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Hong Kong Institute of CPAs' budget proposals advocate broad, immediate tax relief, measures for business competitiveness

Urges government to codify source of profits

(Hong Kong, 16 December 2008) — The Hong Kong Institute of Certified Public Accountants' budget proposals call for tax cuts during the economic downturn and long-term measures to improve Hong Kong's competitiveness.

The Institute's proposals suggest granting 75 percent reduction of 2008-09 final tax for salaries tax, property tax and tax under personal assessment, subject to a ceiling of \$25,000 in each type of tax.

At the same time, the Institute's submission to the Hong Kong government urges the government to reduce by 75 percent the 2008-09 final profits tax for businesses with a ceiling of \$25,000.

"Public tax policy can help to define competitiveness and is an important factor in retaining and attracting investment and talent," says David Southwood, the Institute's tax committee chair. "To stay ahead of the game, as soon as conditions permit, corporate profits tax should continue to be reduced incrementally with the aim of achieving a rate of 15 percent, or lower, over time."

For individuals, the Institute is recommending tax cuts for average earners to help take some of the sting out of the downturn and encourage consumption, by reducing the first three progressive rates to 1 percent, 5 percent and 9 percent, compared with the current rates of 2 percent, 7 percent and 12 percent. The Institute's submission suggests introducing a new fourth rate of 13 percent while retaining the existing top rate of 17 percent.

To help more vulnerable groups, the Institute proposes allowing unused self-education expenses incurred in any year to be carried forward for one year, and to increase a range of salary tax allowances for dependent family members and disabled dependants.

"What's important now is we use the wealth we've built up to carry us through the difficult times," says Florence Chan, convener of the budget sub-committee, "especially for the groups that will be hardest hit."

The Institute is also advocating that redundancy and severance payments of up to twice the current statutory thresholds should automatically be treated as non-taxable and that the government should waive rates on tenements and subsidize electricity.

Source of profits

The Institute's budget recommendations strongly urge the government to codify the source of profit and employment income. The proposal states that by incorporating tests for determining the source of profit and employment in subsidiary legislation, the government would reduce uncertainty in tax planning for businesses and executives.

"Determining source of profits is a key part of Hong Kong's tax system and it is important that there be certainty in this area," says Southwood. "However, there are now significant differences in the interpretation of the court's decisions. It is time to codify the position through the introduction of rules on source of profits in the Inland Revenue Rules to restore certainty for existing taxpayers and potential investors."

The Institute's proposals reiterate its recommendation to introduce loss carry-back provisions into the Inland Revenue Ordinance to ease companies' cash flow problems. Allowing tax losses to be carried back for one year to offset the previous year's profits could mitigate the problem faced by companies that are currently running up losses but which have to pay tax on past profits. As it stands, Hong Kong's tax system allows losses only to be carried forward to be set off against profits in later years.

The Institute's proposal again asks the government to introduce group loss relief into the Inland Revenue Ordinance, which allows corporations to offset losses from one company against the profits of another in the same group.

Regional hub status

The Institute also suggests measures to enhance Hong Kong's competitiveness as a base for group and regional operations, including tax concessions for developing intellectual property, a concessionary 10 percent tax rate for management fees received from overseas associates and an exemption for interest received on loans made to overseas associates.

Other measures to keep Hong Kong at the forefront as an international financial center by expanding financial services are also included in the submission.

Health is money

Deductions for insurance premiums or for contributions into saving schemes for health care funding are just two examples of tax incentives to encourage taxpayers to invest more in their own health cover.

The Institute's recommendations urge the government to look for attractive incentives to encourage people to move away from reliance on public health care to private health care and conduct a public consultation on related issues.

Good environment is important

The Institute argues the need for more extensive and coordinated approach to improving the environment through specific measures and by applying the "polluter pays" principle more widely.

“We’re recommending a refund system to encourage recycling and traffic congestion measures, such as electronic road pricing, to reduce traffic,” says Chan. To encourage renovation of older buildings, landlords should be able to opt for the deduction of actual renovation expenses in any given year instead of the flat-rate 20 percent rental deduction for wear and tear.

Other environmental protection measures include better allowances for energy-efficient buildings and other energy conservation measures, as well as green taxation, such as carbon and energy taxes..

The Institute points out that to tackle pollution there needs to be more coordinated action on both the domestic and cross-boundary fronts.

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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 more than 27,000 members and 13,000 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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