Submission to the Hong Kong SAR Budget 2023-24

February 2023

CPA AUSTRALIA

15 February 2023

Budget Consultation Support Team

24/F, Central Government Offices

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By email: **budget@fstb.gov.hk**

Dear Financial Secretary,

CPA Australia's submission to the Hong Kong SAR Budget 2023-24

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of over 170,000 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.

With the resumption of quarantine-free cross-border travel and the easing of COVID-19 restrictions, business sentiment is expected to strengthen, and Hong Kong should return to positive economic growth in 2023. However, major external risks such as high inflation in many key markets, tightening monetary policy, slowing global economic growth, and geopolitical uncertainties will continue to pose significant challenges to the SAR's economic recovery. Further, talent shortages and an ageing and shrinking population may adversely impact Hong Kong's long-term competitiveness.

Given this, we believe the key themes for this budget should be to:

- support business
- strengthen Hong Kong's competitiveness
- attract, nurture and retain talent
- facilitate the development of a green and sustainable society
- further diversify the economy
- improve living standards
- develop a long-term tax reform agenda
- improve public finances.

The suggestions in the attachment have been shaped by input from members, including our Greater China taxation committee, and our experiences in Australia and other jurisdictions.

If you have any queries, please contact Mr Jonathan Ng, Policy Adviser at CPA Australia on jonathan.ng@cpaaustralia.com.au .

Yours sincerely,

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Supporting business

The Hong Kong SAR (HKSAR) Government should consider announcing further short-term support measures for businesses, especially small and medium-sized enterprises (SMEs), to support them to manage through current economic challenges. Such support is key to helping such businesses expedite their recovery. Subject to a cost benefit analysis, we believe further support measures for consideration should include:

- extending the application period of the Special 100 per cent SME Financing Guarantee Loan Scheme by one year
- extending the Pre-approved Principal Payment Holiday Scheme by one year
- relaunching and increasing funding to the Distance Business Program to help local businesses digitalise and expand their online presence
- allocating additional resources to the Branding, Upgrading and Domestic (BUD) Sales Fund and the SME Export Marketing Fund, and offering more assistance to help local firms expand into markets outside of Hong Kong, including Mainland China and ASEAN countries
- providing incentive payments to SMEs to encourage them to access tailored advice from approved professional advisers of their choice. Such a measure could be similar to Australia's Victorian state government's Small Business Specialist Advice Pathways Program
- maintaining the 100 per cent tax rebate on the 2022/23 final profits tax, subject to a ceiling of HK$10,000.

Improving competitiveness

The results of our Hong Kong Economic and Business Sentiment Survey 2023 show that many surveyed CPA Australia members identify strengthening Hong Kong's international financial position and expanding international economic and trade connections as key actions the HKSAR Government should undertake to improve Hong Kong's competitiveness. Suggestions on possible measures to strengthen Hong Kong's competitiveness that could be announced in this year's Budget include:

Intellectual Property (IP) and Research and Development (R&D)

- introducing incentives, such as a new IP box regime in Hong Kong to provide a tax concession for onshore IP income. Such an IP box regime could encourage more companies to undertake their innovation in Hong Kong and help promote the city as an international IP hub
- broadening the scope of qualifying R&D expenditures to include expenditures on R&D activities outsourced to a resident related party outside of Hong Kong, such as to other parts of the Greater Bay Area.

Family offices

- enhancing the concessionary tax regime for family offices by broadening the scope of tax-exempt investments, such as to fixed-income products, antiques, artwork and virtual assets, etc.
- providing each group of qualifying family offices and funds a tax rebate on stamp duty paid on investments in Hong Kong stocks, subject to a cap (for example, HK$300,000 per year of assessment)

- providing incentives and support to strengthen Hong Kong's position as a family office hub. This could include establishing a fast-track immigration scheme for family office owners, senior executives and professionals.

Regional headquarters

- offering preferential tax treatment for investing and establishing regional headquarters in Hong Kong. For example, providing such companies a profits tax reduction or exemption when they start generating a profit. The tax reduction or exemption could be up to certain amount depending on the investment made, or a ratio based on the investment or number of people employed locally. This should provide a positive message to the business community to continue investing in Hong Kong.

Other measures to improve Hong Kong's competitiveness

- providing further financial support to promote the development of the bond market, such as tax incentives, continuing to diversify and expand bond products, enhancing the support measures for bond issuance, and issuing bonds with a maturity of 30 years or more to international institutional investors
- adjusting the listing rules to attract high-quality overseas companies to choose Hong Kong as their IPO destination. This could target the semiconductor, robotics and smart manufacturing sectors
- expediting the release of detailed information on the Co-Investment Fund announced in the 2022 Policy Address
- continuing to expand international economic and trade connections, such as joining the Regional Comprehensive Economic Partnership as soon as possible and increasing the number of comprehensive free trade agreements.

Attracting, nurturing and retaining talent

According to our Hong Kong Economic and Business Sentiment Survey 2023, the top-ranked negative factor facing businesses in 2023 is a shortage of talent. The talent shortage is not only impacting the performance of local businesses now – it risks impeding the city's mid- to long-term growth.

Skills and worker shortages are global issues and other jurisdictions are actively competing for skilled workers. Possible measures that could be announced in the upcoming Budget to attract and retain overseas talent to Hong Kong and increase the domestic supply of skilled workers, include:

- reintroducing the capital investment entrant scheme to allow people who invest in certain financial products to reside in Hong Kong. Eligibility for this scheme should be extended to Chinese nationals. Alternatively, the government can consider introducing an immigration investment program providing residency status to those making investments into strategic industries such as in innovation and technology and environmental, social and governance (ESG) areas
- enhancing the Top Talent Pass Scheme by reducing the income tax rate for successful applicants. For example, reducing their salaries tax rate by 50 per cent for the first two tax years, subject to a cap of HK$1.2 million. This should encourage successful applicants to work and stay in Hong Kong
- investigating options for providing assistance to eligible local and non-local young talent to make a down payment on a new home for them to live in. This down payment assistance could be in the form of a low interest loan or a shared equity scheme similar to Australia's New South Wales

government's Shared Equity Home Buyer Helper. To encourage developers to build new houses for young talent, this assistance could be limited to the purchase of a new home, not existing homes

- introducing an additional tax deduction on salaries expenditure for companies hiring employees aged 60 or over. This could be limited to an annual cap per eligible employee, for example HK$120,000. Alternatively, the government could offer a direct wage subsidy to employers hiring eligible employees.
- providing funding commitments to commission a comprehensive review of the current pathways for skilled migration to Hong Kong. The review could assess:
    - whether the existing talent admission schemes meet the current and future needs of Hong Kong
    - possible barriers to immigration to Hong Kong and identify measures to overcome them
    - opportunities to streamline visa processing for overseas talent. This could include simplifying, updating and increasing the flexibility of the existing talent admission scheme
    - the provision of adequate housing, medical and educational support for overseas talent and their families
    - talent attraction schemes offered in other jurisdictions and how Hong Kong could enhance its pathways for talent migration based on the experience of others
- 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$8,000
- assisting private sector organisations deliver back-to-work or "returnship" programs for individuals who have been out of the workforce for an extended period (for example, due to family responsibilities). This could take the form of a fund provided to employers who are recruiting people returning to the workforce. Reference could be made to the United Kingdom's Returners Fund
- developing a long-term strategy that encourages industry and educational institutions to offer flexible, relevant and lifelong learning opportunities for individuals to upskill or reskill. For example, offering competency-based training courses such as micro-credentials, vendor certificates and short-term courses
- working with Mainland authorities to expand and extend the one-way ratification list system for professional qualifications, such as CPA Australia's CPA Program and other overseas accounting qualifications
- providing further financial incentives to employers to encourage them to reskill or upskill their employees.

Promoting a green and sustainable society

We support initiatives that bolster the adoption of ESG focused activities. To this end, CPA Australia is committed to achieving net zero greenhouse gas emissions within our organisation and to encourage and support our members to do the same. Suggestions to further promote ESG, and a green and sustainable society in Hong Kong include:

- introducing a levy on non-recyclable plastic products to reduce plastic consumption and waste. Reference could be made to the Plastic Packaging Tax in the United Kingdom where companies will need to pay a levy, charged at a rate of £200 per tonne, if they have manufactured or imported plastic packaging components which contain less than 30 per cent recycled plastic.

  In Spain, a tax on non-reusable plastic packaging is charged at a rate of €0.45 per kilogram. Italy will also introduce a plastic tax charged at a rate of €0.45 per kilogram on manufactured single-use plastic products
- developing a hydrogen economy plan for Hong Kong. The State Government of New South Wales has a hydrogen strategy that sets out a plan to develop a green hydrogen industry
- introducing tax incentives for carbon neutral-related investments. In Japan, decarbonisation-related investments will be eligible for a five to 10 per cent tax credit or a 50 per cent special depreciation
- continuing financial regulators' support for developing and maintaining a global, uniform set of sustainability reporting standards through the International Sustainability Standards Board
- providing SMEs access to funding, tools 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
- establishing a training institute to increase the pool of workers with ESG skills
- subsidising or providing a government guarantee for SME green financing
- raising the tobacco tax to encourage smokers to reduce or quit smoking. This should reduce smoking rates, which should alleviate the burden on the healthcare system in the long-term. We estimate that a 100 per cent increase in tobacco duty will bring additional revenue of about HK$8 billion in the 2023-24 financial year.

Diversifying the economy

Innovation, technology, industry and digital transformation

The results of our Business Technology Survey 2022 show that 73 per cent of Hong Kong respondents reported that their business had already formulated a digital transformation strategy. Further, our Hong Kong Economic and Business Sentiment Survey 2023 shows that investing in innovation and technology, including digital transformation, is a top strategic focus for many companies in 2023. These results indicate that the HKSAR Government's commitment to facilitate the development of innovation and technology (I&T) and the digital transformation of Hong Kong's enterprises is having a positive impact.

To further develop Hong Kong into an international I&T centre, possible measures that could be announced in this year's Budget include:

- introducing tax incentives for digital transformation-related investments. We note that in Japan, digital transformation-related investments will be eligible for a three to five per cent tax credit or a 30 per cent special depreciation
- allocating additional resources to expand the city's I&T talent pool through:
    - identifying what I&T skills will be in strong demand and implementing policies to meet those needs

   - attracting talent to meet existing shortages such as solution architects, and talent in fields such as data science, robotics, materials science, virtual reality and the metaverse
- supporting the development and application of artificial intelligence (AI). Reference could be made to the AI strategies of the United Kingdom, Singapore and Germany. Areas of focus for such support could include:
   - estimating the impacts of AI on industries and workplace skills over time
   - identifying measures necessary to support industries and individuals that will be heavily impacted by AI
   - identifying measures to attract global AI talent to Hong Kong
   - identifying opportunities for the application of AI in the public sector
- developing a holistic strategy to support the reindustrialisation of Hong Kong through advanced manufacturing. The HKSAR Government should also consider stepping up direct support for and promotion of locally manufactured products.

Arts and culture

The establishment of the Culture, Sports and Tourism Bureau is another step forward in developing the arts and cultural sector in Hong Kong. Suggestions to support the further development of this important sector include:

- transforming more locations into arts and cultural hubs to encourage more international and major artistic, cultural and musical events. This includes improving the facilities in such areas to support people to enjoy the events held there. These events may also encourage more overseas visitors to Hong Kong
- continuing to promote the development of Art Tech
- providing incentives to promote Hong Kong as an art auction hub.

Improving living standards

Individual relief measures

Subject to affordability, we suggest the following support measures for individuals be considered for inclusion in this year's Budget:

- if the HKSAR Government considers the economic conditions require it, a modified version of the consumption voucher scheme could be considered for Hong Kong residents, with a focus on supporting lower-income earners
- introducing an energy bills rebate to help domestic households cope with rising energy prices
- maintaining the 100 per cent tax rebate on the 2022/23 final salaries tax, subject to a ceiling of HK$10,000
- 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 salaries tax allowances, at least in line with inflation, in subsequent financial years
- expanding the dependent parent allowance and dependent grandparent allowance to include dependent parents / grandparents residing outside of Hong Kong
- introducing a one-off working from home tax deduction. This would help employees cover the additional costs they have incurred in working from home. The deduction could be capped, for example at HK$8,000
- increasing the cap on the self-education expense deduction. For example, to HK$150,000. This should help to encourage more people to upskill
- increasing the cap on tax deductions for voluntary contributions to the Mandatory Provident Fund scheme and the Voluntary Health Insurance Scheme (VHIS). For example, to HK$100,000 and HK$12,000 respectively
- introducing a tax deduction for taxpayers who are not policyholders of the VHIS on unreimbursed medical and health check expenses from private healthcare providers of say, a maximum of HK$12,000
- doubling the tax deduction of approved charitable donations
- increasing the cap on the deduction of domestic rent. For example, to HK$150,000
- 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.

We also suggest that the HKSAR Government considers establishing an inquiry to investigate what economic and social policies may be needed to boost the city's population through natural increase and immigration.

Tax reform measures

Hong Kong faces a range of mid- to long-term economic and social challenges including an ageing and declining 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 again suggest that the HKSAR Government considers ways to reform the tax system in a manner that boosts the city's competitiveness and productivity, and ensures the sustainability of Hong Kong's public finances. 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
- working with Mainland authorities to enhance the Hong Kong-Mainland of China double tax arrangement (DTA) and help distinguish Hong Kong from regional competitors. This could include discussions on reducing the dividend withholding tax rate to say, 2.5 per cent. We note that the Mainland's DTA with five of its top 10 foreign direct investment destinations (including Singapore and South Korea), offer the same five per cent dividend withholding tax rate as the Hong Kong-Mainland DTA
- enhancing communication and engagement with stakeholders to ensure businesses are aware of, and prepared for, changes under BEPS 2.0.

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