

**ACCA 香港分會  
2013/14 年度  
財政預算案建議**

**ACCA Hong Kong's  
Budget Submission  
2013/14**



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# EXECUTIVE SUMMARY

The economic downturn of the United States and Europe continues to have an impact on Hong Kong economies. Being fragile to the external uncertainties, Hong Kong needs to prepare itself by capitalizing its competitiveness so as to counteract any impact brought by the adverse development in the global economy. This year's budget provides an opportunity for the incoming new Government to set out the long-term strategy to drive the Hong Kong economic development in the next 5 years.

In the Global Competitiveness Report 2012-13 released by the World Economic Forum, amongst three Asian economies figured in the top 10 countries, Hong Kong was place 9<sup>th</sup> while Singapore remained the second most competitive economy and Japan ranked 10<sup>th</sup>. Without being complacent about this ranking, Hong Kong should tap on its competitive edge and ensure the provision of a business enabling environment, which could help businesses stand for challenges. Where businesses are able to survive in the economic turmoil, livelihood of the society will less likely be worsened.

ACCA Hong Kong believes that taxation is a means to achieve a business enabling environment. We recommend a tax working group or policy unit be set up to look at how the tax system can best proactively lead Hong Kong to take advantage of the growing economic environment in the region and to set long-term policy to help businesses respond to the continuous economic development.

We also reiterate the following tax related recommendations to create a level playing field for business of all sizes and all types:

- Group loss relief
- Loss carried back
- Tax deduction for qualifying research and development expenditure

- Incentives for regional headquarters / service centres
- Tax exemption for certain offshore fund management business

Small and medium sized enterprises (SMEs) play a crucial role in the economic development. It is commonly known that SMEs survival is always hindered by rental burdens. ACCA Hong Kong recommends that “SME zones” be set up to help alleviate any increasing rental pressure imposed on SMEs.

To improve people’s well-being, ACCA Hong Kong has the following proposals instead of a one-off cash rebate:

- To widen the income bands for progressive rates under salaries tax;
- To allow a tax deduction for the wages of domestic helper, capped at \$3,920 per month for each year of assessment;
- To allow a tax deduction for the premium of medical insurance, capped as \$15,000 per year of assessment;
- To align the residence requirement for the claim of dependent parent allowance (and dependent grandparent allowance) to that of the monthly Old Age Allowance.;
- To remove the restriction for married person in electing personal assessment

Hong Kong is undoubtedly facing severe challenges brought by the world economy. To ride on the wave of change, the Government needs to help maximize Hong Kong’s strengths. ACCA Hong Kong believes its proposals are practicable in achieving this goal.

# PROPOSALS

## 1 Business Enabling Environment

Although Hong Kong situates among the fast growing economies, the economic outlook of Hong Kong remains challenging. Being a small and open economy, Hong Kong is undoubtedly subject to the impact of any considerable adverse development in the global economy. ACCA Hong Kong has advocated for long that the Government needs to ensure a business enabling environment so as to help strengthen Hong Kong's competitiveness and to prepare enterprises to thrive through any possible threats underlying the unpredictable economic landscape.

Though we note that the Chief Executive considers the Government needs to exercise its powers to rectify the situation when market failure impacts on peoples' livelihood and economic development, ACCA Hong Kong still believes in the rationale of "market leads, government facilitates" and suggests that the Government play a facilitator's role in the economic development.

Below are our proposals in this regard:

### 1.1 A proactive tax policy unit

ACCA Hong Kong considers that a jurisdiction's tax system is a dynamic and social tool to help the provision of a business enabling environment. Tax policies should evolve accordingly as economies and business sectors develop. However, change in Hong Kong's tax policy has long been reactive and changes were made only in response to sudden changes in the environment, and hence in some circumstances may not be able to keep in pace with the development of the operating environment.

With the new Government, this is the time to take a proactive strategy in looking into how tax policies can facilitate the long-term development of Hong Kong economy. We therefore propose that an independent tax working group or tax policy unit be set up. This working group / unit should have proximity to the business environment and hence should be able to identify the long-term business needs and help advising on how tax policy could better be used to steer economic development. A proactive approach should be taken towards recommendations of how tax policies should be formulated.

## 1.2 Group loss relief

ACCA Hong Kong reiterates its proposal for group loss relief based on the fundamental principle of equity for a good tax system.

Many local as well as overseas investors establish separate operating companies under one or more holding companies for various commercial reasons, which are effectively arms or divisions of a central unit. In order to achieve equity, the taxation of these group companies should be treated as a single entity so that losses of one company can offset the taxable profits of another company within the same group. Under the current tax system, tax losses can be carried forward without any time limit for setting off future assessable profits. The introduction of group relief therefore only creates a temporary timing difference in tax revenue collection.

This will also help enhance Hong Kong's tax competitiveness as it aligns Hong Kong's tax system with that of other major jurisdictions around the world and regional competitors where similar relief exists.

### 1.3 Treatment of tax loss

We also reiterate our recommendation that tax loss of a business be allowed to be carried back to set off against the assessable profits in the preceding year. This assists businesses facing economic pressures and encourages growth and investment as certain cash flow relief is available to loss making companies whilst profitable operations are encouraged to invest in new projects which do not immediately generate profits.

Allowing tax loss to be carried backward also helps achieve equity of the tax system. Currently unrealised gain on trading assets, especially trading securities, is taxable at the time the gain is recorded. Taxpayers in some cases may eventually end up with actual losses at the time of disposal. Although losses suffered may be carried forward, it is not possible to set off the ultimate losses against the unrealised gain that was subject to tax earlier. Allowing tax loss to be carried back rectifies the unfairness caused by taxing unrealised gain.

This loss carry back regime is in line with a number of international as well as regional tax systems including the United States, the United Kingdom, Canada, France, Germany, Australia, and Singapore.

### 1.4 Tax deduction for research and development related expenditure

Research and development is a key contributor to help Hong Kong move up the value chain. Many other jurisdictions are providing incentives to encourage innovations such as progressive rate of tax deduction on the amount of “qualifying expenditure” ranging from 150% to 400%.

In the Global Competitiveness Report 2012-13, it was found that Hong Kong requires continued improvement in innovation. To encourage business to invest in significant research and development

activities, we suggest a super deduction of 200% for qualifying research and development expenditure to promote the development of brand name, high tech products and products with significant intellectual property content.

#### 1.5 Incentives for regional headquarters / service centres

Although tax incentive may not be a decisive factor in the selection of location of regional headquarters, many jurisdictions in the South East Asia have enacted tax concessions for regional headquarters to compete for foreign investments. To further enhance Hong Kong's competitive edge in attracting foreign investors, ACCA Hong Kong reiterates its proposal to provide concessionary tax rates (e.g. half rate) for regional headquarters' activities which are of a substantial scale and are of the nature of investment, general management, financial management, and marketing with a broad geographic coverage. Given Hong Kong's proximity and close connection to the Mainland, foreign investors would be more willing to set up their regional headquarters in Hong Kong in serving their investments in the Mainland should the same tax incentives be available in Hong Kong.

#### 1.6 Tax exemption for certain offshore fund management business

The fund management business in Hong Kong dropped by 10.4% in 2011 as compared to 2010 according to the Hong Kong Securities and Futures Commission's Fund Management Activity Survey 2011. Whilst this is said to be in line with the general decline in the global finance market, we note that the assets managed by Singapore-based manager only slightly dipped by 1.2% in 2011 according to the Monetary Authority of Singapore's 2011 Singapore Asset Management Industry Survey.

In order to promote Hong Kong as a regional asset management centre, we propose that the existing offshore fund exemption regime be



enhanced. In particular, we propose that the current definition of "securities" in Schedule 16 of the IRO be amended such that transactions in respect of shares and debentures, etc. of private companies (within the meaning of section 29 of the Companies Ordinance), both incorporated in Hong Kong and overseas, are also included as "specified transactions" and covered by the tax exemption.

Under the existing offshore fund exemption regime, transactions in shares or debentures of, or rights, options or interests (whether described as units or otherwise) in, or in respect of shares or debentures of, "private companies" are not covered by the tax exemption under section 20AC of the IRO as they are specifically excluded from the scope of "specified transactions". That means a non-resident person engaging in such transactions will not be able to enjoy the exemption from Hong Kong profits tax for profits derived from its entire investment (and not just profits derived from its investment in private companies). This has long been a concern of the private equity fund industry as it is a common commercial practice for private equity investors to use a special purpose vehicle ("SPV") incorporated outside Hong Kong (e.g. a SPV incorporated in Cayman Islands) to enter into transactions in securities including "private companies".

It is also important for Hong Kong to get prepared for competitions for fund business once the economy picks up.

#### 1.7 Supporting small and medium sized enterprises (SMEs)

There are about 300 000 small and medium enterprises (SMEs) in Hong Kong, who constitute over 98% of our business establishments and employ about 50% of our workforce in the private sector. They form the crucial part of the supply chain, providing materials, subassemblies, and services to larger companies and distributing their goods. Their vitality and business performance are therefore of crucial importance to the development of Hong Kong's economy.

Indeed, support for SME development has been a central platform of official economic policy in nearly all countries for at least the past 25–30 years.

Given the sluggish outlook in 2013, which is worsen by the fact that cost of doing business keeps on rising, ACCA Hong Kong considers that support from the Government is vital to SMEs survival.

According to the Global Competitiveness Report 2012-13, the most problematic factor for doing business in Hong Kong is inflation. Undoubtedly, the rising cost of doing business in Hong Kong stems from the rising rental expenses, which does not appear to be resolvable in the short run. ACCA Hong Kong suggests that in order to alleviate the cost burden on SMEs in renting premises, “SME zones” can be established. The Government can consider letting out the government-owned properties in certain districts at a reasonable rent for the SMEs to conduct their business.

## **2 Improving People’s Well-being**

ACCA Hong Kong does not consider cash rebate an appropriate measure to improve people’s well-being. Firstly, we consider that there are better ways to utilise our funds to help those who are in need. Secondly, we fear that this would create a public expectation that cash rebate is a recurring measure. Amidst the upsurge of property prices and rentals, we consider that the Government should introduce a comprehensive package of tax measures to help the middle income group. This group contributes to a majority of salaries tax which is a significant part of Hong Kong’s tax revenue, and forms the pillar of Hong Kong’s economy. However,, they do not benefit directly from many relief measures which are framed with the lower income group in mind. The proposals below are aimed to provide some forms of relief to the tax burden of the middle income group.

## 2.1 Widening the income band for the progressive tax rates

We recommend that the income bands for the progressive tax rates under salaries tax be widened so that the overall salaries tax burden for the middle-income group could be lessened. This also helps encourage a harmonious society especially when the global economic prospect next year is not optimistic and they cannot benefit from any of those short term measures which are introduced to ease the burden of the grassroots.

## 2.2 Deduction for cost of employing domestic helpers

Nowadays, most couples in Hong Kong need to work in order to maintain their livings especially under the great pressure of high rentals or mortgage repayments. They need to employ domestic helpers to help taking care of their families and children. ACCA Hong Kong suggests allowing a deduction for the minimum wage of \$3,920 for 12 months for employing one domestic helper for every year of assessment so as to relieve the burden of the working class especially in view of the anticipated economic downturn.

## 2.3 Tax deduction for medical insurance premiums

Hong Kong's aging population gives rise to an increasing demand for healthcare services. The capability of Hong Kong's public sector in the provision of healthcare services is therefore subject to increasing pressure. Whilst we are still awaiting the implementation of the proposed Health Protection Scheme, ACCA Hong Kong considers that a tax deduction under salaries tax should be given to taxpayers for their own private medical insurance premiums.

This proposal encourages the public to prepare for their own medical care expense and achieves the same objective of the healthcare reform

of easing the pressure on the public healthcare services and enhancing the long term sustainability of the healthcare system.

We recommend that the annual allowable deduction be capped at \$15,000 for a single person and at \$30,000 for a married couple.

2.4 To align the “residence” requirement for dependent parent allowance (and dependent grandparent allowance) with that of the monthly Old Age Allowance

ACCA Hong Kong has raised the concern about the elderly retiring in China for long as taxpayers who maintain the elderly are not able to claim dependent parent allowance. We suggest that the “residence” requirement for claims of dependent parent allowance and dependent grandparent allowance be amended. We strongly recommend that the proposed change to the “residence” requirement for the claim of dependent parent allowance and dependent grandparent allowance should be aligned with that of the Old Age Allowance which was relaxed from 240 days to 305 days a year for absence from Hong Kong.

2.5 Election of personal assessment

The spirit of personal assessment is to provide relief to persons who are eligible for tax reduction and hence to reduce their tax burden. However under the current legislation, where a married person elects personal assessment, he / she has to be jointly assessed with his / her spouse. Under this circumstance, a married person will not be able to enjoy the benefit of the relief under personal assessment just because of his / her marital status, all things being equal to another individual taxpayer.

ACCA Hong Kong strongly believes that a fair tax system is not only ensured for businesses but also for individual taxpayers. We suggest

that the restriction for married persons on the election of personal assessment be removed, i.e. individual taxpayers should be allowed to elect personal assessment on his / her own income regardless of his / her marital status.

### **3 Control public expenditure**

We wish to reiterate the importance of constraining the public expenditure and balancing the government's budget. The government should continue to monitor the public expenditure to ensure that it is under an acceptable level. A mechanism should also be in place to review whether there is any room for cost savings under the core principle of "Big Market, Small Government", with a balance to ensure that an appropriation allocation of budget to fulfill the genuine needs in particular sectors.

# SUMMARY

ACCA Hong Kong believes that a competitive tax system is an integral part of a Government economic policy and budgetary measures can be used to steer long-term economic development. Although some proposed tax incentives in this submission may cause a short-term reduction in revenue, some of them only impose a timing difference whilst all of them aim at a long term objective to sharpen our competitive edge in steering future business growth. We believe our proposals are sustainable in the current fiscal strength and beneficial to the long term economic development of Hong Kong.