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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 HKSAR Budget 2021-22

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of over 166,000 members working in 100 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 2021 being a challenging year for Hong Kong. Our latest **Hong Kong Economic Sentiment Survey** supports this view, with 46 per cent of respondents expecting their company's revenue to decrease in 2021 by 2 per cent or more and only 15 per cent believing that their salary will increase in 2021. Separately, we also estimate that the Hong Kong SAR (HKSAR) Government will record a HK$308 billion fiscal deficit for 2020-21.

In light of the economic recession and COVID-19-related uncertainties, we believe that the HKSAR Government should announce additional short-term measures to support businesses and households, as well as to stimulate the economy in the upcoming Budget.

We also suggest this year's Budget include announcements on longer term reforms including improving the public healthcare system, buttressing Hong Kong's competitive advantages, further support for innovation and technology, nurturing and attracting global talent, developing a long-term tax reform agenda, and maintaining the sustainability of Hong Kong's public finances.

The suggestions in the attachment have been shaped by input from our Greater China tax committee and our experiences in Australia and other jurisdictions, as well as from various member surveys we have conducted in 2020.

As an organisation that has had a presence 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 on jonathan.ng@cpaaustralia.com.au or +852 2202 2717.

Yours sincerely,

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Encl.

Attachment

Supporting business and economic recovery

Offer additional support to small and medium-sized enterprises (SMEs) and businesses in specific sectors most impacted by the economic downturn

The HKSAR Government should consider announcing further support measures for SMEs and industries that have been directly affected by the social distancing measures. Such support is key to helping such businesses manage through the crisis and expedite their recovery.

Subject to a cost benefit analysis, further support measures for consideration include:

- announcing a fifth round of the Anti-epidemic Fund, which should include additional targeted support to businesses in sectors that have been most impacted by the pandemic control measures such as food and beverages, tourism and hospitality, beauty and cosmetics, entertainment, and sports. That support could be provided directly to employees and / or made conditional upon employers retaining staff.
- introducing tax loss carry back for SMEs or businesses in specific industries for a period of two years. We note that Singapore has **tax loss carry back relief** and New Zealand has a **similar scheme**. Australia has also announced that it will introduce **tax loss carry back**.
- introducing incentives for commercial landlords to encourage them to reduce or waive at least a portion of the rent payable by their tenants, especially small business tenants. Policy examples from other jurisdictions include:
  - Singapore's **cash grant to commercial property owners**, where the grant must be used to offset the rental costs of their SME tenants.
  - Singapore's **property tax relief**, where owners of qualifying non-residential properties can access rebates of up to 100 per cent on their property tax payable on the condition that they fully pass on the value of that rebate to their tenant.
  - Malaysia's **special deduction** to landlords of business premises equivalent to the amount of rent reduction that is given to **SMEs and non-SMEs tenants**, subject to the condition that the reduction should be at least 30 per cent of the existing rental rate of a determined period.
  - In Australia, the State Government of Victoria has offered direct financial support to small landlords through the **Commercial Landlord's Hardship Fund** (which provides grants to small commercial landlords experiencing hardship if they have reduced the rent for their tenant), and a **partial waiver of land tax liability** where landlords provide a 50 per cent or more rent waiver to tenants.
- extending the application period of the Special 100 per cent SME Financing Guarantee Loan Scheme. For example, by one year.
- extending the Pre-approved Principal Payment Holiday Scheme. For example, by one year.
- waiving the provisional tax 2020-21 for SMEs or businesses in specific sectors such as food and beverages, tourism and hospitality, beauty and cosmetics, entertainment, and sports.
- re-opening applications for, and increasing funding, to the Distance Business Program to help local businesses digitalise and expand their online presence.
- optimising the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) and offer more funding and assistance to help local firms better access markets outside of Hong Kong, especially in Mainland China and ASEAN countries.
- waiving employer and employee contributions, on a temporary basis, to the Mandatory Provident Fund (MPF).
- waiving business registration fees for all SMEs.
- introducing financial incentives for SMEs to encourage them to seek business advice from their existing professional adviser, especially for those experiencing or anticipating financial distress. The Australian state of Tasmania has created

the **business continuity grant scheme**, which offers grants to small business to help offset the cost of accessing professional advice, and Ireland has a similar **Lean Business Continuity Voucher**.

- increasing funding and expanding the subsidy scheme for promotion of contactless payment in public markets to restaurants and retail shops.
- subsidising the deep cleaning costs of commercial locations that had been visited by confirmed cases of COVID-19.

Improving living standards

Offer an Octopus card-based consumption voucher scheme

CPA Australia suggests the HKSAR Government consider offering an Octopus card-based consumption voucher scheme to low-income individuals and individuals who have lost their jobs because of the pandemic. For example, an initial amount of say, HK$3000, is placed on the card and could be topped-up every month for a period of six months. Such a scheme will not only boost domestic consumption and stimulate the economy but will also offer an opportunity to increase the adoption of electronic payment technologies amongst businesses in Hong Kong.

Individual tax relief

According to CPA Australia's **Hong Kong Tax Survey 2020**, our members favour a mix of changes to salaries tax to stimulate the economy and reduce cost pressures.

Subject to affordability, member suggestions on possible salaries tax measures that could be announced in this year's Budget to support households and stimulate the economy include:

- increasing the tax rebate on salaries tax. For example, to a maximum of HK$30,000.
- increasing personal allowance. For example, to HK$150,000.
- increasing child allowance. For example, to HK$150,000 per child.
- increasing married person's allowance. For example, to HK$300,000.
- increasing tax deductions for voluntary contributions to the MPF scheme and the Voluntary Health Insurance Scheme. For example, to HK$80,000 and HK$10,000 respectively.
- increasing self-education expense deduction. For example, to HK$150,000.
- expanding the dependent parent allowance and dependent grandparent allowance to include dependent parents / grandparents residing outside of Hong Kong.
- introducing a one-time tax deduction for the purchase of home office equipment of say, a maximum of HK$8,000.
- introducing a tax deduction for unreimbursed medical and health check expenses of say, a maximum of HK$10,000.
- doubling tax deduction of approved charitable donations.
- increasing the deduction of home loan interest. For example, to HK$150,000.
- extending the current home loan interest deduction period. For example, to 25 years.

Improving the healthcare system

The COVID-19 pandemic has highlighted the need to support the healthcare system as well as the essential role of sanitation and hygiene in public health. Possible measures to increase the resilience of Hong Kong's healthcare system include:

- offering incentives such as preferential tax treatment to healthcare / MedTech companies to attract them to establish in Hong Kong.
- introducing a super tax deduction for expenditure on healthcare / hygiene equipment.
- introducing a government co-investment scheme to attract investment into the healthcare sector and the MedTech sector.

- providing support to offline healthcare providers to transition into more innovative healthcare delivery models.

Improving competitiveness

Measures to strengthen Hong Kong's international financial position

The results of our **Hong Kong Economic Sentiment Survey 2021** show that a sizeable portion of our surveyed members identify strengthening Hong Kong's international financial position as an action the HKSAR Government should undertake to improve Hong Kong's competitiveness. 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:

- offering incentives to attract overseas enterprises to establish their regional headquarters in Hong Kong to complement the existing concessionary tax regime available to qualified corporate treasury centres.
- implementing further measures to develop Hong Kong into a leading Family Office Hub.
- introducing group tax relief.
- introducing an immigration investment program focusing on investment in strategic industries such as in innovation and technology and environmental, social and governance (ESG).
- issuing perpetual bonds and / or long-term bonds in international bond markets.
- expanding the scope of eligible securities under the mutual market access programs and increase mutual access between the Mainland and Hong Kong financial markets, such as the implementation of the Wealth Management Connect Scheme.

Incentives to support innovation and technology

The results of our **Business Technology Investment Survey 2020** show that 59 per cent of Hong Kong respondents stated the COVID-19 pandemic had either brought forward planned investment in technology, or had resulted in an increase in unplanned technology investment. The impetus for businesses to invest in, and adopt technology is in line with the HKSAR Government's objective to promote innovation and technology as a driver of economic growth and improving living standards.

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

- offering preferential tax treatment to technology start-ups. For example, a fully-refundable tax rebate for R&D expenditure and / or a super deduction 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.
- announcing further tax incentives and / or other forms of support and subsidies to attract foreign innovation and technology companies and 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.
- introducing further incentives that will help promote re-industrialisation of Hong Kong, for example, increasing the depreciation allowances on the construction of industrial buildings and structures.
- developing a preferential intellectual property tax regime so that profits generated from patents, trademarks, copyrights and other types of IP developed and registered in Hong Kong are taxed at a lower rate.

Measures to upgrade skills, and attract and nurture talent

Given that the socio-economic ramifications of the COVD-19 pandemic will likely stretch beyond 2021, upskilling the workforce and acquiring and retaining talent 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 rapidly increasing technology disruption and sectoral transformations.

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

- announcing further tax incentives and / or subsidies to attract overseas talent to Hong Kong. For example, a tax concession on gains from employees exercising stock options.
- introducing super tax deductions or subsidies for the cost of training courses aimed at improving workers' skills, such as digital and technical skills.
- 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.
- increasing funding to continue developing cross-disciplinary training to upskill local talent in strategic areas such as FinTech and digital transformation.

Medium to longer-term policies

Reform the tax system by focusing on the three 'Cs' – certainty, clarity and consistency

According to CPA Australia's **Hong Kong Tax Survey 2020**, 44 per cent of survey respondents believe that Hong Kong needs to increase its tax revenue. Given the city faces a range of long-term economic and social challenges including an ageing population, a narrow and volatile tax base and shrinking fiscal reserves, we suggest the HKSAR Government considers ways to reform the tax system. Our members believe that reforms to the tax system should not only focus on simplicity, equity and efficiency, but also to the three 'Cs', namely: certainty, clarity and consistency.

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

- commissioning a comprehensive "root and branch" review of the tax system. Such a review should include modelling the economic impacts of maintaining the current system as well as modelling options for reform, including potential compensation to the community for any adverse impacts of reforms.
- reviewing current tax incentives for improvements or reforms to assist in enhancing Hong Kong's competitiveness.
- introducing salaries tax incentives to attract global talent to Hong Kong.

Expedite the deployment of capital in the Hong Kong Growth Portfolio

To reduce government expenditure on public projects, the HKSAR Government should expedite the deployment of capital in the Hong Kong Growth Portfolio to make strategic investments in, and to support companies in the innovation and technology, and healthcare sectors.

Allocate a portion of the Exchange Fund for strategic investments

To help reduce the government's long-term expenditure, the HKSAR Government should consider allocating a portion of its Exchange Fund to invest in strategic and high potential projects, as well as infrastructure spending. Such investment should meet a required return on investment set by the Government.

Acknowledgements

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- Mr. Janssen Chan FCPA (Aust.), 2021 Divisional President – Greater China & Deputy Chairperson of Taxation Committee – Greater China
- Mr. Paul Ho FCPA (Aust.), Co-Chairperson of Taxation Committee – Greater China
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