MEDIA RELEASE

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Hong Kong's tax system world leading but action needed to retain competiveness

CPA Australia, one of the world's largest professional accounting bodies, has released survey data showing the simplicity of Hong Kong's tax system combined with its relatively low tax rates continues to underpin its global competitiveness.

The survey of Hong Kong based business professionals shows that 70 per cent of respondents are satisfied or very satisfied with Hong Kong's tax system although some specific recommendations for improvement were identified.

Alex Malley, chief executive of CPA Australia said that taxation regimes internationally were becoming increasingly competitive.

"It is important for an economy to be proactive in relation to the competitiveness of its tax system," Mr Malley said.

"Since 2000 we have seen significant reductions in company tax rates in many economies including the UK, Turkey, Ireland and Taiwan. Hong Kong is currently competitive but it needs to build on its strong position."

CPA Australia has previously made a recommendation to the government highlighting the merits of a "root and branch" review of the tax system that would instigate reforms that would give Hong Kong the best opportunity to prosper well into the future.

"The Hong Kong government showed in this year's Budget that it has a real commitment to generating long-term growth through strategic investments in innovation and research and development. We hope to see this commitment include consideration of relevant taxation reforms."

Paul Ho, Chairperson of CPA Australia's Taxation Committee – Greater China, said that while respondents were more likely to think that Hong Kong has a more internationally competitive tax system than Singapore, to maintain this position Hong Kong should now be considering a number of targeted changes.

"To address Hong Kong's long-term economic and social challenges, from an ageing population to a widening income gap, it is important that a comprehensive review of the tax system is part of the SAR Government's agenda in the short term," Mr Ho said.

"On all the available information, I forecast the Government will register a surplus in the order of HKD50 billion for 2016/17 however Hong Kong has a relatively narrow and volatile tax base which will eventually place pressure on government finances."

"Broadening Hong Kong's tax base – perhaps through the consideration of a goods and services tax with suitable compensation mechanisms – should improve the Government's long-term financial stability. It could provide a more stable source of revenue that may in time be used to lower other taxes which would contribute to Hong Kong's competitiveness."

With the number of regional headquarters in Hong Kong falling behind Singapore, Hong Kong has 1379 regional headquarters according to the Census and Statistics Department while Singapore has over 3500 according to International Enterprise Singapore, respondents were supportive of the government undertaking further action to encourage more regional headquarters to establish or enhance their presence in Hong Kong. Specifically respondents were most likely to favour the introduction of new tax incentives such as a tax holiday or a reduced profits tax rate for companies that establish regional headquarters.

Other interesting findings from the survey include:

- A majority of respondents (80 per cent) would like the Hong Kong government to introduce measures to encourage the further development of Hong Kong's Fintech sector with more direct government support through grants/loans/ equity investments, and preferential tax policies for both Fintech start-ups and established financial institutions being the most popular suggestions of respondents.
- Over half of respondents (58 per cent) support implementing special tax incentives to encourage Hong Kong businesses to increase their collaboration with the rest of the Pearl River Delta (PRD) region.
- In order to improve the competitiveness of Hong Kong's tax system, 29 per cent of respondents would support the introduction of progressive profits tax rates in the upcoming budget. Such a policy would result in SMEs being taxed at a lower profits tax rate to larger companies.

CPA Australia is one of the world's largest accounting bodies with more than 155,000 members working in 118 countries around the world, with more than 25,000 members working in senior leadership positions. It has established a strong membership base of more than 17,000 in the Greater China region.

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About the survey
The survey was of CPA Australia members residing in Hong Kong and was conducted between 7 to 27 Oct 2016. The survey received 142 respondents.

For more details, please contact:

Racepoint Global
Clara Liddell / Jessica Wong
Tel: 3111 9934 / 3111 9931
Mobile: 6317 8002 / 9244 5752
Email: cliddell@racepointglobal.com / jwong@racepointglobal.com

CPA Australia
Carmen Pan
Tel: 2202 2722 / 5318 9655
Email: carmen.pan@cpaaustralia.com.au

Hong Kong tax survey – key statistics

Overview of Hong Kong's tax system

	2017 survey result	2016 survey result
Percentage of respondents satisfied with Hong Kong's tax system	70%	70%
Between Hong Kong, Singapore, Mainland China, Australia, the percentage of respondents that think **Hong Kong** has the most internationally competitive tax system	44%	29%
Between Hong Kong, Singapore, Mainland China, Australia, the percentage of respondents that think **Singapore** has the most internationally competitive tax system	37%	51%

Ideas for improving the competitiveness of Hong Kong's tax system

	2017 survey result	
Top three suggestions for improving the competitiveness of Hong Kong's tax system	Introduce a progressive profits tax rates to allow for lower rates for SMEs	29%
	Initiate a comprehensive review of Hong Kong's tax system	19%
	Allow group relief to attract new investments and reinvestments into Hong Kong	18%

In the 2016 survey only 4 per cent of respondents believed that there is no need to reform Hong Kong's tax system.

Regional headquarters

	2017 survey result	
Top three suggestions to encourage more regional headquarters to establish or enhance their presence in Hong Kong in the next 12 months	Introduce new tax incentives, such as a tax holiday or reduced profits tax for RHQs	32%
	Extend current tax incentives, such as reduced profits tax for specified treasury activities	16%
	Expand Hong Kong's network of tax treaties and free trade agreements	13%

Of the respondents, only 9 per cent did not believe that there is a need for further incentives to encourage RHQs to establish in Hong Kong.

Fintech

	2017 survey result	
Top three suggestions to encourage the development of Hong Kong's Fintech sector in the next 12 months	Provide more direct government grants/loans/equity investments to Fintech start-ups	19%
	Preferential tax policies to encourage Fintech start-ups to develop in Hong Kong	14%
	Preferential tax policies to encourage established financial institutions to invest in Fintech	13%

Of the respondents, 8 per cent did not believe that the Fintech sector should receive any preferential treatment.