as electronic road pricing and higher registration taxes and annual licence fees for polluting vehicles.

(c) Explore refund systems to encourage recycling and a wider adoption of the polluter pays principle.

(d) Set up a heritage body in Hong Kong to which cash donations should be deductible and explore further options for private/ public sector partnerships to better preserve heritage buildings and sites.

(e) To allow landlords of older buildings to deduct actual renovation expenses in any given year instead of the flat-rate 20% rental deduction for wear and tear.

Nurturing the future of Hong Kong
Detailed proposals

Tax policy

With rapid changes in the business environment, other jurisdictions are continually reassessing and adjusting their legislation and policies, including their tax regimes, having regard to business developments and the need to attract inbound investment. Hong Kong should similarly examine its tax system and consider areas that may need changing, as the Inland Revenue Ordinance (IRO) and the associated tax regime have undergone mainly ad hoc changes since the last extensive review in the 1970s. Against this background, the Institute recommends the following measures:

1. <u>Tax policy group</u>

   A standing tax policy group should be established within the Hong Kong SAR government (government). It should comprise not only officers from the Financial Services and the Treasury Bureau (FSTB) but members from investment promotion agencies, as well as outside experts and academics. Its role would include conducting a strategic review of, and ongoing research into, Hong Kong's tax competitiveness; suggesting refinements to the tax system as appropriate; and exploring in more detail the merits of certain long-standing proposals advocated by the business sector and tax professionals, such as group relief/ loss carry-back, and how these measures operate in other markets. The tax policy group could also look again at the need to broaden the tax base.

2. <u>Transfer pricing framework</u>

   The interface with the IRO needs to be reviewed as the IRO does not give the Commissioner of Inland Revenue (CIR) clear authority for making transfer pricing adjustments. We propose strengthening the transfer pricing regime by providing a broad legislative framework supported by more interpretative material and guidance. The basic question of whether the "source" principle or transfer pricing takes precedence needs to be made clear, as do basic requirements for documentation. The increasing attention and priority given to transfer pricing is a global phenomenon, as governments seek to increase their revenues and prevent leakages. We also recommend that the government allocates sufficient resources to take up transfer pricing issues, as Inland Revenue Department (IRD) needs to be attuned to and be able to react to developments in this field in the international arena.

3. <u>Certainty of the tax system</u>

   The Institute believes that there is need to improve the certainty of the tax system, which has eroded over time due to changes in IRD practices, as well as important court decisions and how these have been interpreted. The following areas are important examples of areas which need to be looked at from this perspective:

(a) Source of profits/ source of employment income

Businesses want to be able to plan their tax affairs with a reasonable degree of certainty. However, there is currently a significant degree of uncertainty in the practical application of the very fundamental principle of "source" in relation to profits and employment income.

In view of these uncertainties, we suggest that the Departmental Interpretation and Practice Notes (DIPN) be updated more regularly and that feedback from practitioners be sought as part of this process, as this could help to ensure that updates would improve certainty in a changing business environment. We also suggest that encouragement be given to make fuller use of the advance ruling system and that IRD should be prepared to give and to publish advance rulings, wherever possible. At the same time, we recommend codifying some of the basic tests for determining the source of profits. This could be achieved by the introduction of appropriate amendments to the Inland Revenue Rules. For example, in Hang Seng Bank, Lord Bridge set out guidelines for the determination of the source of various types of profits. Implementing the above measures should result in a clearer and more predictable tax regime, which would, in turn, help to attract and retain investment.

The situation with regard to the source of employment, which was reasonably clear after the case of *CIR v Goepfert* became progressively more doubtful, following board of review (BOR) decisions, which were not always consistent with one another, and changes in practice and interpretations of the law. Revisions to DIPN 10 in 2007 did not help to clarify matters and, in effect, enshrined practices that many practitioners saw as a misinterpretation of the *Goepfert* judgment.

In order to bring this area of the tax regime back onto firmer ground, the tests for determining the source of employment, which should be first and foremost the three tests described in the *Goepfert* case, should be codified in the law.

(b) Finalisation of tax affairs

Other areas of uncertainty which detract from the attractiveness of Hong Kong as a place to do business include the length of time that some cases, particularly loss cases, can take to be finalised. In this regard, the following measures are proposed:

(i) The statutory time limit for reopening an assessment should be shortened from the current six years to three or four years, for cases not involving fraud. Cases involving fraud should retain a ten-year limitation period. A shorter time bar period would enable taxpayers to finalise their tax affairs more promptly, and minimise the time and effort required to respond to queries relating to historical data. Numerous jurisdictions, including Australia, United States and Singapore adopt a shorter time bar period than Hong Kong.

(ii) Statements of loss should be issued within a definite period of time, and should be accorded the same status as notices of assessment. Currently taxpayers are uncertain as to whether their losses are available for setting off against future profits. As statements of loss are not treated as assessments, the clock on the six-year limitation period does not start to run when such statements are issued and taxpayers' affairs may, in practice, be kept open for considerably beyond six years.

Therefore, detailed records may also need to be retained for a long period, which is more onerous than the general statutory record-keeping requirement of seven years.

(c) Distinction between revenue and capital

For shares held for a minimum of three years, there should be a clear presumption that they represent a capital and not a trading asset, unless there is very strong evidence to the contrary. For shares held for shorter periods, the treatment should be decided as it is now.

4. Double tax treaties

The Institute commends the government's efforts in expanding Hong Kong’s treaty network and hopes that this will continue. At the same time, a number of issues have arisen in terms of the application of individual comprehensive double tax agreements (CDTAs), which have meant that Hong Kong taxpayers are not always receiving the benefits they are given to expect from the treaties. The Institute recommends that the government allocate sufficient resources to ensure that implementation issues can be dealt with and resolved quickly and effectively, so that CDTAs are applied transparently and fairly and taxpayers are able to enjoy the benefits that the treaties promise. Examples of implementation issues include determination of permanent establishments, residency and profit attribution.

5. Board of Review

FSTB sought views from stakeholders on the operation of BOR in 2008, following, amongst other things, adverse comments by judges in the *ING Baring* case on the current BOR arrangements. In its response to the consultation, the Institute made a number of suggestions, many of which were not taken up. Only a few limited changes have been, or are proposed to be, made following the consultation exercise. In our view some more fundamental changes should be given further consideration and, to this end, we recommend that a full-time panel, comprising individuals with extensive tax expertise, be established to hear the more complex cases before the BOR. This would provide the BOR with a high level of tax expertise whilst resolving the question of conflicts of interest, as the panel members would be employed full time at the BOR.

With regard to the simple cases, there are advantages to retaining the existing simple, inexpensive and informal BOR procedures. Simple or non-complex tax cases should continue to be dealt with by part-time members of a general panel of the BOR (which should include deputy chairmen). However, we suggest that this panel of general members should be smaller than the present pool of members to ensure that general members develop a greater expertise in taxation matters.

When members of the proposed specialist panel are not engaged in hearing specialist cases, they could be engaged to sit as the chairman of BORs hearing non-complex tax cases, to ensure that there would be continuity in the administration of the tax system, and that the precedents of previous BOR decisions would be followed or distinguished in simple cases, as well as complex cases.

Budget measures

To promote economic development and support the community, the Institute recommends the following budget measures:

6. Salaries tax measures

   The Institute recommends the following measures to help taxpayers keep up with the rising living costs and to help lower- and middle-income groups within the tax net:

   (a) On progressive rates, we propose that the marginal tax bands be widened from HK$40,000 to HK$50,000.

   (b) On personal allowances, the Institute recommends that a review be conducted to establish an appropriate base year for adjusting personal allowances on a regular basis. We believe that such a review would enable the allowances to be placed on a firmer footing, so that any future adjustments would be justifiable on the grounds of actual, for example, inflationary changes.

   (c) We recommend that child allowances be increased from HK$63,000 to HK$70,000, taking into account the rising cost of education and related costs. We also suggest inflationary increases in the allowances for other dependants.

   (d) To encourage people to save more for their retirement, over a longer period, we recommend additional deductions be provided for voluntary MPF contributions of up to HK$60,000 annually. These contributions should become taxable if withdrawn before retirement.

   (e) With the view to encouraging better utilisation of both public and private healthcare services, we propose that taxpayers be allowed a deduction for the cost of private healthcare insurance premiums, subject to an annual cap of HK$12,000 per taxpayer. In addition, taxpayers and their dependants, who are not covered by healthcare insurance, should be permitted to claim a deduction of up to HK$12,000, annually, for essential in-hospital treatment (i.e. excluding purely cosmetic surgery), against actual expenditure.

   The proposed measures for salaries tax are contained in Appendix 1, while the impact of the changes for a typical individual and family are in Appendices 2 and 3, respectively.

7. Housing

   Housing continues to be a pressing concern for the community and to help address the community's needs, the following measures should be put in place in relation to home ownership and accommodation.

   (a) The home loan interest deduction should be expanded into a home loan interest/ rental deduction, so that it may also be claimed against rental payments by taxpayers, who may not be in position to purchase a property. Therefore, the deduction should be allowed to be used in relation to either home loan interest or rental payments (or a mix of these two, if the taxpayer moves from renting to purchasing a property, or vice versa), in respect of a taxpayer's primary residence, subject to a maximum term of 15 years and an annual limit of HK$100,000.

(b) The price thresholds at which different levels of stamp duty apply on the sale or transfer of immovable property, should be adjusted in line with property price inflation. Periodic reviews are needed to monitor whether the stamp duty thresholds are reflective of property price inflation at any given time.

8. Property and utility concessions

The Institute also recommends the following concessions:

(a) Rates should be waived for 2013-14, subject to a ceiling of HK$2,500 per quarter. If administratively practicable, this measure should apply to self-use properties only.

(b) For further immediate support to the community, particularly in the light of the impending electricity price rises, we suggest that an electricity charge subsidy of HK$1,800 be granted to each residential electricity account for 2013-14. To promote energy conservation, consideration should be given to limiting this subsidy in the case of households to those whose energy consumption does not exceed certain thresholds.

9. Profits tax measures

The Institute recommends measures to help small and medium enterprises (SMEs):

(a) For companies whose gross income does not exceed HK$2 million, the corporate profits tax rate should be lowered to 15%.

(b) A waiver of profits tax should be provided on the first HK$500,000 of assessable profits.

(c) The business registration fee should be waived for 2013-14.

10. Asset management and financial services centre

The Institute proposes the following measures be introduced to encourage the further development of Hong Kong's financial services industry.

(a) To encourage offshore investors to invest in Hong Kong, the rules on exemption of offshore funds should be further extended to ensure that income generated from the normal operations of offshore funds is covered. These funds include private equity funds, which are becoming an increasingly prominent and influential player in the market. Our proposals include the following:

(i) Allow offshore funds to use Hong Kong-based trustees.

(ii) Clarify that the restriction on offshore funds investing in private companies does not apply to offshore private companies, except those holding Hong Kong property. The aim is to give certainty that transactions in offshore private companies (other than those holding Hong Kong property) are regarded as "specified transactions" under the IRO.

(iii) Extend the definition of "specified transactions" to include income from certain fixed income financial instruments as qualified transactions.

(b) Furthermore, longer-term initiatives for the financial services sector, as one of Hong Kong's pillar industries, should also be considered, including:

(i) Granting an exemption for Hong Kong-resident funds, similar to that currently enjoyed by offshore funds, to provide a more level playing field for onshore and offshore funds. Singapore, for example, offers favourable treatment to Singapore-domiciled funds. The salient features of the concession are indicated at Appendix 4; and

(ii) Reviewing the existing charging section of the IRO (i.e. section 23) for life insurers, as the current provision is no longer in line with the development of the industry. For instance, income relating to the investment portion of unit link products should not be included as insurance premiums for computing the 5% deemed assessable profits.

(c) Measures relating to stamp duty should also be considered, such as, providing an exemption from stamp duty for intermediaries conducting equity transactions on behalf of clients (as in the United Kingdom (UK), for example).

11. Innovation and technology sector

To stimulate further development of the innovation and technology sector in Hong Kong, the Institute proposes that the following measures be considered:

(a) It is important that tax concessions offered take account of the way in which business is conducted in practice. For example, it is common for businesses to develop intellectual property (IP) in house; engage with other associated companies in cost-sharing arrangements for IP; provide/ license IP to third parties, such as contractors, to produce goods outside Hong Kong, and outsource R&D activities to external parties, which are quite likely to be outside of the limited[1] list of approved research institutes. Yet, the current interpretation of section 16B of the IRO and section 16EC(4)(b), introduced into the IRO by the Inland Revenue (Amendment) (No.2) Ordinance 2011, create a regime that is overly restrictive. Section 16B limits deductions to R&D payments made to approved research institutes or to R&D conducted in house by the taxpayer. Meanwhile section 16EC(4)(b) denies taxpayers a deduction where a person hold rights as a licensee under licence of the IP rights, and the IP rights are used wholly or principally outside of Hong Kong by a person other than the taxpayer. As a result of these limitations, any increase in R&D and IP-related activities by Hong Kong-based businesses is likely to be limited.

A distinction should be made between the entities that assume the risks and benefits of an R&D investment and the entities that are simply paid to provide R&D work or services. The R&D investor is the entity that makes the investment, directs the project, undertakes the risk on the investment and, ultimately, owns the resulting IP, whereas the R&D service provider does not undertake any risk, acts according to the direction of the R&D investor and may perform only a certain element of the R&D project. The latter may be

[1] A list of Approved Institutes under Section 16B and 16C of the Inland Revenue Ordinance is available at http://www.ird.gov.hk/eng/tax/bus_16bc.htm

offshore because the particular skills needed and issues of cost may favour those activities being undertaken in that offshore location. However, the investing taxpayers should not be penalised or disadvantaged for making that commercial decision and it is not in the interests of the development of Hong Kong's economy that they should be. This dynamic is recognised by, and accommodated in, the tax systems of a number of other jurisdictions.

(b) To encourage and support R&D work in Hong Kong, the Institute recommends that "super deductions" of 150% of the actual cost incurred be allowed for expenditure, where the R&D is conducted in Hong Kong. Similar additional deductions are offered to encourage R&D activities in Australia, Singapore, the Mainland and the UK, among other places.

Where R&D is conducted offshore, a 100% deduction should be allowed with a more liberal regime than now exists, subject to a suitable definition of what constitutes R&D.

(c) In respect of withholding taxes paid on royalties, a wider network of CDTAs, should enable taxpayers to enjoy lower rates of withholding taxes. Where no CDTA exists, the Institute proposes that a unilateral tax credit be granted for all foreign tax paid on royalties that are subject to tax in Hong Kong.

While suitable anti-avoidance measures may also need to be considered along with some of the changes proposed above, care should be exercised so that any such measures do not undermine the practical value of the relevant benefits.

12. Regional operations for trading, headquarters and treasury

Given the stiff competition among regional locations seeking to attract regional operations, the Institute proposes the following:

(a) Hong Kong's geographical location is an advantage for multinational groups with supply chains in Asia, in particular for those manufacturing in the Mainland. It is typical for such multinational groups to set up a principal office which acts as a procurement intermediary between suppliers and distributors/ customers. In Hong Kong, these companies would normally take the form of processing trade arrangements, either as contract or import processing. The prevalence of import processing, rather than contract processing due to the requirements of the Mainland authorities, means fewer and fewer Hong Kong companies can now obtain the benefit of the 50:50 profits tax apportionment and, hence also, obtain a deduction of half of the depreciation allowances on plant and machinery. For Hong Kong import processors, which are taxed on all of their profits and receive no depreciation allowances for plant and machinery, this form of business is increasingly non-viable.

The Institute proposes that consideration be given to providing incentives to encourage the establishment of principal offices in Hong Kong by multinational groups. The Institute maintains that, as a matter of policy, import processing should enjoy the same treatment as contract processing in order to provide a continuing level of support for Hong Kong manufacturers. By way of comparison, Singapore offers a global trader programme that allows a 10% concessionary tax rate on companies' qualifying trade income.[2]

[2] http://www.guidemesingapore.com/industry-guides/trade/singapore-global-trader-scheme

(b) Hong Kong is equipped with a pool of skilled manpower which is attractive for international businesses considering setting up regional offices/ headquarters. To build on this advantage, a concessionary rate of 10% for profits tax should be granted to regional offices/ headquarters in Hong Kong in respect of management and consultancy income derived by the Hong Kong entity from associated entities overseas. Appropriate anti-avoidance provisions can be introduced to safeguard against potential abuses.

(c) The interest rate deduction rules should be reviewed to encourage international companies to use Hong Kong as their "cash pooling hub". With its well-established financial system, Hong Kong is equipped to be a regional centre to handle the financial management of overseas associates within a group of companies. However, as financial margins are usually thin, tax measures can provide a further incentive for international businesses to establish their treasury function in Hong Kong. Currently section 15(1)(f) of the IRO, deems the interest derived from Hong Kong by a corporation carrying on a trade or business in Hong Kong to be subject to profits tax at the standard corporate rate. The Institute recommends that, other than in the case of financial institutions, the interest received by regional offices from loans made in Hong Kong to their overseas associates be exempted from profits tax.

(d) Specifically for group treasury operations, if their interest income is taxable they should be able to deduct interest that they pay on monies received from overseas associated companies. While, in principle, they may be able to claim a deduction under section 16(2)(c) of the IRO, this may not always be clear cut, in the context of case law and IRD practice. We propose that "approved" treasury companies should qualify directly for deductions of interest paid to associates, without having to rely on section 16(2)(c).

13. Sustainable growth

Alongside economic development, the Institute proposes the following measures to protect the environment, improve the overall quality of life for Hong Kong residents and enhance the experience that visitors have while they are in Hong Kong and the lasting impression that they take away from their trips here.

(a) Provide accelerated industrial building and commercial building allowances for new commercial and industrial complexes adopting approved, environmentally-sustainable designs (as the existing allowances are for installations and equipment only).

(b) Impose higher first registration tax and annual licence renewal fees for polluting vehicles.

(c) Consider introducing traffic easing-related measures, such as electronic road pricing.

(d) Explore refund systems to encourage recycling and a wider adoption of the polluter pays principle, including charging for household waste.

(e) Set up a heritage body in Hong Kong to which cash donations should be deductible, as they are to charities (akin to, e.g., the National Trust and English Heritage in the UK):

    (i) Donations of historically valuable private buildings, landmarks, etc. to this body should be treated as donations in kind, without any ceiling against profit or income. Owners should also be permitted to treat a portion of the value as a donation and to receive compensation (for example, a land swap) for the remainder.

(ii) For protecting heritage buildings, it is proposed that private/ public sector partnerships, be encouraged. For example, owners could retain their interest while being permitted a change of land use such that owners pay for commercial development and renovation without being charged a land premium or being charged a concessionary premium; or the owners sell to/ exchange with government and government finds a use.

(f) To encourage renovation of older buildings, landlords should be able to opt for the deduction of actual renovation expenses in any given year instead of the flat-rate 20% rental deduction for wear and tear. To avoid potential abuses, this could be limited to a capped amount over a fixed period of time.

Hong Kong Institute of CPAs
December 2012

Appendix 1

Proposed changes for salaries tax rates, allowances and deductions

Rates/ allowance/ deduction	Existing	Proposed
Progressive rates – marginal tax bands	HK$40,000	HK$50,000
Child allowance (initial in the year of birth)	HK$63,000	HK$70,000
Child allowance (annual)	HK$63,000	HK$70,000
Voluntary MPF contributions	-	HK$60,000
Private healthcare insurance premiums	-	HK$12,000
Deduction for essential in-hospital treatment (for those not covered by healthcare insurance)	-	HK$12,000

Example of impact of proposed changes in salaries tax allowances and deductions on a typical individual

Example: Single person

This example illustrates the impact of widening the marginal tax band to HK$50,000, a deduction for private healthcare insurance premiums (subject to a HK$12,000 annual cap) and a deduction for voluntary MPF contributions (subject to a HK$60,000 annual cap).

	Existing (HK$)		Proposed (HK$)				Dollar savings (HK$)	Per-centage savings
	2012-13		2013-14					
Income		$300,000				$300,000		
Allowance:								
Basic allowance	$120,000				$120,000			
Private health insurance	-		$12,000	1 individual taxpayer	$12,000			
Voluntary MPF contribution[3]	-		$60,000		$60,000			
Total allowance		$120,000				$192,000		
Net chargeable income		$180,000				$108,000	$72,000	
Tax payable		$18,600				$5,460	$13,140	71%

[3] Mandatory MPF contributions have not been included in the table.

Example of impact of proposed changes in salaries tax allowances and deductions on a typical family

Example: Married person with two children (spouse separately assessed), living with their two dependent parents throughout the whole year

This example illustrates the impact of widening the marginal tax band to HK$50,000, an increase in child allowance to HK$70,000, a deduction for private healthcare insurance premiums (subject to a HK$12,000 annual cap) and a deduction for voluntary MPF contributions (subject to a HK$60,000 annual cap).

	Existing (HK$)				Proposed (HK$)				Dollar savings (HK$)	Per-centage savings
	2012-13				2013-14					
Income				$600,000				$600,000		
Allowance:										
Basic allowance			$120,000				$120,000			
Child allowance	$63,000 per child	2 children	$126,000		$70,000 per child	2 children	$140,000			
Dependent parent allowance (parents over 60 years of age)	$76,000 per parent	2 parents	$152,000		$76,000 per parent	2 parents	$152,000			
Private health insurance			-		$12,000	1 individual taxpayer	$12,000			
Voluntary MPF contribution[4]			-		$60,000		$60,000			
Total allowance				$398,000				$484,000		
Net chargeable income				$202,000				$116,000	$86,000	
Tax payable				$22,340				$6,420	$15,920	71%

[4] Mandatory MPF contributions have not been included in the table.

Appendix 4

Features of exemptions for Singapore-domiciled funds

A) Main requirements for Singapore domiciled fund exemption

Criteria for exemption:
- Singapore-incorporated and Singapore tax resident company, managed by prescribed Singapore fund manager and using a Singapore-based fund administrator.
- The fund must have at least one foreign investor.
- It must incur at least S$200,000 expenses in each financial year/ period.
- Prior approval from the Monetary Authority of Singapore (MAS) is required and an income tax return and an annual declaration need to be lodged annually.
- Anti-tax avoidance measures apply in respect of transfer of assets.

Scope of exemption:
Fund
- “Specified income” from “designated investments”, which amongst others excludes shares of private companies that are mainly in the business of trading or holding of Singapore immovable properties (other than the business of property development).

Investors
- "30/50 threshold rule" is applied to non-individual investors that generally have a presence in Singapore and if this is not met, such investors are considered non-qualifying investors.
- Non-qualifying investors, which broadly covers Singapore corporate entities that beneficially own, alone or with their associates, more than 30% (or 50% if the fund has 10 or more investors) of the total value of the issued securities of the qualifying fund will suffer a financial penalty, computed on the current Singapore corporate tax rate on their respective share of the fund’s current year profit.

B) Singapore enhanced-tier fund tax incentive

Criteria for exemption:
- Fund can be a company, limited partnership or trust (with certain exclusions) with a minimum fund size of S$50 million at the point of application. In addition, if it is a company incorporated in Singapore, it needs to use a Singapore-based and resident fund administrator.
- It must be managed or advised directly by a qualifying fund management company, which employs at least three investment professionals. The fund must incur at least S$200,000 local expenses in each financial year.
- Prior approval from the MAS is required and an income tax return and an annual declaration need to be lodged annually regardless of where the fund is constituted/ located.

Scope of exemption:
Fund
- As for Singapore-domiciled fund incentive.

Investors
- No "30/50 threshold rule”.