

Hong Kong Institute of Certified Public Accountants

Budget Proposals 2009/10

Summary of Proposals

I. Proposals for the community and environment

- (1) Grant a reduction of 75% of the 2008/09 final tax in respect of salaries tax, property tax and tax under personal assessment, subject to a ceiling of \$25,000 in each case.
- (2) Reduce the first three progressive rates of salaries tax to 1%, 5%, and 9%, introduce a new rate of 13% and retain the existing top rate of 17%.
- (3) Before any further changes are made to the personal allowances, a review should be conducted to identify an appropriate base year for any future adjustments.
- (4) Increase a range of salaries tax allowance to help specific and more vulnerable groups through the difficult times ahead. Proposals are:
 - Allow any unutilised portion of the self-education expenses incurred in any year (up to \$60,000 per year) to be carried forward for one year.
 - Increase the maximum number of years for claiming home loan interest from 10 years to 15 years.
 - Increase the elderly residential care expenses from \$60,000 to \$72,000 per year.
 - Increase the child allowance from \$50,000 to \$60,000 per year and additional allowance in birth year of a child from \$50,000 to \$60,000.
 - Increase the allowance and additional allowance for dependent parent/grandparent aged 60 or above respectively from \$30,000 to \$36,000 per year.
 - Increase the allowance and additional allowance for dependent parent/grandparent aged 55 or above but below 60 respectively from \$15,000 to \$18,000 per year.
 - Increase the dependent brother and sister allowance from \$15,000 to \$18,000 per year.
 - Increase the disabled dependant allowance from \$60,000 to \$72,000 per year.
 - Allow deductions for contributions to private medical insurance policies, subject to a cap per person of \$12,000 per year.
- (5) Redundancy/severance payments of up to twice the current statutory thresholds for such payments should automatically be treated as non-taxable.

- (6) Waive rates for 2009/10, subject to a ceiling of \$5,000 per quarter for each rateable tenement.
- (7) Grant an electricity charge subsidy of \$1,800 for the year to each residential electricity account.
- (8) Consideration should be given to adopting a more extensive and coordinated approach to improving the environment, including through specific measures such as:
 - Refund systems to encourage recycling.
 - Traffic congestion-related measures, such as, co-ordination of tunnel tolls, electronic road pricing, and review of public transportation networks.
 - To encourage energy conservation, an electricity surcharge at a low rate should be explored for utility usage by both business and residential accounts, with a set relief for residential accounts to minimise the burden on the lower income group.
 - Additional commercial building and industrial building allowance for new commercial and industrial complexes adopting approved environmentally sustainable designs.
 - Low interest/interest free loans to small and medium enterprises (“SMEs”) for environmental protection equipment.
 - 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% rental deduction for wear and tear.
- (9) Investigate what incentives would be attractive enough to encourage more people to move away from reliance on public health care services towards using private health care services and conduct a public consultation to obtain views on related issues.

II. Proposals to strengthen the economy

- (10) Grant a reduction of 75% of the 2008/09 final profits tax, subject to a ceiling of \$25,000.
- (11) As soon as conditions permit, the rate of corporate profits tax should continue to be reduced incrementally with the aim of achieving a rate of 15%, or lower, over time.
- (12) Introduce loss carry-back provisions into the Inland Revenue Ordinance (Cap. 112) (“IRO”).
- (13) Introduce group loss relief into the IRO.
- (14) Subject to various conditions and qualifications being adequately addressed, Hong Kong should consider introducing a more liberal exchange of information regime in the context of concluding a wider network of comprehensive double taxation agreements (“CDTAs”).

- (15) Where no CDTA exists, a unilateral tax credit should be granted for:
- all foreign tax paid on royalties which are subject to Hong Kong profits tax, and
 - other foreign withholding tax paid, up to a maximum of 50% of the Hong Kong profits tax payable.
- (16) Strengthen financial services regulation and investor protection.
- (17) Strengthen corporate governance.
- (18) As an interim measure, refine the rules relating to the exemption from profits tax for qualified offshore funds.
- (19) As longer-term measures, consider additional specific incentives for the fund management and insurance sectors.
- (20) As regards facilitating Islamic financing products in Hong Kong, the tax objective should be simply to provide a level playing field.
- (21) Beyond 2010 (i.e., when the temporary full government guarantee on all Hong Kong deposits expires) the cap on deposits protected under the deposit protection scheme should be reviewed in the light of comparable benchmarks adopted internationally.
- (22) Pending finalisation of the detailed plan for the Lantau Logistics Park, measures to support the logistics sector should be introduced, including:
- Rates exemptions/reductions for storage facilities used directly for the logistics business.
 - Three-year profits tax reduction (of 50%) on income derived from the international freight forwarding business.
 - Improve rail infrastructure.
- (23) Set up a heritage body in Hong Kong along the lines of the National Trust or English Heritage in the United Kingdom, to which cash donations should be deductible as they are to charities.
- (24) Donations of historically valuable private buildings, landmarks, etc. to this body should be treated as donations in kind, without any ceiling against profit or income. Owners should also be permitted to treat a portion of the value as a donation and to receive compensation (for example, a land swap) for the remainder.
- (25) Tax measures should be introduced to support to intellectual property use and development including:
- 100% deductions for the cost of acquisition of trademarks and copyrights.
 - Tax credits for any foreign tax paid on royalty income, which is subject to tax in Hong Kong.

- (26) A concessionary rate of 10% for profits tax should be granted to regional offices/headquarters in Hong Kong in respect of management and consultancy income derived from associated entities overseas (subject to suitable anti-avoidance provisions).
- (27) A profits tax exemption should be granted for interest received by regional offices from loans made in Hong Kong to their overseas associates.
- (28) Stamp duty on property transactions should be reduced for properties between \$3 million to \$10 million. A flat rate of \$100 should apply to properties up to \$3 million and the highest rate of stamp duty at 3.75% should apply only to properties costing \$10 million or more. The progressive rates in between should be rationalised accordingly.

III. Additional technical proposals

- (29) Inland Revenue Rules (“IRR”) on source of profits and employment income should be introduced to include tests for determining source of profit and employment. This would provide greater certainty for the business sector in planning the tax affairs of businesses and senior executives.
- (30) Specific measures, including legislation, interpretations, etc. should be adopted to relieve the potentially burdensome impact of using international financial reporting standards as the basis for determining the taxability of profits.
- (31) A comprehensive set of transfer pricing rules should be introduced, preferably through legislation.
- (32) The statutory time limit for reopening of assessments (except in cases of fraud) should be shortened from six to three or four years.
- (33) A statement of loss should be treated as an assessment, be binding on the Inland Revenue Department (“IRD”) and open to objection by taxpayers.
- (34) Consideration should be given to deeming tax returns to be final if no enquiry has been raised on them within a reasonable period (for example, 12 months).
- (35) Spouses should no longer have to be jointly assessed if they wish to opt for “personal assessment”.
- (36) Consideration should be given to introducing a clearer distinction between trading and investment for tax purposes by reference to, for example, the holding period.
- (37) Options to broaden the tax base should continue to be explored.