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

HKICPA urges Government to use budget surplus to nurture innovation and invest in community well-being

[Hong Kong, 5 February 2018] The Hong Kong Institute of Certified Public Accountants (HKICPA) today shared its tax-related recommendations for the 2018-19 Budget, which will be announced on 28 February 2018. Under the heading "Being Smart, Staying Ahead and Staying Healthy", the Institute’s budget proposal focuses on tax policies and measures on the revenue side of the budget.

Hong Kong’s fiscal reserves stood at HK$954 billion at the end of March 2017. HKICPA estimates that the fiscal surplus for 2017/18 will reach HK$176 billion at the end of March, and fiscal reserves will increase to over HK$1.1 trillion. This is being driven by the higher than expected revenue from land sales, which the Government estimates at HK$101 billion, but which HKICPA believes will be HK$185 billion; as well as an increase in stamp duty, which is expected to be over HK$30 billion more than the Government estimates.

Investing in the tax regime development

In its budget submission, HKICPA expressed concern that key elements of the tax regime have become less predictable, especially around offshore claims and the source of profits, which may negatively affect investment.

“Uncertainties caused by unclear interpretation of court judgments and tax rules can act as a brake on investment, as businesses would prefer to invest where they can gauge their tax liabilities,” said Mr. So Kwok Kay, Chairman of the Institute's Taxation Faculty Executive Committee.

“To help businesses, there should be more codification of tax treatments in the rules, and the Inland Revenue Department (IRD) should introduce a clearer process for consulting on Departmental Interpretation and Practice Notes,” he explained.

HKICPA welcomes the establishment of the Tax Policy Unit (TPU) last year, but believes the TPU should broaden its scope beyond its initial focus on R&D and the two-tier profits tax arrangements.

“A number of major developments in international tax are forcing changes on Hong Kong’s system,” said Mr. So, “These include new standards on transfer pricing and exchange of taxpayers' financial account information between revenue authorities. Increasing competition for investment is also leading many countries to reduce tax rates. The US for example, is slashing its corporate tax rate from 35% to 21%.”

The Government should provide more resources for the IRD, and also to the TPU, which should make greater use of external experts in the tax and commercial fields to help with researching into key issues, such as the long-term sustainability of the source principle; broadening the tax base; reviewing the effectiveness of existing incentives and modernising the legislation.

Promoting start-ups, innovation and R&D

“In a fast-changing world, the Government needs to regularly evaluate Hong Kong's tax policies and measures. The time is right for Hong Kong to do more to nurture innovation, review the tax regime and invest in the community's well-being.” said Mr. Curtis Ng, Convenor of Budget Proposals Sub-committee of HKICPA.

“Expanding the scope of eligible research and development (R&D) deductions would be very helpful. The 2017-18 Policy Address announced super deductions of up to 300% on qualifying R&D expenditure, which we generally welcome. However, start-up companies may not be generating profits in their early years, so granting tax credits to start-ups would be a better way of incentivising investment in R&D by such companies," Mr. Ng said.

"More flexibility is required in how the deductions for R&D are applied. Deductions should be allowed for R&D activities controlled from Hong Kong but which may be subcontracted wholly or partly to parties overseas," added Mr. Ng.

In addition, the Government should consider tax incentives to encourage venture funds and angel investors to invest in start-up companies, to supplement the efforts of the new Innovation and Technology Venture Fund Scheme, which is a time-limited initiative.

HKICPA is proposing several measures to promote Hong Kong as an intellectual property (IP) hub, including expanding the range of IP rights eligible for capital expenditure deductions, to encourage the creation and commercialisation of IP in Hong Kong. The

Government should also give tax credits for foreign withholding taxes paid on royalties. This is particularly important in relation to countries where Hong Kong does not have a double tax agreement in place- that deals with the taxation of royalties.

Hong Kong's Smart City Blueprint highlights the need for long-term sustainable development. New tax incentives could support the Blueprint by promoting retro-commissioning and building-based smart technologies. Additional deductions should also be considered for businesses to undertake cybersecurity audits. Cybersecurity is particularly important in industries which store and make use of large quantities of sensitive personal data.

The volatility of bitcoin and other cryptocurrencies underscores the potential risks of the digital economy. Hong Kong should take action to determine whether more regulation and investor protection are needed and what tax treatment should apply to digital currencies. Investors and taxpayers also need guidance on tax repercussions of digital currency transactions.

To help promote better air quality and more sustainable living, the Government should further encourage the adoption of electric private cars by exploring incentives for commercial car parks to install charging stations. The Government should consider raising the cap on the waiver of first registration tax on electric private vehicles, at least for those who replace a petrol or diesel engine car with an electric car, or those buying a car for the first time. In addition Hong Kong should revisit the idea of electronic road pricing to reduce traffic congestion at peak times.

Improving community well-being

Despite the expectations of another very large fiscal surplus and massive fiscal reserves, HKICPA does not believe that the Government should give across-the-board cash handouts in the Budget. Rather, financial assistance should be targeted towards helping the most needy.

In promoting community well-being, HKICPA recommends an annual tax deduction of up to HK$100,000, equivalent to the home loan interest deduction, for rental payments to benefit taxpayers who cannot afford to buy their own homes and rent accommodation from the private market. An additional deduction of up to HK$60,000 for voluntary contributions to

Mandatory Provident Fund accounts should encourage employees to save early for retirement.

The cost of public healthcare is escalating in Hong Kong, in part due to an aging population. HKICPA recommends a deduction of up to HK$12,000 per taxpayer and dependants for private health insurance, to encourage better usage of healthcare resources. Meanwhile, to support the aim of life-long good health and reduce the long-term burden on the healthcare system, parents should be able to claim a deduction of HK$12,000 for enrolling their children on approved sports training courses.

The HKICPA Hong Kong Tax Policy and Budget Proposals 2018-19 are available online at: http://www.hkicpa.org.hk/file/media/section5_membership/Professional%20Representation/gov-budget/Budget_Proposals_2018-19_(submission)_180205.pdf.

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About the Hong Kong Institute of Certified Public Accountants
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 42,000 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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