CPA Australia's Pre-Policy Address Submission

October 2023

10 October 2023

Policy Address Team
Chief Executive's Policy Unit
26/F West Wing Central Government Offices
2 Tim Mei Avenue
Tamar, HONG KONG

By email: policyaddress@cepu.gov.hk

Dear Sir / Madam,

CPA Australia's submission to the Hong Kong 2023 Policy Address Public Consultation

As one of the largest professional accounting bodies in the world, CPA Australia represents the diverse interests of over 172,000 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.

Hong Kong has demonstrated economic resilience throughout 2023, maintaining a steady path to recovery. However, the city is expected to face multiple headwinds in the coming years. To navigate Hong Kong towards a prosperous future, we believe it is imperative that the Hong Kong Special Administrative Region (HKSAR) Government implements further reforms to strengthen the economy. Such initiatives should aim to bolster Hong Kong's position as an international financial centre, enhance the city's competitiveness, address talent shortages and an ageing and declining population, and combat climate change.

With this in mind, the Chief Executive may wish to consider including policy announcements under the following major themes in his Policy Address:

- Strengthening Hong Kong's position as an international financial centre
- Attracting enterprises and investments
- Developing Hong Kong into a leading hub for family offices
- Turning Hong Kong into an international centre for innovation and technology
- Attracting, nurturing and retaining talent
- Promoting environmental, social and governance (ESG)
- Diversifying the economy
- Enhancing cooperation with other cities within the Greater Bay Area (GBA) and overseas markets.

We provide our policy suggestions for each of these themes above. These have been shaped by a member poll on policy priorities and guidance from our Greater China committees. Further, we drew on our experiences in Australia and other jurisdictions.

If you have any queries, please contact Ms Samantha Yim, Research Officer at CPA Australia on samantha.yim@cpaaustralia.com.au .

Yours sincerely,

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Encl.

Introduction

Member poll results

To inform the development of this submission, we polled our Hong Kong-based members on what they think should be priority areas for the upcoming policy address. The poll was conducted in September 2023 and we received responses from 208 members. The results of this poll are included below.

Policy suggestions

Strengthening Hong Kong's position as an international financial centre

Respondents to our member poll (see Figure 1 below) believe the government should prioritise allocating resources to strengthening Hong Kong's position as an international finance centre in the upcoming policy address. As a professional accounting organisation with a global presence, we believe that Hong Kong's position as an international financial centre is a key competitive advantage that needs to be sustained and enhanced.

Figure 1: Which Hong Kong roles in the National 14th Five-Year Plan should the government prioritise allocating resources to in the 2023 Policy Address?

Source: CPA Australia 2023 Policy Address member poll (n=208)

To achieve this, we suggest that this year's Policy Address could include the following announcements:

1. Reducing the stamp duty on stock transactions. Options for reducing the rate include aligning Hong Kong's rate with mainland China (being 0.05 per cent on the seller only)

Figure 2: International comparison of stamp duty rates on stock transactions

Jurisdictions	Stamp duty rates
Mainland China	0.05% to the seller only
United States	No stamp duty
United Kingdom	0.5% to the buyer only
Singapore	0.2% to the buyer only *Where there is no document executed for the transfer of scripless shares, share duty is not payable.*
Japan	No stamp duty
Australia	No stamp duty

Source: FSDC, Boosting Market Liquidity and Diversity: Enhancing Hong Kong's Competitiveness as an International Capital Formation Centre, 2023

2. Encouraging the HKEX to extend its trading hours by 1.5 hours to seven hours each business day. This would bring Hong Kong closer into line with the trading hours in the United Kingdom's (8.5 hours), Singapore (7 hours) and the United States (6.5 hours)

Figure 3: Comparison of trading hours of different exchanges

Market	Trading hours
New York Stock Exchange	6 hours 30 minutes
NASDAQ Stock Exchange	6 hours 30 minutes
London Stock Exchange	8 hours 30 minutes
Singapore Exchange	7 hours
Australia Stock Exchange	6 hours
Tokyo Stock Exchange	5 hours
Shanghai Stock Exchange	3 hours 57 minutes
Shenzhen Stock Exchange	3 hours 57 minutes

Source: Exchanges worldwide

3. Reducing the market capitalisation threshold for eligible stocks to be accepted for Southbound trading under Stock Connect

4. Introducing a listed market for alternative investment exclusively for professional investors, under careful regulation. This can facilitate market innovation and sustainable growth of emerging investment products and alternative asset classes

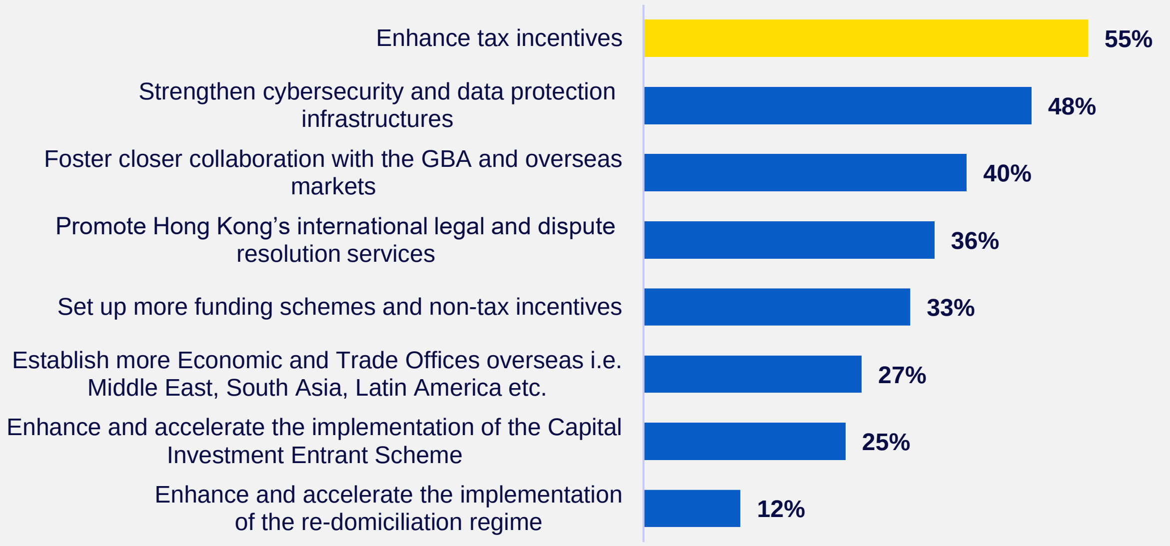
5. Developing the derivatives market, such as introducing innovative options like zero-day-to-expiry (0DTE) options

6. Implementing an IPO Connect scheme to enable Mainland investors to participate in Hong Kong IPOs and allowing Hong Kong investors to subscribe to mainland IPOs

7. Encouraging HKEx to speed up GEM listing reforms and re-introduce the streamlined mechanism for transferring to the Main Board (however the streamlined mechanism should include investor protection measures to combat 'shell' activities)
8. Signing more cooperation agreements with overseas Exchanges to foster collaboration and explore opportunities for cross-border listings and joint product development
9. Organising more IPO seminars and workshops in the mainland to raise awareness about Hong Kong's listing rules and facilities
10. Supporting initiatives that advance investor education and financial literacy on non-traditional or emerging asset classes.

Attracting enterprises and investments

Figure 4: To attract companies and investments, which areas should the government focus on in the 2023 Policy Address?



Source: CPA Australia 2023 Policy Address member poll (n=208)

Policy suggestions to attract more enterprises and investments to Hong Kong include:

1. Working with Mainland authorities to enhance the Hong Kong-Mainland China double tax agreement (DTA) and help distinguish Hong Kong from competitors. This could include a possible reduction in the dividend withholding tax rate to say, 2.5 per cent. We note that the Mainland's DTA with five of its top ten foreign direct investment destinations (including Singapore and South Korea), offer the same five per cent dividend withholding tax rate as the current Hong Kong-Mainland DTA
2. Implementing the proposed company re-domiciliation regime as soon as possible
3. Providing eligible Capital Investment Entrant Scheme applicants with the same Buyers Stamp Duty rate as local residents for their first property purchase
4. Expanding the permissible assets under the Capital Investment Entrant Scheme to include immovable properties, with a minimum threshold of at least HK$20 million

5. Reducing the flat rate of 15 per cent ad valorem stamp duty for the sale and purchase or transfer of the second residential property. We support the International Monetary Fund's view that once systemic risks from speculative demand for property dissipates, this ad valorem stamp duty should be phased out.

Developing Hong Kong into a leading hub for family offices

Attracting more family offices to Hong Kong is important for boosting the economy and reinforcing the city's position as an international financial centre. We therefore suggest that this year's Policy Address could include the following policy suggestions:

1. Expanding the permissible assets under the Capital Investment Entrant Scheme to include investments of single-family offices. We note that Singapore's Global Investor Programme offers a family office option for single family offices with a minimum asset under management of SGD200 million
2. 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
3. Fostering collaboration with educational institutions to attract and retain skilled professionals for family offices.

Developing Hong Kong into an international innovation and technology centre

As shown in Figure 4 above, nearly half of the respondents to our poll believe that the HKSAR Government should allocate additional resources to strengthening the city's cybersecurity and data protection infrastructure. This is crucial to supporting and protecting innovation and technology.

To further develop Hong Kong into an international innovation and technology centre, possible measures that could be announced in this year's Policy Address include:

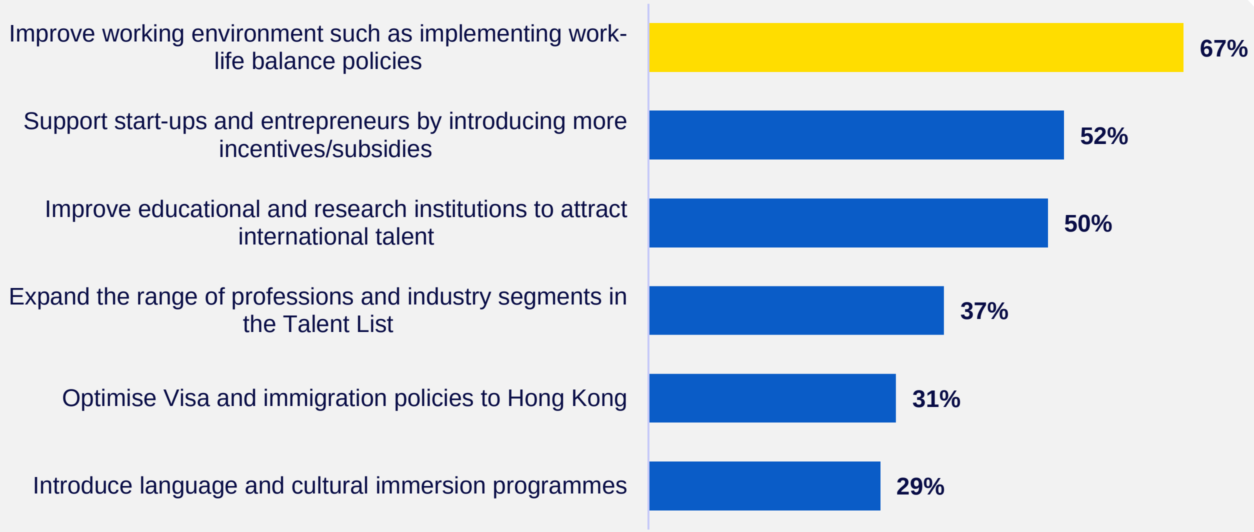
1. Extending the Open API framework beyond the banking sector. This could encourage innovation in areas such as Land Registry records (for example, connecting a property token with Land Registry record), or supporting eKYC (electronic Know Your Customer)
2. Developing a cybersecurity roadmap. Reference could be made to the cybersecurity strategies of the Australia, Singapore, and United Kingdom
3. Supporting the development and application of artificial intelligence (AI). Reference could be made to the AI strategies of the United Kingdom, Singapore and Germany
4. Provide regulatory clarity for digital assets
5. Increasing funding and initiatives to support the development of a Web3 ecosystem.

Attracting, nurturing and retaining talent

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

To attract and retain skilled talent, 67 per cent of poll respondents believe that the HKSAR Government should prioritise efforts around improving the working environment "such as implementing work-life balance policies".

Figure 5: To attract talent, which areas should the Hong Kong government focus on in the Policy Address 2023?



Source: CPA Australia 2023 Policy Address member poll (n=208)

Possible measures that could be announced in the upcoming Policy Address to further attract and retain overseas talent to Hong Kong and increase the domestic supply of skilled workers, include:

1. Considering potential enhancements to the Top Talent Pass Scheme to ensure that applicants utilise the pass for its intended purposes
2. Actively promoting flexible work arrangements to employers, cultivating a working culture that attracts and retains talent
3. Increasing maternity leave (currently 14 weeks) and paternity leave (currently 5 days) to something closer to that of other advanced economies. We note the OECD average is 18.5 weeks for maternity leave and 2.3 weeks for paternity leave
4. Investigating options for helping 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 the New South Wales government's Shared Equity Home Buyer Helper. To encourage developers to build new houses for such young talent, this assistance could be limited to the purchase of a new home, not existing homes
5. Assisting employers 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 which supports employers to develop programs that support people returning to the workforce. Reference could be made to the United Kingdom's Returners Fund
6. Increasing the cap on the self-education expense deduction to encourage upskilling and reskilling

7. Providing further financial incentives to employers to encourage upskilling or reskilling of their employees. For example, Singapore provides employers with subsidies of between 50 to 95 per cent of the fees for approved courses
8. Raising the subsidy ceiling of the Continuing Education Fund for courses that specifically target the sectors experiencing a lack of skilled professionals
9. Expanding the scope of mutual recognition of professional qualifications with overseas jurisdictions
10. Nurturing an entrepreneurial mindset through hands-on activities, mentorship programs and real world business simulations in secondary education.

Promoting ESG

CPA Australia supports initiatives that promote ESG adoption. This includes the development of green and sustainable finance. To further promote ESG and green and sustainable finance in Hong Kong, we suggest the HKSAR Government consider including the following suggestions in the Policy Address:

1. Accelerating the development of a green taxonomy for Hong Kong to facilitate green financing
2. Initiating and encouraging the development of a standardised ESG grading / scoring system for banks and institutions through incentives to assist them evaluate companies' ESG performance. This is similar to the concept of a TU credit score and should support the development of green financing
3. Mandating assurance of ESG disclosures of listed entities to enhance the quality of ESG disclosures to investors. We note that Singapore proposes limited assurance from FY 2027, New Zealand has mandated it for around 200 large financial institutions starting October 2024, and the EU requires assurance of sustainability information from FY 2024
4. Extending the Green and Sustainable Finance Grant Scheme beyond its current expiration in 2024
5. Introducing tax incentives to attract overseas companies to issue green bonds in Hong Kong
6. Providing SMEs access to funding 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
7. Establishing a new energy research centre to drive cutting-edge research, development, and implementation of renewable energy technologies.

Diversifying the economy

CPA Australia considers that policy actions which promote economic diversification will help Hong Kong better manage future volatility, promote sustainable economic growth and create new job and business opportunities. Sectors to which the HKSAR Government could consider increasing its support, as part of such diversification, include intellectual property (IP) and research and development (R&D).

For the IP and R&D, the government could consider the following initiatives:

1. Prioritising the introduction of the patent box incentive with a tax rate for qualifying IP income of no more than 4.5 per cent. This will make the Hong Kong rate more competitive than other patent box tax rates. For further information, please see our submission on Hong Kong's patent box tax incentive

2. Providing financial incentives for universities to pursue commercialisation opportunities, facilitating partnerships between academia and industry and offering support for patent filing.

Enhancing cooperation within the Greater Bay Area (GBA) and overseas

According to our poll, 67 per cent of our members believe that the best way to enhance regional and international collaboration is for the government to seek to sign additional agreements to deepen cooperation in strategic industries with overseas markets.

Figure 6: To enhance regional and international collaboration, what key actions should the Hong Kong government announce in the 2023 Policy Address?

Source: CPA Australia 2023 Policy Address member poll (n=208)

We suggest that the HKSAR Government consider the following policy suggestions to enhance cooperation with other GBA cities and overseas markets:

1. Enhancing Hong Kong role as a super-connector and expanding international economic and trade connections with emerging markets. For example, organising more conferences and trade delegations promoting the GBA
2. Deepening collaboration on sea-air intermodal cargo trans-shipments within the GBA and strengthening partnerships with other GBA airports
3. Enhancing innovation and technology cooperation in the Hetao Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone, while also fostering financial cooperation in Qianhai
4. Establishing a GBA unified carbon market and establish unified standards for carbon labelling and reporting
5. Relaxing eligibility criteria for cross-border cash pooling
6. Building an interconnected payment and clearing system or allow Faster Payment System for cross-border payments

7. Expediting the release of policies on cross-boundary data sharing in the GBA and implement a GBA data governance framework
8. 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
9. Working with Mainland and Macao authorities to streamline tax filing arrangements in the three tax jurisdictions in the GBA to avoid double taxation and reduce tax compliance costs
10. Joining the Regional Comprehensive Economic Partnership (RCEP) as soon as possible and increasing the number of comprehensive free trade agreements.

Other 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 reiterate our suggestion that the HKSAR Government considers reforms to the tax system that boosts the city's competitiveness and productivity, and ensures the sustainability of Hong Kong's public finances.

Our suggestions for reforming the tax system include:

1. 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
2. Enhancing communication and engagement with stakeholders to ensure businesses are aware of, and prepared for, changes under BEPS 2.0

To encourage philanthropy, we propose the following amendments to the *Inland Revenue Ordinance*:

3. Increasing or eliminating the cap on tax deductions for donations to registered charitable institutions under section 88 of the *Inland Revenue Ordinance*
4. Allowing tax deductions on non-monetary donations, such as artwork, antiques, collectibles, etc. where supported by an independent expert valuation
5. Extending the purposes for establishing a charity under section 88 to include a wider range of charitable purposes. For example, environmental protection and animal conservation; and to allow other charitable purposes that do not fall within the relief of poverty, advancement of education and advancement of religion to cover those of benefit to the community in both Hong Kong and Mainland China.

Acknowledgements

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