

HONG KONG TAX SURVEY SUBMISSION 2020

28 April 2020

Mr. Paul Chan
Financial Secretary's Private Office,
25/F, Central Government Offices,
2 Tim Mei Avenue, Tamar,
Hong Kong

By Email: fso@fso.gov.hk

Dear Mr. Chan,

CPA Australia's Hong Kong Tax Survey 2020 Submission

CPA Australia represents the diverse interests of over 166,000 members working in 100 jurisdictions around the world, including over 12,000 members in Hong Kong. As one of the largest professional accounting bodies in the world, we make this submission on behalf of our members and in the broader public interest.

The purpose of this submission is to share with you the results of our recent member survey on Hong Kong tax issues. We also include recommendations stemming from the results for your consideration.

Summary of the survey results

Most respondents (53 per cent) do not believe the SAR Government should increase tax revenue at this time. This is not surprising given current economic conditions created by COVID-19. However, 44 per cent believe that Hong Kong needs to increase its tax revenue. Given the city faces a range of long-term economic and social challenges including an ageing population, a narrow and volatile tax base and a large deficit, this result is also not surprising.

In light of this mixed response, we suggest that to help build a greater understanding of the implications of these challenges for taxation in Hong Kong, the Government consider commissioning a comprehensive "root and branch" review of the tax system, including developing and modelling reform options and the status quo.

The survey results showed a high level of support for using tax policy to address health and environmental issues. These issues have not had such prominence in previous member engagement, leading us to hypothesise that the COVID-19 pandemic may have brought about a change in priorities of respondents, although we did not test this.

On respondent support for using tax policy to support better health outcomes, the most popular change for broadening tax revenue is increasing the duty on tobacco, alcohol and hydrocarbon oil. Further, the medical services industry was the second most popular choice for industries in need of preferential tax treatment. In addition to this, increasing the deduction for voluntary contributions to the Voluntary Health Insurance Scheme (VHIS) and the Mandatory Provident Fund (MPF) were the equal most popular suggested changes to salaries tax.

On the environment, 'incentives for environmental action' is the most popular suggestion for reforming the profits tax regime. Further, the second most popular choice for broadening tax revenue over the next three years is introducing an environmental protection tax.

The COVID-19 restrictions have triggered greater adoption of digital technologies by businesses and consumers. It follows that respondents were most likely to choose innovation and technology as the sector most in need of preferential tax policies, and to state that tax administration is most likely to be improved through greater digital delivery of services by the Inland Revenue Department (IRD).

A quarter of respondents are concerned that proposals by the OECD and G20 for a global minimum tax rate on multi-national corporations' profits will weaken the competitiveness of Hong Kong's tax system. We suggest that these concerns should be noted by the Government in its consideration of this global issue.

Key recommendations

Based on the outcomes of the survey, we make the following recommendations:

On the proposed global minimum tax rate, we suggest the SAR Government:

- commission a thorough economic impact study of the potential effects that the proposed global minimum tax rate may have on Hong Kong.
- consider and consult with the OECD on how a global minimum tax will impact tax measures (e.g. corporate treasury centre, aircraft leasing) that have been found to be compliant with international tax standards and/or have been considered by the OECD as not harmful tax practices. Such consultation should consider how best to mitigate avoidable negative impacts, including possibly seeking their exclusion from the global minimum tax rules.
- evaluate whether the proposed global minimum tax rate duplicates other BEPS initiatives.

To assist businesses recover from the impacts of COVID-19, we suggest the SAR Government consider:

- in addition to the Employment Support Scheme, providing employers in the retail, aviation, tourism and hospitality, and food and beverages industries a super tax deduction for salaries paid from 1 February 2020 to a date when the COVID-19 pandemic has subsided.
- introducing a tax loss carry-back measure for small- and medium-sized businesses in specific industries for a period of two years.
- on a temporary basis, waiving employer and employee contributions to the MPF from 1 February 2020 to a date when the COVID-19 pandemic has subsided. If the contribution has already been made, employers and employees should be able to apply for a refund.
- provide a super-deduction, without a cap, for donations of cash or Personal Protective Equipment (e.g. face masks, medical supplies) for preventing / fighting against the COVID-19 pandemic.

If you have any queries on the survey results, please contact Jonathan Ng, CPA Australia's policy adviser for Greater China on 2202 2717 or jonathan.ng@cpaaustralia.com.au.

Yours sincerely,



Anthony Lau FCPA (Aust.)

2020 Divisional President – Greater China



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Executive General Manager International



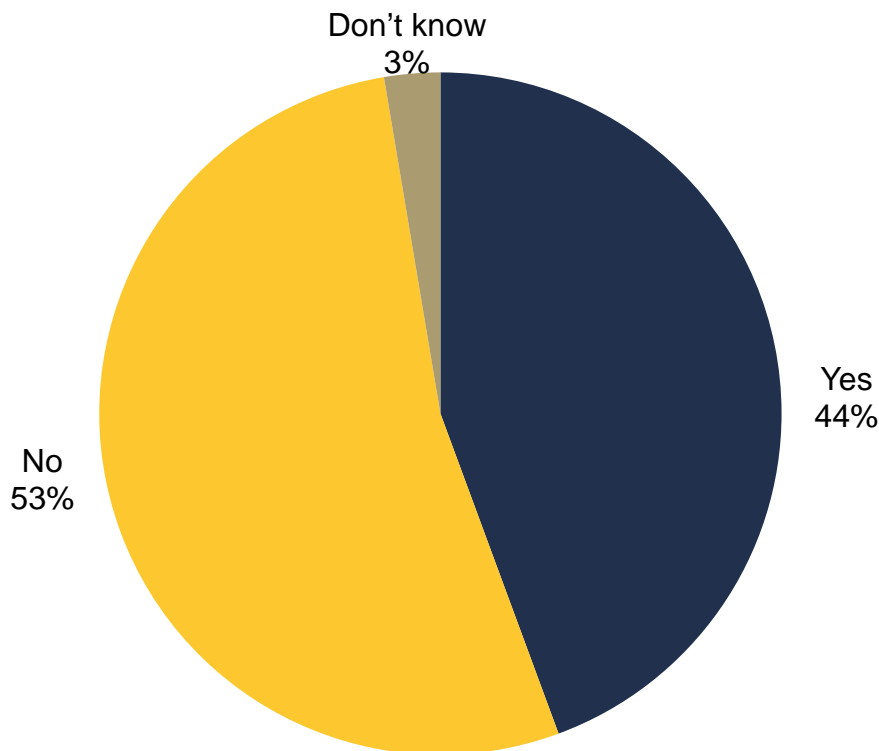
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Increasing Hong Kong's tax revenue

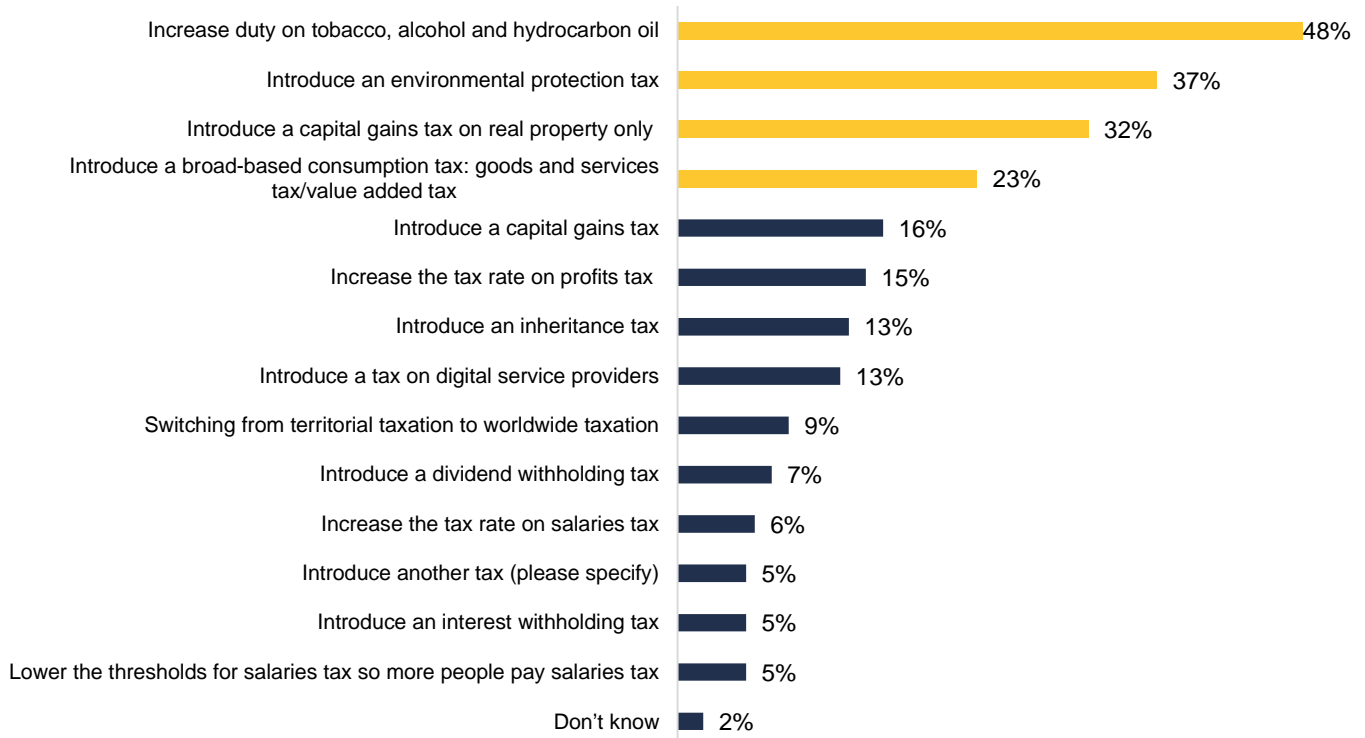
**Question. Do you think the Hong Kong SAR Government needs to increase its tax revenue?
(Select one only)**



- Just over half of all respondents do not support the need for the Government to increase its tax revenue, however a large number do support the need for increasing tax revenue.
- While respondents were not specifically asked their reasons for selecting an option, CPA Australia posits that:
 - many respondents may be more concerned with immediate issues such as job security and economic uncertainty, and therefore favour government measures to increase spending and reduce taxes to support and stimulate the economy.
 - building public support for increasing tax revenue will be a challenging task. Amongst many things, it will require the public release of robust data from government and independent sources presenting the economic and social case for doing so.
 - central to developing its case for reform would be to conduct a comprehensive, transparent 'root and branch' review of Hong Kong's tax system – its adequacy, sustainability and competitiveness. Such a review should include modelling the economic impacts of maintaining the current system as well as modelling options for reform, including potential compensation to the community for any adverse impacts of reforms.

Tax measures to broaden the tax revenue base

Question. To address Hong Kong's long-term economic and social challenges such as an ageing population, increasing competition and a widening income and wealth gap, which of the following tax measures do you think would be the best option(s) to broaden the Government's tax revenue base within the next three years? (Select up to three)

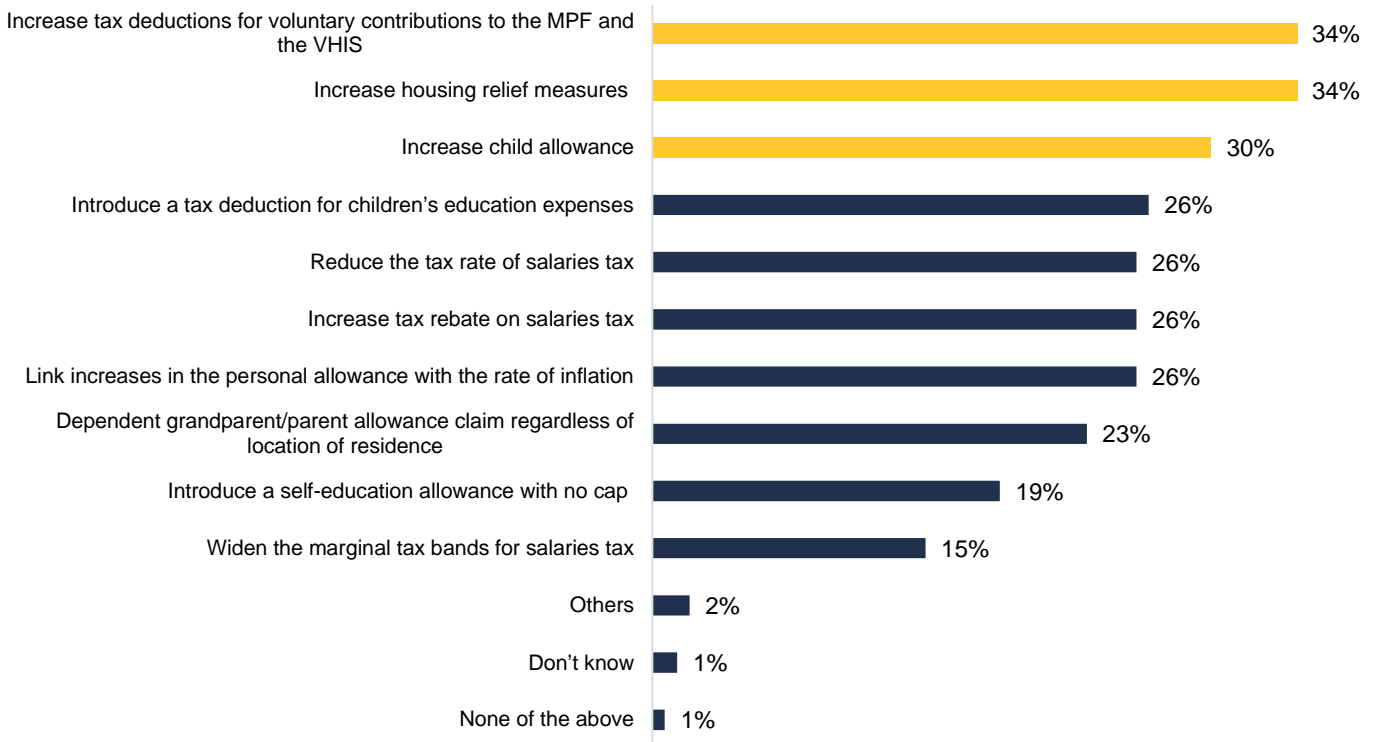


Note: As this is a multiple-choice question, the total response percentages will exceed 100 per cent.

- New taxes or increases to existing tax rates that respondents chose most often were:
 - Increase in duty on tobacco, alcohol and hydrocarbon oil
 - Introduction of environmental protection taxes
 - Introduce a capital gains tax on real property
 - Introduce a goods and services tax / value added tax
- The first two choices are primarily designed to affect public health and environmental outcomes. This possibly indicates that the COVID-19 pandemic may have strengthened support for measures that support these policy areas.
- Broader tax reform options such as introducing a GST or VAT or broadening the personal income tax system were chosen less often. This suggests that if the Government wants to seek broader tax reform of this kind, it would need to focus on promoting the benefits of such measures through data and modelling, as well as setting out possible compensation measures that reduce the regressive impacts of such reform.

Salaries tax measures

Question: Which of the following salaries tax measures do you think the Government should introduce? (Select up to three)



Note: As this is a multiple-choice question, the total response percentages will exceed 100 per cent.

- Support is strongest for increasing the tax deduction for voluntary contributions to the MPF scheme and the VHIS, and increasing housing relief measures such as extending the home loan interest deduction period and increasing child allowance.
- Support is least strong for widening the marginal tax bands and for introducing a self-education allowance. Support for the other listed measures are almost identical.
- The results suggest that respondents favour a mix of changes to salaries tax to help alleviate the financial burden on individuals and families over a single option.

Industries in need of preferential tax policies

Question: Which of the following industries do you think are the most in need of preferential tax policies in Hong Kong? (Select up to three)

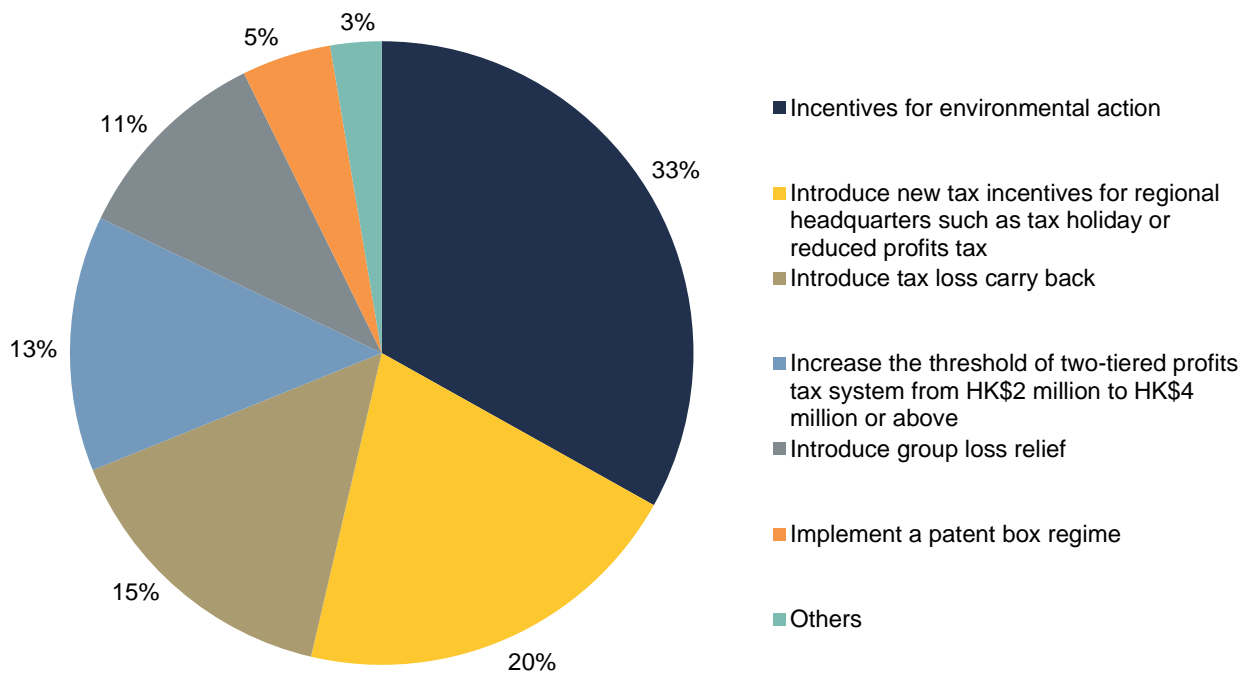


Note: As this is a multiple-choice question, the total response percentages will exceed 100 per cent.

- 'Innovation and technology' is the sector respondents chose as the most in need of preferential tax policies. It could be conjectured that this outcome is due to an increase in usage of technologies during the current COVID-19 crisis (i.e. teleconferencing technologies, online meetings, webinars etc.) and at home (online shopping, food delivery services etc.). Also, it might be that many respondents believe that additional tax measures in this sector may help businesses cut operational costs and increase efficiency by encouraging investment in new technologies.
- Moreover, the results may indicate that many respondents are supportive of the idea of promoting innovation and technology as a new engine of economic growth to boost Hong Kong's competitiveness and improve living standards.
- CPA Australia believes that the Government might consider commissioning a public inquiry into the effectiveness of current policies to support innovation and technology and investigate and opine on new or enhanced tax and non-tax measures.
- 'Medical services' is the option chosen second most often by respondents, possibly reflecting an increasing awareness of the social and economic value of medical and allied services to the city.

Profits tax measures

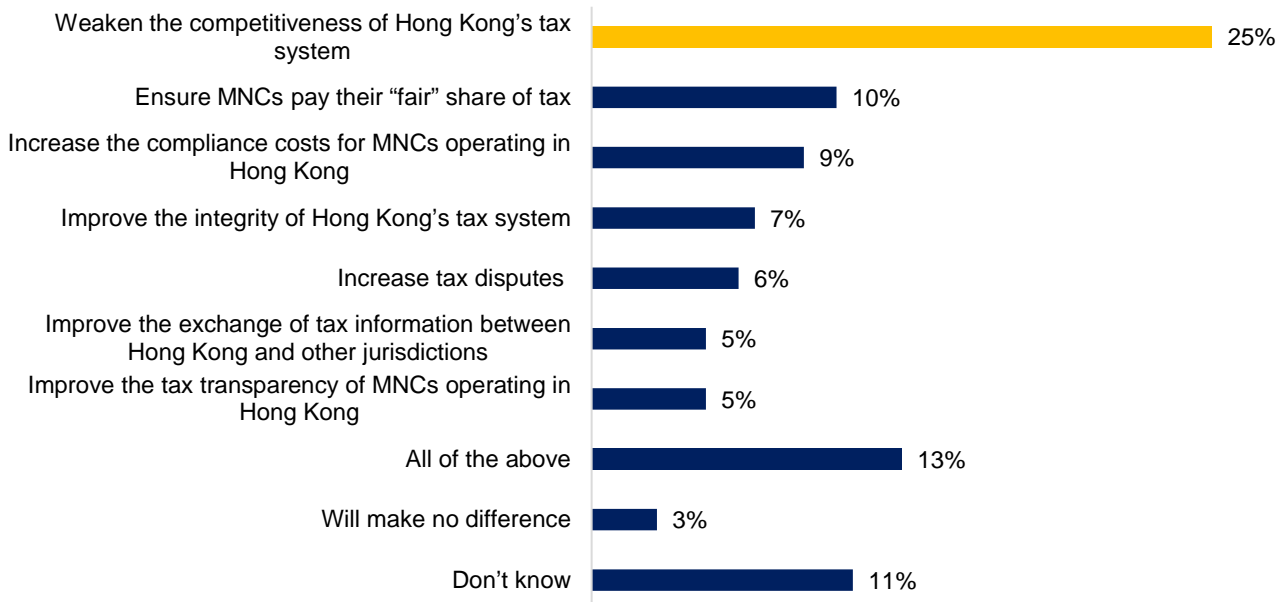
Question. In your personal opinion, which one of the following profits tax measures do you think the Government should introduce? (Select one only)



- Illustrating our hypothesis that the COVID-19 pandemic may have increased the priority our members are placing on environmental issues, the most popular change to profits tax is the introduction of incentives for environmental action.
- The second-most chosen measure is new tax incentives for regional headquarters. This suggests that respondents may also believe that it is important to maintain and enhance Hong Kong's business environment to continue attracting overseas enterprises to set up regional headquarters in the city.

Impact of a global minimum tax rate

Question. In your opinion, how would the imposition of a global minimum tax rate most likely impact Hong Kong? (Select one only)

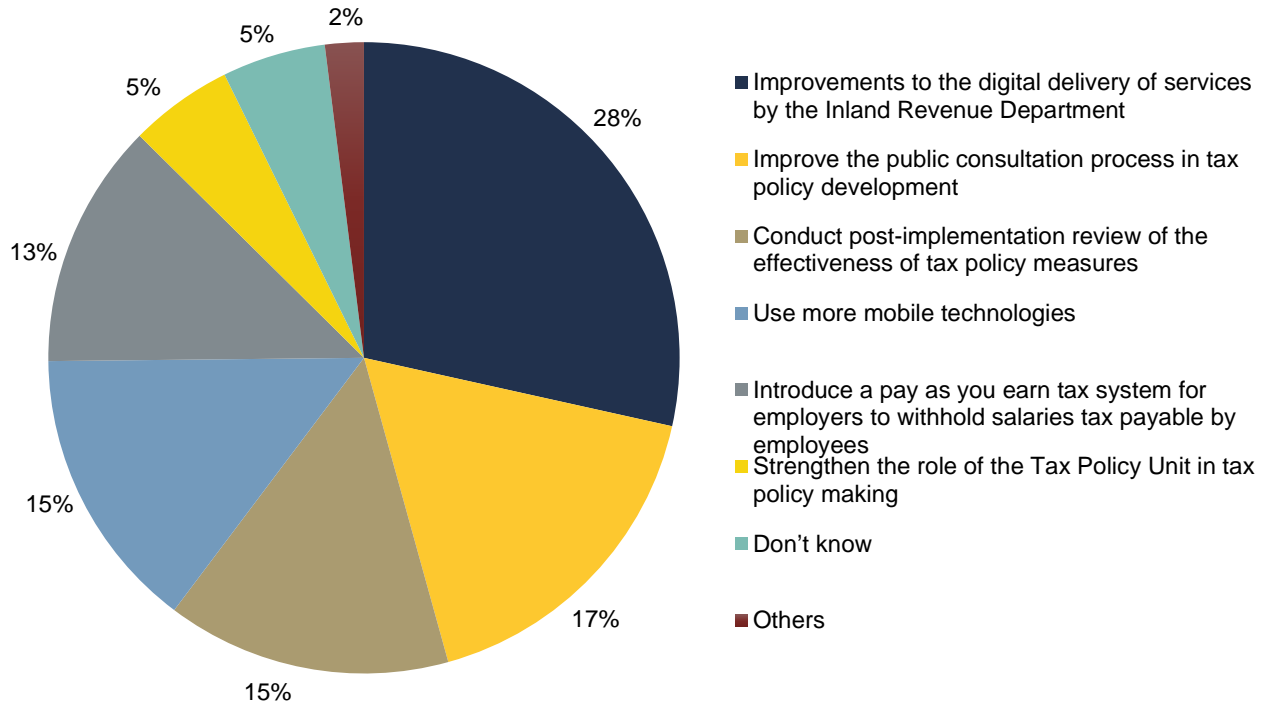


Note: Percentages may not add up to 100 per cent due to rounding.

- There is concern among a quarter of respondents that proposals to introduce a global minimum tax on multi-national corporations' profits will weaken the competitiveness of Hong Kong's tax system, which is itself a critical pillar of Hong Kong's competitiveness. This result may also be consistent with concerns over raising tax revenue at present.
- Since the implementation of global minimal tax rate rules could impact where business activity is undertaken and the flow of investment, the SAR Government should work with the OECD and other governments on this important global issue.

Improvements to tax administration

Question. What is the most important improvement in tax administration you would like to see from the Hong Kong Government? (Select one only)



- Many respondents favour the IRD making improvements in its digital delivery of services, as well as using more mobile technologies. Our experience in other jurisdictions shows that when appropriately implemented, such digital technologies should increase the efficiency for all parties to the tax system.
- CPA Australia notes that the COVID-19 pandemic has highlighted the importance of, and is a push factor for, the digitisation of public services. In light of government office closures and fewer face-to-face interactions with the public to reduce the risks of infection, the outbreak presents an opportunity for the Government to further support the development of the 'Smart City' initiative by funding an increase in the delivery of digital tax services to the public by the IRD.

Recommendations

Based on the results of this survey, input from the Taxation Committee – Greater China, and CPA Australia's experience in other jurisdictions, CPA Australia recommends that the SAR Government should consider the following:

Comprehensive review of the tax system

- Commission a transparent and comprehensive 'root and branch' review of Hong Kong's tax system. Such a review should evaluate and model economic, revenue and household impacts of the options for broadening the tax base, as well as maintaining the status quo, and if appropriate make recommendations for reform.

Tax relief measures for individuals

- Increase tax deductions for voluntary contributions to the MPF and the VHIS.
- Increase child allowance.
- Increase housing relief measures.

Tax relief measures in response to COVID-19 pandemic

- Introduce a super tax deduction for salaries paid by employers in selected sectors such as retail, aviation, tourism and hospitality, and food and beverages, commencing from 1 February 2020 to a date when the coronavirus pandemic has subsided (in addition to the Employment Support Scheme).
- Introduce a tax loss carry back measure for small- and medium-sized businesses in specific industries for a period of two years.
- On a temporary basis, waive the contribution to the MPF, at both the employer and employee level, from 1 February 2020 to a date when the COVID-19 pandemic has subsided. If the contribution has already been made, employers and employees can apply for refund.
- Provide a super-deduction, without a cap, for donations of cash or Personal Protective Equipment (e.g. face masks, medical supplies) for preventing / fighting against the COVID-19 pandemic.

Support for the innovation and technology sector

- Commissioning a public inquiry into the effectiveness of current policies to support innovation and technology and investigate and opine on new or enhanced tax and non-tax measures, including:
 - introducing a tax rebate for expenditure on emerging technologies such as artificial intelligence, cloud computing, data analytics, and robotics. Such expenditure should be undertaken by businesses in Hong Kong or other areas of the Greater Bay Area.
 - offering preferential tax treatment to technology start-ups. For example, a fully-refundable tax rebate for R&D expenditure and a three-year tax holiday commencing when the eligible company begins generating assessable profits.
 - developing a patent box tax regime for Hong Kong.

Profits tax measures

- Introduce tax incentives for environmental action.
- Provide tax incentives to attract overseas enterprises to set up regional headquarters in Hong Kong

to complement the existing concessionary tax regime available to qualified corporate treasury centres.

Global minimum tax rate

- Commissioning a thorough economic impact study of the global minimum tax rate to better understand the potential effects these proposed new rules may have on the city.
- For those tax regimes (e.g. corporate treasury centre, aircraft leasing) that are compliant with international standards and/or have been considered by the OECD as not harmful tax practices, the government should consider how a global minimum tax rate will impact these regimes, and whether it would be reasonable to discuss with the OECD excluding those tax regimes from the global minimum tax rules.
- Discussing with the OECD whether the global minimum tax rules should exclude income arising from real economic activity and business substance in a jurisdiction.
- Evaluating whether the global minimum tax rate duplicates existing BEPS requirements.

Enhance and modernise the current tax administration system

- Provide dedicated funding to the Inland Revenue Department to invest in the digitisation of their systems and processes.
- Provide additional funding to the Tax Policy Unit to allow the Government to:
 - estimate and publish the value of each concession, benefit, and incentive delivered through the tax system and analyse the performance of such measures with annual updates.
 - conduct a review of current tax administrative processes to identify opportunities to simplify and streamline tax administration.
 - conduct post-implementation reviews of existing tax measures to determine their effectiveness and whether they have met their policy objectives.
 - model the economic, revenue, social, and household impacts of possible long-term tax reform options and publish the results of such modelling.
 - estimate long-range fiscal, demographic, and economic forecasts for Hong Kong, released at least once every five years.

Survey demographics

Table 1. Which industries do you spend your most time working in?

Industry	Percentage
Financial Services	32%
Public Practice – CPA firm	17%
Consulting	7%
Retail	7%
Manufacturing	7%
Technology sector	7%
Property	5%
Construction	4%
Legal	3%
Non-governmental organisation (NGO)	3%
Others	3%
Aviation	2%
Public sector	2%
Insurance	1%

Table 2. Which of the following best describes your current position?

Position	Percentage
President/Partner/COO/CEO/CFO/Managing Director	23%
Manager/supervisor	21%
Professional	15%
Junior/associate	14%
Senior associate/assistant manager	13%
Other senior level (e.g. Vice President)	9%
Self-employed	3%
Sole proprietor	1%
I am currently not working	1%

Table 3. How many people work for your company in Hong Kong?

Position	Percentage
Fewer than 50	36%
1000 or more	30%
100 to 499	13%
50 to 99	11%
500 to 999	8%
I am currently not working	1%
Don't know	1%

About the survey

The survey was conducted from 3 April to 17 April 2020. A total of 151 responses were received from CPA Australia members residing in Hong Kong. Respondents come from a wide range of industries including financial services, CPA firms, consulting, retail, manufacturing and technology sector.

About CPA Australia

CPA Australia is one of the world's largest accounting bodies with more than 166,000 members working in 100 countries and regions around the world, including over 19,000 members in the Greater China region.

Acknowledgement

CPA Australia would like to acknowledge the many CPA Australia members who took part in our survey. We would especially like to thank the following members for their input and guidance in shaping this submission:

- Mr. Anthony Lau FCPA (Aust.), 2020 Divisional President – Greater China & Deputy Chairperson of Taxation Committee – Greater China
- Mr. Paul Ho FCPA (Aust.), Chairperson of Taxation Committee – Greater China
- Ms. Theresa Chan FCPA (Aust.), Deputy Chairperson of Taxation Committee – Greater China
- Mr. Janssen Chan FCPA (Aust.), 2020 Deputy Divisional President – Greater China & Committee Member of Taxation Committee – Greater China
- Mr. Danny Kwan CPA (Aust.), Committee Member of Taxation Committee – Greater China
- Ms. Karina Wong CPA (Aust.), Committee Member of Taxation Committee – Greater China