HONG KONG PRE-BUDGET SUBMISSION 2020-21

CPA Australia Ltd
ABN 64 008 392 452
20/F Tai Yau Building
181 Johnston Road
Wanchai, Hong Kong
T +852 2891 3312
F +852 2832 9167
E hk@cpaaustralia.com.au
cpaaustralia.com.au

6 February 2020

Budget Consultation Support Team,
24/F. Central Government Offices,
2 Tim Mei Avenue, Tamar,
Hong Kong

By Email: budget@fstb.gov.hk

Dear Sir / Madam,

CPA Australia's submission to the Hong Kong SAR 2020/21 Budget

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of over 165,000 members working in 150 jurisdictions and regions around the world, including over 13,000 members in Hong Kong. We make this submission on behalf of our members and in the broader public interest.

Official and private sector data points to 2020 being a challenging year for Hong Kong. Our latest Hong Kong Economic Sentiment Survey supports this view, with two-thirds of respondents expecting Hong Kong's economy to contract in 2020. With the outbreak of the coronavirus infection likely to strain the economy further, we suggest that the Government consider announcing immediate short-term measures in the Budget to counter the negative impacts of the coronavirus infection.

With Hong Kong also facing increasing competition, an ageing population, and various other social challenges, we suggest that the Government consider announcing longer-term reforms in this Budget. Guiding these short- and long-term measures should be the principle of maintaining Hong Kong's low and simple tax system, which our members tell us is one of the most important factors in supporting the economy in 2020.

The suggestions in the attachment have been shaped by input from our Hong Kong tax committee and our experiences in Australia and other markets, as well as from a pre-Budget CPA Australia member engagement event in December. We believe that these suggestions will help Hong Kong business weather the economic downturn, improve living standards, enhance tax administration, and maintain the long-term sustainability of Hong Kong's public finances.

As an organisation that has been present in Hong Kong since the 1950s, CPA Australia remains confident in Hong Kong's future.

If you have any queries, please do not hesitate to contact Mr Jonathan Ng, Policy Adviser Greater China at CPA Australia on jonathan.ng@cpaaustralia.com.au or +852 2202 2717.

Yours sincerely

Deborah Leung FCPA (Aust.)
Executive General Manager International

Dr Gary Pflugrath CPA (Aust.)
Executive General Manager, Policy and Advocacy

Encl.

Attachment

Supporting economic growth

Pre-emptive measures to counter the negative economic impacts of the coronavirus infection

Past experiences show that a significant health crisis like the coronavirus infection could have significant short-term negative economic impacts. The Government should consider committing additional general stimulus and targeted support if necessary, to counter the economic impacts of the coronavirus infection. Such measures should be made available as soon as possible to relieve businesses' financial burden and help support the economy.

Suggestions on possible measures in response to the coronavirus infection that could be announced in this year's Budget include:

- extending the deadline for statutory financial reporting and tax filing for all businesses.
- waiving specific government licence fees for businesses in selected sectors such as retail, tourism and hospitality, and food and beverages (e.g. travel agent licence fees, hotel / guesthouse licence fees, and licence fees for restaurants).
- waiving business registration fees for all small and medium-sized enterprises (SMEs).
- increasing funding support for SMEs and considering ways to simplify administrative procedures.
- introducing an additional tax deduction for salaries paid by employers in selected sectors such as retail, tourism and hospitality, and food and beverages, commencing from 1 February 2020 to until the outbreak of the coronavirus infection has subsided.
- funding a business advice voucher system of HK$6,000 per business that can be redeemed by selected business – e.g. in selected sectors such as retail, tourism and hospitality, and food and beverages – with their professional business adviser for business advice, such as an objective assessment of the current state of the business so that they are better placed to make decisions on how best to respond to the business impacts of the coronavirus.

Preferential treatment for small and medium-sized enterprises (SMEs) and businesses in specific sectors most impacted by the economic downturn

Our members indicated to us that the Government should consider implementing both short- and long-term measures that further support SMEs as well as businesses in the retail, tourism and hospitality, and the food and beverages industries in managing through current economic challenges.

Subject to a cost benefit analysis, suggestions on possible measures to support SMEs and specific industries that could be announced in this year's Budget include:

- increasing the threshold of the two-tiered profits tax system from HK$2 million. For example, to HK$4 million or higher.
- waiving the provisional tax 2020-21 for SMEs or businesses in selected sectors such as retail, tourism and hospitality, and food and beverages.
- introducing tax loss carry back for SMEs or businesses in specific industries for a period of two years.
- offering a one-off reduction of profits tax for SMEs. For example, a 100 per cent reduction for the year of assessment 2019-20, subject to a ceiling of HK$80,000.
- provide funding to SMEs to undertake training and investment to improve their digital and e-commerce capabilities.
- offering a limited-life coupon to residents that can be redeemed in selected sectors such as retail, tourism and hospitality, and food and beverages.

Incentives to support innovation and technology

The results of our Hong Kong Economic Sentiment Survey 2020 show that a sizeable portion of our surveyed members identify investing in innovation and technology as one of the top strategic focuses for their company in 2020. This is in line with the Government's objective to promote innovation and technology to boost economic growth and improve living standards. As such, many members told us that they would like to see the Government introduce further preferential policies in this area.

Suggestions on possible measures to encourage innovation and technology that could be announced in this year's Budget include:

- providing further tax incentives. For example, a tax rebate for expenditure on emerging technologies such as artificial intelligence, cloud computing, data analytics, and robotics. Such expenditure should be undertaken by businesses in Hong Kong or other areas of the Greater Bay Area.
- offering preferential tax treatment to technology start-ups. For example, a fully-refundable tax rebate for R&D expenditure and provide a three-year tax holiday commencing when the eligible company begins generating assessable profits.
- announcing further tax incentives and / or subsidies to attract foreign innovation and technology companies and overseas talent to Hong Kong.
- announcing measures that will help promote Hong Kong as an international intellectual property hub, for example, increasing the funding for the Intellectual Property Department so it can offer more support, training, and resources to business and entrepreneurs.
- developing a patent box tax regime for Hong Kong.

Measures to strengthen Hong Kong's position as an international financial centre

While competition has intensified, the financial services sector remains a significant part of the Hong Kong economy, occupying around 20 per cent of value added in GDP in 2018. Reflecting this, our members believe that it is important to enhance Hong Kong's position as an international financial centre by leveraging Hong Kong's financial strengths and infrastructure advantages.

Suggestions on possible measures to strengthen Hong Kong's position as an international financial centre that could be announced in this year's Budget include:

- providing tax incentives to attract overseas enterprises to set up regional headquarters in Hong Kong to complement the existing concessionary tax regime available to qualified corporate treasury centres.
- continue supporting the development of FinTech, asset management and green finance in Hong Kong through appropriate tax measures.

Improving living standards

Salaries tax relief

At our member engagement event many of our members indicated that they believe that tax relief measures to ease the cost of living, and improve the livelihood of Hong Kong residents, should be a major consideration in the upcoming Budget.

Subject to affordability, suggestions on possible salaries tax relief measures that could be announced in this year's Budget include:

- increasing the tax rebate on salaries tax to a maximum of HK$20,000.
- temporarily reduce salaries tax and tax under personal assessment (subject to such cuts not impacting Hong Kong's international tax obligations).
- linking increases in the personal allowance with the rate of inflation.
- increasing child allowance to HK$150,000 per child.
- increasing tax deductions for voluntary contributions to the Mandatory Provident Fund scheme and the Voluntary Health Insurance Scheme to HK$80,000 and HK$10,000 respectively.

Measures to upgrade skills and nurture talent

Upskilling the workforce and acquiring technology-related knowledge are vital to not only maintain Hong Kong's position as one of the world's most competitive economies but also to improve living standards in the face of an increasingly globalised world and rapidly increasing technology disruption.

Suggestions on possible measures to upgrade skills and talent that could be announced in this year's Budget include:

- introducing super deductions or subsidies for training courses aimed at improving workers' skills, such as language capabilities.
- providing free vocational training to help young people without university education develop knowledge and skills where there is an identified shortage and to support strategically important industries such as e-sports.
- expanding the Government's internship programmes so that all Hong Kong students have the opportunity to undertake an internship on the Mainland (especially in the other cities of the Greater Bay Area) and overseas.
- increasing self-education expense deduction to HK$120,000.

Improve housing affordability

The shortage of land and high property prices are perennial issues severely impacting the livelihood of many in Hong Kong. According to our Hong Kong Economic Sentiment survey 2020, nearly a quarter of surveyed members indicate that Government action to improve the affordability of housing and office buildings are important to Hong Kong's economic growth. Affordable housing is also central to improving living standards.

Suggestions on possible measures to improve housing affordability that could be announced in this year's Budget include:

- increasing housing relief measures. For example, extending the current home loan interest deduction period from 20 years to 25 years.
- exploring ways to develop private farmland and brownfield sites for affordable housing.
- conducting an international comparative review of affordable home ownership models in other jurisdictions to inform policy development in Hong Kong.

Long-term policies

Develop a long-term tax reform agenda

At our member engagement event many members said that they believe that a comprehensive review of the tax system should boost Hong Kong's economic performance. In fact, tax reform offers an opportunity to help to address many long-term economic and social challenges such as an ageing population, increasing overseas competition, a large income gap, improve productivity, and foster jobs growth and opportunities. CPA Australia considers that tax reform should be undertaken with reference to broader fiscal policy and the welfare system.

Suggestions on possible tax reform measures that could be announced in this year's Budget include:

- commencing a comprehensive and public 'root and branch' tax reform process. Such a process should include consideration of widening the tax base, revisiting consumption taxes and gradually increasing the relative contribution of tax revenue to total government revenue.
- improving the public disclosure of the effectiveness and cost of all tax measures.
- removing small and / or less efficient taxes and fees such as administrative fees for conveyancing services and application fees for certificates of origin.

Enhance and modernise the current tax administration system

Many of our consulted members advise that long-term policies to improve the quality and sustainability of Hong Kong's tax administration are important for the future of Hong Kong's public finances. Such improvements will assist in counteracting the challenges brought about by economic uncertainties, better inform tax reform discussions, and lead to better policy outcomes that enhance Hong Kong's competitiveness and improve living standards.

Hence, suggestions on possible measures to improve the tax administration system that could be announced in this year's Budget include:

- providing dedicated funding to the Inland Revenue Department to improve tax administration through increasing investment in the digitisation of their systems and processes.
- providing additional funding to the Tax Policy Unit to allow the Government to:
    - estimate and publish the value of each concession, benefit, and incentive delivered through the tax system and analyse the performance of such measures with annual updates.
    - conduct a review of current tax administrative processes to identify opportunities to simplify and streamline tax administration.
    - conduct post-implementation reviews of existing tax measures to determine their effectiveness and whether they have met their policy objectives.
    - model the economic, revenue, social, and household impacts of possible long-term tax reform options and publish the results of such modelling.
    - estimate long-range fiscal, demographic, and economic forecasts for Hong Kong released at least once every five years.