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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 2022-23

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of over 168,000 members working in 100 jurisdictions and regions around the world, including over 15,000 members in Hong Kong. We make this submission on behalf of our members and in the broader public interest.

Our latest **Hong Kong Economic and Business Sentiment Survey** shows that respondents are cautiously optimistic about Hong Kong's economic outlook and business confidence has improved. Sixty-seven per cent of respondents to this survey indicated that they expect Hong Kong's GDP to grow in 2022 and 50 per cent of respondents expect their company's revenue to increase.

Nonetheless, the recent concerns over rising inflation in some key markets, surging COVID cases in other economies, a fifth wave of COVID infections in Hong Kong and tightening of social distancing measures are likely to dampen the city's economic recovery, at least in the short term. Given this, we believe that the HKSAR Government should announce additional near-term measures to support businesses and households in this year's Budget.

We also suggest the upcoming Budget include longer-term announcements that seek to:

- strengthen Hong Kong's position as an international financial centre
- increase labour and talent supply
- further support innovation, technology and digital transformation
- enhance cooperation in the Greater Bay Area (GBA)
- develop a long-term tax reform agenda.

The suggestions in the attachment have been shaped by input from our Greater China taxation committee and our experiences in Australia and other jurisdictions, as well as from various member surveys we have conducted in 2021.

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

Yours sincerely,

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Encl.

Attachment

## Improving living standards

### Offer an enhanced two-tier electronic consumption voucher scheme

In response to the expected short-term economic impacts of the fifth wave of COVID-19, CPA Australia suggests that the HKSAR Government considers offering an enhanced two-tier electronic consumption voucher scheme to boost local consumption and accelerate the economic recovery. Subject to affordability, the base amount could be up to HK$3000 for all eligible Hong Kong residents. The second tier, targeting vulnerable groups such as low-income earners, could receive an additional payment of up to HK$3000.

An additional round of consumption vouchers is likely to further contribute to the growth of new payment technologies adoption in Hong Kong. Our annual Asia Pacific Small Business Survey shows businesses offering such payment options are more likely to experience growth.

### Individual tax relief

Subject to affordability, members have suggested the following salaries tax measures that, if implemented, could provide important financial support to households:

- introducing a once off working from home tax deduction. This would help employees cover the additional costs they have incurred in working from home during the pandemic. The deduction could be capped at HK$8,000.
- introducing a once off hotel quarantine tax deduction. This would help taxpayers who have paid unreimbursed hotel quarantine expenses due to the pandemic. The deduction could be capped at HK$50,000. An equivalent subsidy should be offered to people who don't pay salaries tax.
- increasing the cap on the self-education expense deduction. For example, to HK$150,000. This should help to encourage more people to upskill.
- maintaining the HK$10,000 tax rebate on salaries tax.
- 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.
- expanding the dependent parent allowance and dependent grandparent allowance to include dependent parents / grandparents residing outside of Hong Kong.
- increasing the cap on 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.
- doubling the tax deduction of approved charitable donations.
- increasing the cap on 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.

## Supporting business and economic recovery

The short-term business outlook is uncertain. This is due to the recent tightening of social distancing measures due to the fifth wave of COVID-19 in Hong Kong and heightened risks to the global economy brought on by inflation concerns. The HKSAR Government should therefore consider announcing further support measures for businesses. Such support should help businesses to:

- manage through current risks
- strengthen their ability to respond to future outbreaks and business challenges
- better position themselves to take advantage of the recovery.

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

- providing financial incentives to SMEs to access tailored advice from approved advisers of their choice. An example of such an incentive scheme is the Tasmanian state government's **COVID-19 Small Business Advice and Financial Guidance Program**.
- extending the maximum duration of principal moratorium for the 80 per cent Guarantee Product, 90 per cent Guarantee Product and Special 100 per cent Loan Guarantee under the SME Financing Guarantee Loan Scheme. For example, to 30 months.
- extending the application period of the Special 100 per cent Loan Guarantee. For example, until the end of 2022.
- extending the Pre-approved Principal Payment Holiday Scheme. For example, by another six months until the end of October 2022.
- 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 and medium-sized business tenants.
- allocating additional resources to the Branding, Upgrading and Domestic Sales Fund and the SME Export Marketing Fund, and offer more assistance to help local firms expand into markets outside of Hong Kong, including Mainland China and ASEAN countries.

## Strengthening Hong Kong's position as an international financial centre

The results of our **Hong Kong Economic and Business Sentiment Survey 2022** show that our surveyed members were most likely to identify "strengthening Hong Kong's position as an international financial centre" as a measure the HKSAR Government should undertake to improve Hong Kong's international 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 such as preferential tax treatment for fee income derived by a fund or family office manager from managing and advising funds and family offices. In Singapore, the **Financial Sector Initiative – Fund Management scheme** offers a 10 per cent concessionary tax rate for Singapore fund managers.
- expediting the release of detailed information on the tax concessions regime for family offices.
- extending the carry interest tax concession to family office managers managing and advising family assets.
- establishing a training institute to increase the talent pool for family office employees. We note that Singapore has a **Wealth Management Institute** that offers a Family Office Program to help professionals acquire in-depth understanding of family offices.

## Increasing labour and talent supply

Many respondents in our **Hong Kong Economic and Business Sentiment Survey 2022** chose "talent shortages" as a major challenge to Hong Kong's economy in 2022. A shortage of talent with the right skills and knowledge will also impact Hong Kong's long-term international competitiveness. Thus, acquiring and retaining talent are vital to maintain Hong Kong's position as one of the world's most competitive economies. Suggestions on possible measures to attract, nurture and retain talent in Hong Kong that could be announced in this year's Budget include:

- extending the initial 12 month's stay on time limitation under the Immigration Arrangements for Non-Local Graduates. In Australia, the **Temporary Graduate visa** allows international students to live, study and work in Australia for 18 months to five years depending on the level of qualification and the type of passport held. The HKSAR Government should also consider allocating further resources to increase the attractiveness of Hong Kong to non-local students.
- introducing an additional tax deduction on salaries expenditure for companies hiring employees aged 60 or over, subject to a cap of say, HK$120,000 per employee per year. Alternatively, the government could offer a direct wage subsidy to such employers.
- increasing the salaries tax tax-free threshold for workers over 60 to encourage them to remain in or return to the workforce. Australia effectively increases its tax-free threshold for older people through the **Seniors and pensioners tax offset**. One of the policy reasons for this is to encourage greater workforce participation by senior Australians.
- increasing the maximum amount of on-the-job training allowance for employees aged 60 or above under the Employment Programme for the Elderly and Middle-aged. For example, to HK$8000.
- commissioning a comprehensive review of the future skills, training and workforce development needs of Hong Kong. Such a review should include assessments of the skills and capabilities of the current workforce, the key skills and competencies that will be in high demand over the medium- to long-term, and reforms that may be needed to the education and training system to meet those needs.
- providing further financial incentives to employers to encourage them to reskill or upskill their employees.

## Supporting innovation, technology and digital transformation

The results of our **Greater Bay Area Business Technology Survey 2021** show that 88 per cent of Hong Kong and Macao respondents stated that they expect their company to increase investment in, or use of, technologies in the next 12 months. Further, our **Hong Kong Economic and Business Sentiment Survey 2022** shows that respondents were most likely to select "innovation and technology, including digital transformation" as their company's key strategic focus for 2022. The impetus for businesses to increase investment in, and adoption of, technology is in line with the HKSAR Government's objective to promote innovation and technology as a driver of economic growth.

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

- introducing tax incentives for digital transformation-related expenditure. We note that in **Japan**, digital transformation-related expenditure will be eligible for a three to five per cent tax credit or a 30 per cent special depreciation.
- increasing the depreciation allowance on the construction of industrial buildings and structures that support advanced manufacturing.
- introducing policies encouraging the relocation to Hong Kong of advanced manufacturing, such as high-end technologies and BioTech, and trust-based manufacturing, including food safety, medical devices and certified products.

## Promoting ESG initiatives

As an accounting body **committed** to net zero greenhouse gas emissions, we support initiatives that support the promotion of ESG initiatives in all jurisdictions, including net zero emissions targets. Suggestions to further promote ESG, carbon neutrality and green finance in Hong Kong include:

- introducing tax incentives for carbon neutral-related expenditure. In **Japan**, decarbonisation-related investment will be eligible for a five to ten per cent tax credit or a 50 per cent special depreciation.
- providing SMEs access to funding resources and skills to assist them to integrate ESG into their business models. For example, establishing a dedicated ESG funding programme similar to the Technology Voucher programme.
- subsidising or providing a government guarantee for SME green financing.
- collaborating with financial institutions to launch a green financing platform for SMEs to search for and identify suitable green financing products.
- continuing financial regulators' support for developing and maintaining a global, uniform set of sustainability reporting standards through the International Sustainability Standards Board.
- collaborating with financial institutions to produce a standardised application template and procedures for SMEs to access green and sustainable finance.

## Enhancing cooperation in the GBA

With the implementation and expansion of several financial connectivity schemes with Mainland China and plans to increase the size of the Qianhai cooperation zone, we suggest that the HKSAR Government considers announcing additional measures in the upcoming Budget to enhance cooperation in the GBA. This could include:

- introducing a new GBA talent exchange program to subsidise expenses incurred in the exchange of talent in Hong Kong and other parts of the GBA of say, HK$100,000 per company.
- gradually expanding the scope of financial products available for investors and increasing the quota of the Wealth Management Connect Scheme.
- expediting the release of detailed policies on cross-boundary data sharing in the GBA and implementing a pilot to help formulate an appropriate cross-boundary data management mechanism.

## Tax reform measures

### Comprehensive reform of the tax system by focusing on the three 'Cs' – certainty, clarity and consistency

Hong Kong faces a range of long-term economic and social challenges including an ageing population, talent shortages, and a narrow and volatile tax base. Given that Hong Kong's tax system has remained largely unchanged for almost five decades, we suggest the HKSAR Government considers ways to reform the tax system. In addition, at one of our member engagement events, most of our members present believed that changes should be made to Hong Kong's tax system as a response to the city's inclusion in the European Union's "Grey List" of non-cooperative tax jurisdictions. Our members believe that reforms to the tax system should not only focus on simplicity, equity and efficiency, but also on 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 the economic, revenue and household impacts of broadening the tax base, and if appropriate make recommendations for reform.

- announcing measures to address Hong Kong's inclusion in the European Union's "Grey List" of non-cooperative tax jurisdictions. Reference can be made to the actions taken by the Inland Revenue Board in Malaysia in which foreign sourced-income remitted, brought in or transferred into Malaysia physically or through the banking system will be taxed.
- announcing detailed information on how the HKSAR Government would respond to BEPS 2.0, including clarity on the implementation details of a domestic minimum tax.
- supporting societal development, including financial infrastructure, talent acquisition and development, and housing supply to enhance Hong Kong's competitiveness in light of the implementation of the global minimum tax.

## Acknowledgements

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- Mr Anthony Lau FCPA (Aust.), Co-Chairperson of Taxation Committee – Greater China
- Mr Janssen Chan FCPA (Aust.), Co-Chairperson of Taxation Committee – Greater China
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