CPA Australia's submission on the 2024-25 Hong Kong Budget

February 2024

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Budget Consultation Support Team
24/F, Central Government Offices
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By email: budget@fstb.gov.hk

Dear Sir / Madam

CPA Australia’s submission to the Hong Kong 2024-25 Budget Public Consultation

As one of the world’s largest professional accounting bodies, CPA Australia represents the diverse interests of over 172,000 members working in 100 jurisdictions and regions globally, including over 15,000 members in Hong Kong. We make this Budget submission on behalf of our members and in the broader public interest.

The sluggish performance of Hong Kong’s stock and property markets in 2023 has impacted the local economy. We estimate this will result in a considerable deficit of around HK$119 to HK$127 billion for the year. As we move into 2024, it is imperative for the government to prioritise revitalising the city’s economy.

While Hong Kong’s highly attractive and simple tax regime plays a vital role in encouraging investment into the jusrisdiction, additional policies are needed to stimulate the economy and boost market confidence. We therefore encourage the government to consider announcing policies in this budget that seize the opportunities presented by a green and sustainable economy. These include transitioning Hong Kong towards a low carbon, resource-efficient, and socially-inclusive city.

While striving for economic rejuvenation and sustainable development, it is equally important for the government to address its budget deficit and improve public finances. This may involve reviewing the tax system, implementing prudent fiscal policies, and identifying new revenue streams that align with the government’s long-term goals and priorities.

Considering these challenges and opportunities, we believe the key themes for this budget should include:

- enhancing Hong Kong’s competitiveness
- promoting a green and sustainable economy
- diversifying the economy
- supporting small and medium enterprises (SMEs)
- improving living standards
- improving public finances.

The suggestions in this submission have been informed by input from members, including our Greater China taxation committee, and our experience in Australia and other jurisdictions.

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

Yours sincerely,

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Encl.

Enhancing Hong Kong's competitiveness

According to the findings of our Hong Kong Economic and Business Sentiment Survey 2024, our members have a cautious outlook for Hong Kong's economy and business performance this year. It should therefore be a priority for the government to implement measures in this Budget that enhance the city's competitiveness, boost market confidence, revitalise the economy and create a more favourable business environment.

Suggestions on possible measures to strengthen Hong Kong's competitiveness include:

Encouraging a headquarters economy

Based on the projections outlined in the 2022-23 Budget, the tax revenue generated from BEPS 2.0 in Hong Kong is expected to reach around HK$15 billion annually. Subject to BEPS requirements, the government can strategically utilise this revenue to provide non-tax incentives, such as salary subsidies, to bolster support for businesses in Hong Kong.

The design of these subsidies should consider several factors, such as whether the company operates in encouraged industries like innovation and technology or the green economy, whether their total revenue surpasses a specified threshold, or whether their salary costs exceed a certain threshold. Such a measure should promote growth and development in key sectors and incentivise businesses to contribute to the local economy.

Further, we propose a concessionary tax rate for companies that establish regional headquarters in Hong Kong, for example of 8.25 per cent, subject to any BEPS requirements. The concessionary tax rate could be determined based on the level of investment, or a ratio tied to the investment amount or the number of locally employed individuals. We note that Singapore's Global Trader Programme offers preferential tax rates to global trading companies establishing their trading operations in the country (currently 5 or 10 per cent). Hong Kong has not offered similar incentives for these companies.

Supporting the development of family offices and investments

To encourage more family offices to establish in Hong Kong and invest locally, we suggest the following measures be considered:

- applying a multiplier of 1.5 to investments into Hong Kong listed shares, subject to a cap, when determining if a family-owned investment holding vehicle (FIHV) meets the HK$240 million minimum assets under management (AUM) requirement to be eligible for tax concessions for FIHV managed by single family offices
- 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
- 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.
- 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.

Attracting enterprises and investments from Gulf Cooperation Council (GCC) countries

As GCC countries continue to gain prominence as a burgeoning market, it is important for Hong Kong to seize this opportunity and position itself as an attractive destination for GCC companies. We propose the following policy bundle be considered to entice GCC companies to establish a presence in Hong Kong:

- offering a two-year profits tax exemption to GCC companies that establish regional headquarters in Hong Kong, starting from the first year in which they generate taxable profits
- offering a three-year exemption from stamp duty for shares of GCC companies traded on the Hong Kong Stock Exchange
- offering a three-year exemption from stamp duty for shares of Hong Kong private and listed companies that are invested in by FIHV managed by single family offices of GCC families
- discussing policies that solidify Hong Kong’s role as a super-connector between Mainland China and the GCC with Mainland authorities. This could include offering withholding tax exemptions on interest and dividends generated by GCC sovereign wealth funds investing in strategic emerging industries in the Greater Bay Area (GBA) through Hong Kong.

Stimulating the stock and property market

We acknowledge the government's policies to stimulate the stock market as announced in the Policy Address and propose the following measure to further support the market:

- 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)

Attracting mega events

With the completion of the Kai Tak Sports Park expected by the end of 2024, Hong Kong will have the essential physical infrastructure to run large-scale events. To take advantage of this opportunity, we suggest the government and private sector collaborate to formulate long-term strategies to attract a greater number of international and large-scale events to Hong Kong. This will build upon the city’s reputation as a destination for international events and bolster the city's overall image.

Suggested policies to attract mega events include:

- introducing a 150 per cent super deduction for sponsorship expenses associated with large-scale events (as defined by the Leisure and Cultural Services Department) in arts, culture and sports that involve international parties
- setting aside resources to improve the infrastructure and capabilities necessary to effectively handle the logistical and hardware requirements of large-scale events.

Other measures to improve Hong Kong’s competitiveness

- increasing the number of free trade agreements and Comprehensive Avoidance of Double Taxation Agreements (CDTAs). For example, pushing forward the negotiation of a CDTA with Australia.

Promoting a green and sustainable economy

We support the promotion of a green economy and the implementation of initiatives that prioritise environmental, social, and governance (ESG) activities. Recognising the substantial economic benefits that stem from environmental protection, we firmly believe that it also presents an opportunity to diversify Hong Kong's economy. 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 pursue similar objectives.

To further advance ESG principles and develop a green economy in Hong Kong, we propose the following:

- extending the Green and Sustainable Finance Grant Scheme beyond its current expiration in 2024
- establishing a new energy research centre to drive cutting-edge research, development, and commercialisation of renewable energy technologies
- offering a comprehensive suite of tax incentives to encourage companies to engage in carbon-neutral initiatives, while also imposing taxes or levies to discourage behaviours that have a negative impact on the environment. These could include:

Incentives:

- ➢ introducing a 150 per cent super deduction on interest expenses incurred on the green bonds issued by Hong Kong corporations
- ➢ making interest income generated from green bond issued by Hong Kong corporations tax exempt
- ➢ extending the current first registration tax concessions for electric vehicles and the "One-for-One Replacement" scheme for an additional five years
- ➢ introducing tax incentives for electric or hybrid company or commercial vehicles
- ➢ allowing business to claim an immediate 150 per cent deduction on the cost of acquiring energy-saving machinery and equipment in the year of purchase

Disincentives:

- ➢ introducing a carbon tax on corporations that emit a significant amount of greenhouse gas in Hong Kong by 2026 at the earliest, subject to stakeholder consultation. For example, the initial tax rate could be set at HK$100/tCO2e for companies emitting over 25,000 tCO2e. As part of a possible carbon tax, we suggest including a carbon tax offset, wherein businesses that purchase carbon credits can offset up to 5 per cent of their taxable emissions
- ➢ increasing the first registration tax rate for non-electric vehicles with a taxable value exceeding HK$500,000. For example, raising the rate from 132 per cent to 142 per cent.

Diversifying the economy

Innovation, technology, industry and digital transformation

The findings from our Business Technology Survey 2023 indicate that the most popular technology initiatives among companies were enhancing cybersecurity protections and investing in technology. Notably, 73 per cent of respondents acknowledged the impact of artificial intelligence (AI) on their job roles. These results highlight areas where the HKSAR Government could potentially provide support to business.

To further foster the growth of Hong Kong as an international Innovation and Technology (I&T) hub, we propose the following measures be considered for this year's Budget:

- broadening the scope of qualifying R&D expenditures to include expenditures on R&D activities outsourced to related parties outside of Hong Kong, especially to other parts of the GBA
- 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
- developing a holistic strategy to support the re-industrialisation of Hong Kong through advanced manufacturing. The government should also consider stepping up direct support for and promotion of locally manufactured products
- supporting the development and application of AI and cybersecurity. Reference could be made to the AI strategies of the Germany, Singapore and United Kingdom and the cybersecurity strategies of Australia, Singapore and United Kingdom.

Arts and culture

- continuing to promote the development of Art Tech. Reference can be made to Australia
- providing incentives to promote Hong Kong as an art auction hub.

Philanthropy

During the Philanthropy for Better Cities Forum 2023, the Chief Executive acknowledged the rise of Hong Kong as a philanthropy hub. To further develop Hong Kong in this direction, we suggest the following changes:

- allowing tax deductions on non-monetary donations, such as artwork, antiques, collectibles, etc. where supported by an independent expert valuation
- increasing or eliminating the cap on tax deductions for donations to registered charitable institutions under section 88 of the Inland Revenue Ordinance
- allowing the carry-forward of any unutilised tax deduction for donations if the taxpayer is in a tax loss position for the year
- 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 worldwide.

Supporting SMEs

Amidst the current economic landscape, SMEs have been grappling with many challenges, including the repercussions of sustained high interest rates. In light of this, it is crucial for the government to continue supporting SMEs to ensure their continued growth and success. We suggest the following measures for inclusion in this year's Budget:

- extending the application period of the SME Financing Guarantee Loan Scheme on the 80 per cent Guarantee Product, 90 per cent Guarantee Product, and Special 100 per cent Loan Guarantee for another 12 months. The government may wish to consider tightening the eligibility requirements for the guarantee to reduce the risk of bad debts
- reviewing the Sector-specific Labour Importation Schemes and expanding the scope to cover other sectors experiencing severe labour shortages
- providing subsidies to workers from other parts of the GBA to obtain the necessary licenses or undergo training courses that would qualify them to work in Hong Kong
- 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 older employees
- increasing the 100 per cent tax rebate on the 2023/24 final profits tax, subject to a ceiling of HK$10,000
- providing SMEs access to funding, tools and skills to support the integration of ESG, enhancements to their cybersecurity protections and upskilling of employees
- 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.

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:

- maintaining the 100 per cent tax rebate on the 2023/24 final salaries tax, subject to a ceiling of HK$10,000
- increasing basic allowance to HK$150,000
- increasing child allowance to HK$150,000 per child
- increasing married person's allowance to HK$300,000
- increasing salaries tax allowances, at least in line with inflation, in subsequent financial years
- Increasing the cap on the deduction of home loan interest to HK$150,000

- increasing the cap on the deduction of domestic rent to HK$150,000
- increasing the cap on the deductions for voluntary contributions to the MPF scheme and the Voluntary Health Insurance Scheme (VHIS) to HK$100,000 and HK$12,000 respectively
- increasing the cap on the self-education expense deduction to HK$150,000
- introducing a tax deduction of up to HK$6,000 for sports-related expenses to promote physical health and wellness. The deduction could cover for example, the purchase of sports/fitness equipment for household use, rental or entry fees to sports facilities, registration fees for participating in sports competitions such as marathons etc. We believe that policies aimed at encouraging improvements in physical and mental wellness should lead to greater productivity and reduced public healthcare costs.

Encouraging childbirth

Hong Kong's ageing population and low birth rate could have significant long-term consequences for the city. It is therefore imperative that further measures to encourage population growth be implemented.

To encourage childbirth, we propose:

- introducing a childcare expense allowance with a maximum deduction of HK$60,000. Data shows the monthly fee charged by non-aided standalone childcare centres ranges from HK$1,680 to HK$10,650 per month. We note that, in the United Kingdom, all eligible working parents of children will soon have access 30 hours of free childcare per week from when their child is 9 months old until they start school
- introducing a childcare and early childhood education subsidy to lower- and middle-income households. Reference can be made to similar policies in Australia, South Korea and Singapore
- providing subsidies to childcare providers that establish facilities in underserved areas.

Improving public finances

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 long-term modelling of the economic impacts of maintaining the current system as well as modelling the economic, revenue and household impacts of reform options, such as introducing a Goods and Services Tax 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.

Further, many charges for public services have remained unchanged for a considerable period, resulting in disparity between the revenue generated and the costs incurred in providing these services. Given the government's commitment to improving public finances, it is important for the government undertake a comprehensive review of their fees and charges. Possible measures that could be considered include:

- reviewing and adjusting the fees for public services based on a "user-pay / cost recovery" approach
- increasing fines and penalties, for example, increasing the illegal parking fines to HK$500.

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