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Budget Consultation Support Team,
24/F, Central Government Offices,
2 Tim Mei Avenue, Tamar,
Hong Kong

By email: budget@fstb.gov.hk

Dear Sir/ Madam

Hong Kong Budget 2018/19

CPA Australia is one of the largest professional finance and accounting bodies in the world, representing the diverse interests of more than 160,000 members in 118 countries, including over 18,000 members in Greater China.

CPA Australia welcomes the opportunity to provide our suggestions to help shape the government's 2018/19 budget. In developing these suggestions, CPA Australia has drawn on the knowledge of our members and our experiences in Greater China and other markets. Our suggestions aim to complement the Chief Executive's 2017 Policy Address and assist Hong Kong achieve broad-based, inclusive and sustainable growth.

We frame these suggestions against a positive backdrop; the economies of Hong Kong and the Mainland are growing strongly, Hong Kong remains one of the world's most competitive economies and its fiscal position is the envy of many other developed economies.

This positive outlook was reflected in our recent Hong Kong Economic Outlook Survey which found that confidence in Hong Kong's economic competitiveness had increased significantly. Around 60 per cent of respondents expressed confidence that Hong Kong's competitiveness will endure or improve in 2018, up from 37 per cent in 2017 and 32 per cent in 2016.

The survey found that the factors seen as most positively contributing to Hong Kong's economic growth in 2018 are:

- Growth in the Mainland's economy
- Infrastructure projects
- Hong Kong's low and simple tax regime

Despite the inherent strengths in Hong Kong's economic position and high levels of confidence regarding future growth, care should be taken to guard against complacency. Challenges including an ageing population and large income gap are generally well known and have been discussed for many years. Tackling these issues over the long-term may however be constrained by a relatively narrow and volatile tax base.

Further, tax competition is becoming more intense which is threatening to weaken Hong Kong's competitive advantage. Since 2000 there have been significant reductions in company tax rates in many economies including the UK, Turkey, Ireland and Taiwan. It seems likely that the United States Congress will soon pass laws cutting their corporate tax rate to as low as 20 per cent from 35 per cent.

We are however confident that Hong Kong can and will overcome these challenges as it has done throughout its history. As we stated at the time of the release of the economic survey, the results indicated that the government's policy settings are right and are contributing to an increase in the overall positive economic sentiment and confidence in Hong Kong's global competitiveness.

CPA Australia has the following suggestions for the 2018/19 budget for the government to consider:

- **Innovation and Technology**

To support the development of innovation and technology in Hong Kong, the Government could consider extending the current profits tax exemption for offshore funds to include investments by funds in high-tech start-ups and companies operating in Hong Kong.

- **Intellectual Property Box**

The government consider asking the Tax Policy Unit to review whether the introduction of preferential tax treatment of the income generated from the use and disposal of intellectual property rights developed and registered in Hong Kong would assist the development of innovation, technology and creative industries in Hong Kong, as well as to develop Hong Kong as an intellectual property hub.

- **Inquiry into attracting more Regional Headquarters (RHQs) to Hong Kong**

We suggest that the government consider commissioning a broad inquiry into what additional policy measures and incentives can be introduced to attract more multi-national corporations to establish their regional headquarters in Hong Kong. While there are a range of factors that attract multinationals to establish a presence in a market, one measure that such a review should consider is a 50 per cent reduction in the profits tax rate for RHQs to 8.25 per cent (based on current profits tax rate of 16.5 per cent). This would complement the existing corporate treasury centre tax regime measures.

- **Encouraging residents to join the Voluntary Health Insurance Scheme**

The government should consider whether it would be beneficial to offer incentives for taxpayers to join the Voluntary Health Insurance Scheme (VHIS). One example of a possible incentive would be to give an annual tax deduction for the actual amount paid up to HK$20,000 per person insured, with an overall annual cap per taxpayer of HK$100,000 (where the policy covers the taxpayer's dependents).

- **Inquiry into the workforce skills of the future**

With the skills required of the workforce changing rapidly, the government should consider commissioning a review to forecast what skills will be needed in the future and how best to transition current workers and future workers to meet those requirements. Part of this review could consider whether increasing the annual self-education allowance from HK$75,000 to HK$150,000 will encourage more workers to undertake the study necessary for them to develop the skills they need.

- **Extend Hong Kong's tax treaty network**

We support the government's proposal to further expand the Comprehensive Double Taxation Agreements network, including with participating countries along the Belt and Road and other key trading partners such as Australia.

- **Consulting on tax reform**

To improve the competitiveness of the Hong Kong tax system and ensure an effective implementation of the rules that aligns with the legislative intent, we encourage the Tax Policy Unit to proactively consult and interact with the business community and professional bodies when considering new tax policies.

Conclusion

We understand that some of our suggestions may have a negative impact on revenue in the short-term, however we believe that if such policy proposals are considered, developed and implemented as part of a holistic reform package, and in consultation with the community, they should have positive impacts on the economy and society as a whole in the long run.

CPA Australia believes that Hong Kong's low and simple tax system will continue to play a pivotal role in attracting and retaining businesses, entrepreneurs and innovators and will therefore remain an important mechanism to assist the Chief Executive implement policies for the people of Hong Kong, including transforming Hong Kong into a Smart City.

We would be pleased to discuss these matters further should you wish. Please contact Deborah Leung Country Head - Greater China on deborah.leung@cpaaustralia.com or Carmen Pan, Public Relations Manager on +852 2202 2722 or carmen.pan@cpaaustralia.com.au.

Yours faithfully

Paul Ho FCPA (Aust.)

President 2018
Greater China Divisional Council
CPA Australia