CPA Australia's submission on the 2025-26 Hong Kong Budget

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Budget Consultation Support Team
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Dear Sir / Madam

CPA Australia's submission to the Hong Kong 2025-26 Budget public consultation

As one of the world's largest professional accounting bodies, CPA Australia represents the diverse interests of over 173,000 members working in 100 jurisdictions and regions globally, including over 16,000 accounting and finance professionals in Hong Kong. This year marks our 70th anniversary in the city, underscoring our longstanding commitment to contributing to Hong Kong's prosperity.

In response to Hong Kong's current fiscal challenges and its ambition to attract greater investment, we propose the following themes for this year's budget on behalf of our members and in the broader public interest. These recommendations are based on input from our members in Hong Kong, especially the Greater China taxation committee, our own surveys of local business conditions, and insights from other markets.

Our recommended themes for the 2025-26 Budget are:

- tackling the fiscal deficit
- enhancing Hong Kong's competitiveness
- supporting small and medium enterprises (SMEs)
- improving living standards
- attracting, developing and retaining talent
- conducting a comprehensive review of the tax system
- improving policy engagement.

Detailed recommendations for each theme are attached for consideration.

As highlighted by the Financial Secretary, Hong Kong faces substantial fiscal challenges that require prompt and effective strategies. We estimate a significant deficit for 2024-25 of HK$96.1 billion. To address this, we recommend prioritising measures that increase revenue collections, enhance the efficiency of public service delivery and reduce unnecessary expenditure.

A practical approach to increasing revenue is to impose user-pays fees on a broader range of government services. These fees should be determined according to a standardised cost-recovery policy, modeled on frameworks used in jurisdictions like Australia, provided fees are set at affordable levels.

While Hong Kong's low and simple tax regime remains a cornerstone of its attractiveness to investors and businesses, additional measures are needed to drive economic growth and bolster market confidence. We encourage the government to focus on:

- reinforcing Hong Kong's position as a leading international financial centre
- promoting innovation and technology to support a sustainable and resource-efficient economy
- ensuring social inclusivity to maintain Hong Kong's long-term prosperity.

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Yours sincerely,

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Summary

TACKLING THE FISCAL DEFICIT

- Impose user-pays fees on a broader range government services
- Introduce a digital service tax
- Introduce a carbon tax
- Increase tobacco duty
- Double the visa application fee on residents hiring domestic helpers not designated for caring for the elderly or dependent children
- Increasing fines and penalties
- Invest in technologies and processes that improve the efficiency of public service delivery

ENHANCING HONG KONG'S COMPETITIVENESS

- Remove the main purpose test in the Hong Kong Pillar Two Bill to align the with Singapore
- Introduce a Qualified Refundable Tax Credit (QRTC) regime under BEPS 2.0
- Expand the permissible assets under CIES to include private credit within Hong Kong, art and collectibles, and virtual assets
- Include Hong Kong real estate investments as permissible assets under the tax regimes for privately-offered funds and family-owned investment holding vehicles
- Pilot a Family Office Connect channel with the Central Government
- Commission a comprehensive "root and branch" review of the tax system

SUPPORTING SMES

- Increase the threshold for the half tax rate for profits tax from HK$2 million to HK$3 million
- Introduce a 100 per cent tax rebate on 2024/25 final profits tax, subject to a ceiling of HK$10,000
- Fund a program offering financial incentives for small businesses to seek advice from their professional advisers
- Fund the development and deployment of industry specific ESG training modules, including modules tailored to smaller business

TALENT & OTHERS

- Continue efforts to position Hong Kong as a premier destination for international students under the "Study in Hong Kong" initiative.
- Provide incentives to increase the supply of affordable student accommodation.
- Fund initiatives that streamline regulatory processes and improve public consultation mechanisms.

Tackling the fiscal deficit

Given the fiscal deficit that Hong Kong currently faces, the government should explore measures to address this issue through two primary approaches: increasing revenue and reducing expenditure.

Increasing revenue

To increase revenue, we recommend the government consider imposing user-pays fees on a broader range of government services. These fees should be determined using a standardised cost-recovery policy, modeled on frameworks used in jurisdictions like Australia, provided they are set at affordable levels and any increase is limited.

Given Australia and other advanced economies generate significant revenue from government levies, fees, and charges, this suggests that Hong Kong has considerable room to increase revenue from this source. For instance;

- the Australian government is projected to collect around HK$20 billion in visa application charges for its 2024-25 fiscal year, compared to Hong Kong's Immigration Department, which expects to collected only HK$203 million – just one per cent of Australia's total.
- Hong Kong's Immigration Department charges HK$460 for a 10-year passport, significantly less than New Zealand (HK$941), Canada (HK$862), and the US (HK$1,011 for renewal, HK$1,283 for new), of which set these fees on a cost-recovery basis.
- the Securities and Futures Commission (SFC) collected over HK$1.4 billion in fees in 2023-24, compared to the Australian Securities and Investments Commission, which collected more than HK$8.5 billion in the same year.

While not advocating for Hong Kong to raise its fees and charges to match those charged in other advanced economies - this could affect the affordability of government services and perceptions of Hong Kong as a business-friendly jurisdiction – these examples indicate there is room for the government to raise additional revenue from increased fees for their services, without impacting the city's low and simple tax system.

In addition to increasing levies, fees and charges, the government could explore the following potential revenue streams:

- a digital service tax. Such a tax could be imposed on businesses without physical presence in Hong Kong that provide social media services, search engine services, streaming services, digital advertising or online marketplaces to local users. This tax could apply to companies meeting minimum revenue threshold and deriving a sizeable proportion of their revenue from Hong Kong users
- a carbon tax. This tax could target companies that emit significant amounts of greenhouse gas in Hong Kong, with the initial tax rate possibly set at HK$100/tCO2e for emissions exceeding 25,000 tCO2e. As part of such a tax, we suggest including a carbon tax offset, allowing businesses that purchase carbon credits to offset up to 5 per cent of their taxable emissions

- increase tobacco duty. Currently, tobacco duty constitutes 65 per cent of the price of a packet of cigarettes, below the 75 per cent recommended by the World Health Organization
- increase visa application fees. For example, doubling the visa application fee for residents hiring domestic helpers not designated for caring for the elderly or dependent children
- introduce Electronic Road Pricing (ERP) in central business district zones. ERP has been implemented in many cities like Singapore, London and Gothenburg, as an effective transport management tool to alleviate localised road traffic congestion
- increase 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
- adopt real-name registration for event ticket sales and mandating the resale of tickets through exchange platforms liable for Hong Kong profits tax
- revisit salary tax bands, particularly the rate applied to incomes above HK$5 million
- increase fines and penalties. For example, raising the fine for illegal parking to HK$500.

These measures collectively can increase revenue collection without impacting Hong Kong's reputation for a low and simple tax system.

Reducing government expenditure

To address the fiscal deficit, we recommend the government adopt measures to reduce expenditure by enhancing the efficiency of public service delivery. For instance:

- invest in digital technologies that increase the efficiency of public service delivery. For example, using robotic process automation to automate manual and repetitive administrative tasks
- adopt the private-public partnership model more extensively for infrastructure projects to reduce the government's share of costs and risks
- implement tighter recruitment controls, including imposing stricter requirements for filling vacant government roles. If implemented appropriately, this can lead to a decline in headcount through natural attrition, while allowing some flexibility for filling vital roles.

Enhancing Hong Kong's competitiveness

According to the findings of our Hong Kong Economic and Business Sentiment Survey 2025, business sentiment among local executives and finance professionals is optimistic. Over half forecast that their companies will expand their workforce this year, particularly among larger employers.

The strategic focus of local businesses is shifting away from defensive strategies such as cost management—the predominant theme in previous surveys—towards a greater emphasis on expansion, innovation, and technology. Despite this growing optimism, businesses still face significant challenges, including weak customer demand driven by shifting consumer behaviours, cash flow constraints, and talent shortages.

Recommended measures to strengthen Hong Kong's competitiveness include:

Encouraging a headquarter economy

According to projections from the 2022-23 Budget, Hong Kong's implementation of BEPS 2.0 is expected to generate approximately HK$15 billion in annual tax revenue. To maintain Hong Kong's competitiveness, we recommend adopting the following measures from other jurisdictions:

- remove the 'main purpose test' from the Inland Revenue (Amendment) (Minimum Tax for Multinational Enterprise Groups) Bill 2024. This would align Hong Kong with jurisdictions such as Singapore, which does not include a general anti-avoidance rule. We recommend that its focus remains on the 'main purpose' rather than 'one of the main purposes.'

- introduce a Qualified Refundable Tax Credit (QRTC) regime. In such a regime, the QRTC should be treated as GLoBE income rather than a reduction in covered tax when calculating of effective tax rate under GLoBE rules. This would bring Hong Kong into line with Singapore, which is implementing such a regime.

Property market

The property market is essential to Hong Kong's economy, significantly influencing GDP, employment, and government revenue. While we recognised the government's abolition of all demand-side stamp duty measures in last year's budget, we recommend that the government:

- consider introducing temporary stamp duty relief for first-home buyers, providing them a 50 per cent reduction in stamp duty for a 12-month period. This initiative aims to reduce the financial barriers to home ownership, stimulate demand for residential property, and bolster market confidence. Other jurisdictions have similar schemes to support first home buyers, such as those introduced in the Australian states of Victoria and New South Wales.

Supporting the development of family offices and investments

To attract more family offices to Hong Kong and encourage them to invest locally, we recommend the following measures:

Enhancements to the Capital Investment Entrant Scheme (CIES)

- expand the permissible assets under the CIES to include (i) private credit within Hong Kong, (ii) art and collectibles, and (iii) virtual assets, limited to the transactions conducted through the three registered crypto exchanges in Hong Kong

Enhancements to the tax regimes for Privately-offered Funds or Family-owned Investment Holding Vehicles (FIHV)

- include Hong Kong real estate investments as tax exempt assets for both fund exemption and family office concession regimes, covering both non-residential and residential properties with a minimum investment requirement of HK$50 million, and aligning the regime with the permissible investment assets of the CIES. If necessary, introduce a cap of 30 per cent of total assets under management (AUM) for Hong Kong real estate investments

- initiate consultations with the Central Government to establish a 'Family Office Connect' channel to pave the way for mainland high-net-worth individuals to make cross-border investments through Hong Kong-based family offices. The first step in implementing this scheme would be to pilot the Connect scheme in the Greater Bay Area before extending it to the rest of mainland, if successful
- include artwork, antiques, and collectibles as tax exempt assets
- apply a multiplier of 1.5 to investments into Hong Kong listed shares (subject to a cap), when calculating if a family-owned investment holding vehicle (FIHV) meets the HK$240 million minimum AUM threshold to be eligible for tax concessions for FIHV managed by single family offices
- provide a tax rebate to each group of qualifying family offices and funds on stamp duty paid on investments in Hong Kong stocks, subject to a cap
- offer incentives such as preferential tax treatment for income derived by fund manager or single family office from managing and advising funds and single family office investment vehicles.

Expand Hong Kong's network of free trade agreements (FTAs) and Comprehensive Avoidance of Double Taxation Agreements (CDTAs)

To bolster Hong Kong's trade network and strengthen its global economic connections, we recommend the government prioritise concluding CDTAs with Australia, Laos, Myanmar, Philippines and Singapore.

Supporting SMEs

SMEs have faced numerous challenges in recent years. It is crucial for the government to continue providing targeted support to foster their growth and success. We recommend the following measures to assist the SME sector:

Incentivise small business to access professional advice

To enhance the management capabilities of SMEs, we recommend a program offering financial incentives for small businesses to seek advice from their professional advisers, such as accountants and IT consultants.

There are several policy options to improve small business management capabilities, however our experience shows that one of the fastest and most cost-effective ways is by them tapping the expertise of their existing advisers.

We suggest modelling this program on the Australian state of Victoria's former Small Business Specialist Advice Pathways Program, which successfully enabled businesses to access vital advisory services.

By supporting access to professional advice, the government can help small businesses build their capability and chances of success, leading to a stronger economy.

More support for environmental, social and governance (ESG) adoption by business

SMEs face significant barriers to adopting effective ESG practices – especially limited awareness, constrained resources, and the high cost of hiring sustainability experts. To address these challenges, we recommend the government fund the development and deployment of industry specific ESG training modules, including modules tailored to smaller business. Delivery of this training could be done in partnership with chambers of commerce and industry associations.

Tax incentives to support SMEs

To alleviate the financial pressure on SMEs, we recommend the following tax incentives:

- increase the threshold for the half tax rate for profits tax from HK$2 million to HK$3 million
- introduce a 100 per cent tax rebate on 2024/25 final profits tax, subject to a ceiling of HK$10,000
- By implementing these targeted initiatives, the government can ensure that SMEs remain a key driver of Hong Kong's economic growth and resilience.

Improving living standards

Individual relief measures

To support individuals and families, we recommend the following measures be included in this year's Budget, subject to affordability:

- maintain the 100 per cent tax rebate on the 2024/25 final salaries tax, subject to a ceiling of HK$10,000
- increase the basic allowance to HK$150,000
- increase child allowance to HK$150,000 per child
- increase the married person's allowance to HK$300,000
- adjust the salaries tax allowances annually to align with inflation
- raise the cap on home loan interest deductions to HK$150,000
- raise the cap on domestic deductions rent to HK$150,000
- increase the deduction caps on:
  - voluntary contributions to the MPF scheme to HK$100,000
  - voluntary Health Insurance Scheme (VHIS) to HK$12,000
  - self-education expense deduction to HK$150,000

- introduce a deduction on sports-related expenses of up to HK$6,000 to promote physical health and wellness. Eligible expenses could include purchasing sports/fitness equipment for household use, rental or entry fees to sports facilities and registration fees for participating in sports competitions such as marathons etc.

Encouraging childbirth

Hong Kong's ageing population and low birth rate pose a significant long-term challenge for the city. To encourage child birth, we recommend the following measures:

- 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. For comparison, the United Kingdom will soon offer all eligible working parents 30 hours of free childcare weekly from when their child is nine months old until when they start school.
- implement a subsidy program for childcare and early childhood education targeted at lower- and middle-income households. Reference can be made to similar policies in Australia, South Korea and Singapore.

Attracting and retaining talent

The Hong Kong government has recently achieved success in attracting top talent to the city. However, with a global talent shortage and an ageing population, additional measures are necessary to attract, nurture and retain talent. We propose the following recommendations:

- continue efforts to position Hong Kong as a premier destination for international students under the "Study in Hong Kong" initiative
- address the shortage of affordable student accommodation by incentivising developers to convert industrial buildings into student housing. For example, offering discounts on top-up land tax payments for developers involved in such conversions and adjusting certain fire regulations to facilitate these conversions while maintaining safety standards
- extend the Immigration Arrangements for Non-local Graduates (IANG) visa from two years to four years for students pursuing further studies abroad immediately after graduation. This will provide returning graduates with up to four years to contribute to the Hong Kong workforce.
- provide subsidies to workers from other parts of the Greater Bay Area (GBA) to obtain the necessary licenses or complete training required to work in Hong Kong
- offer companies an additional tax deduction on salaries paid to employees aged 60 or over capped at say HK$120,000 per eligible employee. Alternatively, the government could provide direct wage subsidies to employers hiring eligible older employees.

These measures aim to attract more talent to study and remain in Hong Kong, while also attracting older people to stay in the workforce.

Review the tax system

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. These factors present risks to the sustainability of Hong Kong's public finances and its long-term prosperity.

Given the tax system has remained largely unchanged for almost five decades, we reiterate the importance of the government exploring tax reform options to boost the city's competitiveness, productivity and fiscal sustainability.

As a first step, we recommend the government commission a comprehensive "root and branch" review of the tax system. Such a review should:

- evaluate the long-term economic implications of maintaining the current tax system
- model the potential economic, revenue and household impacts of potential reform options, such as introducing a Goods and Services Tax
- if deemed appropriate, propose recommendations for reform.

Improving policy engagement

While Hong Kong is globally recognised for its business-friendly environment, businesses can still face challenges due to complex regulations. To further enhance the city's regulatory environment and improve policy engagement, we recommend the government fund initiatives that streamline regulatory processes and improve public consultation mechanisms, such as:

- conducting regular reviews of existing regulations to identify opportunities for improvement and eliminate outdated or unnecessary regulations
- making improvements to its public consultation process. Enhancing the feedback loop with stakeholders should help improve the design and implementation of new regulation.

Regular public consultation is critical for developing effective policies that address community needs and are practical to implement. This involves actively seeking input from the public, business, industry experts and community groups to ensure policies are well-informed and balanced. By frequently and effectively engaging stakeholders, the government can build consensus, identify potential issues and solutions early, and enhance transparency. This ultimately leads to more effective, practical and widely supported policy outcomes.

To enhance its consultation processes, we recommend the government update its code of practice for public consultations, which has not been updated since 2003. The code also lacks detail and allows significant discretion in interpreting principles like "timely consultation". Drawing on overseas examples such as the Australian Government's Best Practice Consultation guidelines maybe a useful in informing such an update.

Additionally, the government should maximise the value of its advisory bodies, such as the Financial Services Development Council, by committing to publicly respond to their research papers and recommendations within a set timeframe.

By implementing these measures, the government can create a more streamlined and responsive regulatory environment, foster greater trust among stakeholders, and reinforce Hong Kong's reputation as a global business hub.

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