

For immediate release

CALLS FOR TAX MEASURES TO BUILD A HEALTHY AND FORWARD-LOOKING SOCIETY AMIDST DIVERSE VIEWS ON INCREASING TAX REVENUE

- **53 per cent of accounting professionals believe that the Hong Kong SAR Government should not increase tax revenue at this time**
- **Survey respondents favour tax measures aimed at improving environmental and health outcomes if the tax revenue base is to be broadened within the next three years**
- **Survey respondents are concerned that the proposed global minimum tax rate could impact Hong Kong's competitiveness**

(28 April 2020, Hong Kong) Given concerns over the state of the economy and job insecurity created by COVID-19, 53 per cent of accounting professionals believe that the Hong Kong SAR Government should not increase tax revenue at this time.

However, respondents to CPA Australia's latest survey favour the SAR Government - at an appropriate time in the future - introducing further measures to support the economy and society, including tax measures aimed at improving public health and supporting medical services, to improve the environment, and to encourage innovation. This should include preferential tax treatment for innovation and technology and greater digital delivery of services by the Inland Revenue Department.

The survey was conducted from 3 to 17 April, with 151 responses from Hong Kong-based accounting and finance professionals working in a variety of different industries and with 67 per cent working in senior leadership positions.

Tax revenue and the proposed imposition of a global minimum tax rate

Mr. Anthony Lau, CPA Australia's Divisional President of Greater China 2020 said, "The COVID-19 pandemic has dealt an unprecedented and severe blow to the global and Hong Kong's economy. The government has introduced appropriate relief measures amounting to some \$310 billion, equivalent to over 10 per cent of gross domestic product. Faced with challenges such as fiscal deficits in the coming few years, as well as an ageing population, a wide income and wealth gap, and challenges from fast changing international tax rules, it is essential to consider how to stabilise Hong Kong's revenue in the long run."

When asked whether Hong Kong SAR Government needs to increase tax revenues, 53 per cent of respondents chose no while 44 per cent said yes.

Lau explained, “With the economy in need of support and stimulus at this time, it is not surprising that most do not favour raising tax revenue.

“However, the 44 per cent of respondents who believe that the Government should increase revenue are probably concerned with the sustainability of Hong Kong’s finances in the longer term, given the Government’s reliance on a narrow and volatile revenue base. In 2018/19, non-tax revenues, including from land sales, accounted for 34.9 per cent of total government revenue, which is well in excess of other jurisdictions like Singapore and the United Kingdom.

“When the economy recovers, the Government should begin considering options to reform the tax system to support the sustainable development of the city. The best way to do this is through a public and comprehensive ‘root-and-branch’ review of the tax system.

“One of the more immediate tax concerns for Hong Kong is the impact of the fast - changing international tax environment such as Base Erosion and Profit Shifting (BEPS) from the OECD and the review of our foreign source income exemption regime by the European Union this year. A quarter of respondents believe the proposed global minimum tax rate will weaken the competitiveness of Hong Kong’s tax system due to factors such as additional operating costs for multi-national corporations in Hong Kong and the possibility of impacting Hong Kong’s simple tax system, which is one of the city’s core competitive advantages.”

Measures to build a healthier and forward-looking society

In the past few months, the pandemic has changed the way we live, work and conduct business. This may have shifted public sentiment, with the survey results indicating that there is strong support to use the tax system to help build a healthier and forward-looking society. Many respondents (48 per cent) believe that the Government should consider increasing duty on tobacco, alcohol and hydrocarbon oil if it is to broaden the tax base within the next three years, while 37 per cent selected the introduction of an environmental protection tax as the second highest option.

Respondents also supported using the tax system to provide incentives to companies to take environmental action. When asked what profits tax measures the Government should introduce, respondents were most likely to choose incentives for environmental action (33 per cent).

Lau explained, “Having learned the lessons from the enormous impacts the pandemic has on society and the economy, accounting and finance professionals have the foresight to build a better and more sustainable environment for current and future generations. A healthier city may also help to reduce the growth in public and private health costs and improve our competitiveness.”

Another significant change brought about by the pandemic is the growing adoption of technology and digital services since daily physical contact has been disrupted. Accountants expect that Hong Kong’s tax administration can be improved, with 43 per cent of respondents wanting to see more services by the Inland Revenue Department digitalised and made more mobile-friendly. Further, the top industry that respondents believe is most in need of preferential tax policies is innovation and technology with 38 per cent of respondents selecting this industry.

“Viewed through the lens of history, epidemics and pandemics are key factors in transforming societies. I believe that the current health crisis is similar to the ones in the past and as a result, an increase in the awareness of societal health and wellbeing, utilisation of technologies and innovation solutions to adapt to changing living conditions, will push our society forward,” Lau said.

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CPA Australia is one of the world’s largest accounting bodies with more than 166,000 members working in 100 countries and regions around the world, with more than 25,000 members working in senior leadership positions. It has established a strong membership base of more than 19,000 in the Greater China region.

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