



Dear Assignment/News/Business Editor,

Hong Kong Institute of CPAs' Budget Proposal 2008-09 Calls for Tax Cuts for Families

Also advocates using "carrot and stick" taxes to improve the environment

(Hong Kong, 20 December 2007) — The Hong Kong Institute of Certified Public Accountants' budget proposals is recommending a tax cut for average earners and reducing marginal rates.

The Institute's proposals suggest reducing marginal tax rates by 1 percent to 1 percent from 2 percent, 6 percent from 7 percent, 11 percent from 12, and 16 percent from 17 and broadening the salaries tax band from HK\$35,000 to HK\$40,000.

While supporting the chief executive's proposal to reduce the corporate profits tax rate and the standard rate of salaries tax by 1 percent to 16.5 percent and 15 percent, the Institute urges the government to study more reductions of Hong Kong's profits tax rate in line with global trend.

The Institute, arguing that Hong Kong's tax base is still too narrow, isn't recommending any change in personal allowances next year, emphasizing that personal allowances need to reflect economic realities such as inflation and other factors.

To help young and middle-income families survive property inflation, the Institute's proposal suggests raising the ceiling for the stamp duty fee of HK\$100 for properties costing up to HK\$2 million to those costing up to HK\$3 million, with the goal of keeping the ceiling in line with the property price index.

Audit time limits

Another recommendation in the Institute's proposal is that a time limit for audits of returns should be built into the Inland Revenue Ordinance. A tax return should normally be regarded as final if the IRD doesn't begin enquiries within a year of filing.

The Institute is also pushing for legislation to improve certainty and consistency in other key areas of the tax system, such as whether profits or salaries have a Hong Kong or an overseas source. "Certainty is extremely important for investors," explains Yvonne Law, chair of the Institute's taxation committee, "given that only Hong Kong-sourced income is taxable under our system."

Carrots and sticks

Not for the first time, the Institute is proposing that the government act to improve the deteriorating environment by applying the “polluter pays” principle more widely, with add-on taxes.

Examples of “polluter pays” taxes include electronic road pricing, fuel duties, air and water pollutant taxes, taxes on polystyrene foam and plastic bags or other non-biodegradable products and other resource consumption taxes.

At the same time, “carrots,” or tax incentives, should be introduced, including accelerated depreciation allowances on energy-efficient commercial and industrial buildings, concessions for investment in, and spending on, environmental protection equipment, machinery or systems; and grants to small and medium enterprises without the funds to buy this equipment.

To encourage safe maintenance of older buildings, the Institute is proposing a tax allowance for property owners for actual renovation expenses incurred, subject to a maximum amount, as an alternative to the existing 20 percent wear and tear deduction.

Staying number one

According to Ms. Law, it’s no secret that various jurisdictions use tax incentives to increase their appeal as business centres, and Hong Kong is no exception. “The Institute is advocating giving regional headquarters full profits tax exemption for management and consultancy income derived by the Hong Kong entity from associated entities overseas,” says Ms. Law. “Our competition is tough and we need to offer more incentives.”

To help businesses move up the value chain, the Institute also proposes extending the depreciation allowances for the acquisition of intellectual property.

For the important international freight business, the Institute is recommending a three-year reduced profits tax rate. “The government recognizes that the logistics business is a keystone of our economy, yet costs are making us uncompetitive,” says Alexander Mak, convener of the committee’s budget proposals subcommittee. “We have made suggestions aimed at halting this trend,” says Mr. Mak.

Other tax initiatives

The Institute is suggesting tax initiatives to keep Hong Kong at the forefront in terms of skills by increasing the deduction for self-education expenses and for memberships of professional bodies.

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About the Hong Kong Institute of CPAs

The Hong Kong Institute of CPAs is the only body authorized by law to register and grant practising certificates to certified public accountants in Hong Kong. The Institute has close to 27,000 members and more than 12,000 registered students. Members of the Institute are entitled to the description *certified public accountant* and to the designatory letters *CPA*.

The Hong Kong Institute of CPAs evolved from the Hong Kong Society of Accountants, which was established on 1 January 1973.

The Institute operates under the Professional Accountants Ordinance and works in the public interest. The Institute has wide-ranging responsibilities, including assuring the quality of entry into the profession through its postgraduate CPA qualification programme and promulgating financial reporting, auditing and ethical standards in Hong Kong. The Institute has responsibility for regulating and promoting efficient accounting practices in Hong Kong to safeguard its leadership as an international financial centre.

The Hong Kong Institute of CPAs is a member of The Global Accounting Alliance - an alliance of the world's leading professional accountancy bodies, which was formed in 2005. The GAA promotes quality services, collaborates on important international issues and works with national regulators, governments and stakeholders.

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