



創於 1913 年  
Founded in 1913

# 香港華人會計師公會 The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)  
(Incorporated in Hong Kong as a company limited by guarantee)

18 February 2013

Mr. TSANG Chun Wah, John, GBM, JP  
The Financial Secretary  
Government of the Hong Kong Special Administrative Region  
The People's Republic of China

Dear Sir,

## **Budget Submission**

The Society of Chinese Accountants and Auditors was formed in 1913 and incorporated in 1948. We have over 1,000 members representing hundreds of Certified Public Accountants ("CPA") firms in Hong Kong. The CPA firms of which our members are partners, directors or managers, service a significant majority of businesses in Hong Kong, and also companies investing into or through Hong Kong. Our members directly and regularly communicate with all these clients, directors and their employees and consequentially understand their needs and concerns.

Presently Hong Kong is facing high inflation and an unstable economy arising from the tension in the Sino-Japanese relationship and uncertainties of the European countries.

We understand that you are planning a Budget for the coming year and we herewith send in our submissions for your consideration.

## **CARING FOR THE INDIVIDUALS**

### **1. WIDENING THE TAX BANDS**

Under the present Salaries Tax regime, there is a progressive rate levied on assessable income after the deduction of allowances. However, these progressive rate bands have not been reviewed since the tax year 2008/2009. With the increasing cost of living and the implementation of the minimum wages scheme, the level of wages earned by the taxpayer has been increased.

#### **RECOMMENDATIONS -**

- Raising the tax band from the present level of \$40,000 to \$50,000 to relieve the tax burden of the lower income and sandwich class taxpayers.

## **2. INCREASING THE BASIC ALLOWANCE, MARRIED PERSON'S ALLOWANCE AND CHILD ALLOWANCE FOR SALARIES TAX AND PERSONAL ASSESSMENT**

The Basic/Married and Child allowances remained stagnant from 2008/2009 to 2011/2012 and were increased by 11% and 5% respectively in 2012/2013. However, the inflation rate was reported at a yearly rate of 4.273% in 2008, -0.588% in 2009, 4.5% in 2010, 5.3% in 2011 and around 3.7% in December of 2012 (i.e. 17.185% from 2008 to 2012).. With the impending increase in minimum hourly wage from HK\$28 to HK\$30 and the high cost of living, these allowances would need to be adjusted to meet the inflation over the years.

### RECOMMENDATIONS -

- Increasing the Basic Allowance to \$128,000 per year and the Married Person's Allowance to HK\$256,000 per year for (an increase of 6.6%);
- Increasing the Child Allowance to \$70,000 per year for each child (an increase of 11%)

## **3. RELAXING THE ENTITLEMENT TO ADDITIONAL DEPENDENT PARENT AND DEPENDANT GRANDPARENT ALLOWANCES**

Presently the Additional Dependent Parent and Dependent Grandparent Allowances can only be claimed by taxpayers living together with their parents or grandparents. We fully appreciate that this special requirement aims at encouraging the younger generation to take care of their parents and/or grandparents. However, with the exorbitant property prices, the floor area affordable by the younger generation gets smaller and smaller. Forcing the younger and the elder generations to live together may create tensions between the generations and may lead to other social problems. There is a Chinese saying, "Seeing one another is good, but living together is difficult" ("相見好, 同住難"). Many taxpayers choose to rent or purchase separate quarters for their parents/grandparents.

### RECOMMENDATIONS -

- Additional Dependent Parent and Dependent Grandparent Allowances be made available to taxpayers who have provided living quarters for their parents and/or grandparents, either by renting or purchasing separate properties.

## **4. PROVIDING RELIEF FOR HIGH MEDICAL COSTS**

Each year a significant portion of the overall expenditure was allocated by the Government to the "Health" sector. This is expected to increase in the future as a result of the aging population in Hong Kong. Taxpayers should be encouraged to shoulder part of the responsibility of the private medical expenses.

### RECOMMENDATIONS –

- Introducing a new Disable Person's Allowance for disabled taxpayer;
- Introducing a new Serious Illness Allowance;
- Providing deduction up to a maximum of \$30,000 per annum for Medical Insurance Premium;
- Increasing the Health Care Voucher amount to \$5,000 per annum.

## **5. SUPPORTING YOUNG PARENTS – Increasing the New Born Baby Child Allowance and Introducing a new Child Education (Textbooks) Allowance**

The Hong Kong population is expected to remain on an aging trend. From the Hong Kong Statistics Press Releases (published in July 2012), the proportion of population aged 65 or above is projected to increase from 13% in 2011 to 30% in 2040. Hong Kong's birth rate, on the other hand, has continued to decline in the last two decades.

The aging population will generate social and economic challenges to our society, such as low productivity level, increase in social welfare expenses, increase in infrastructure spending, etc. The Government should take measures to encourage Hong Kong residents to expand their family in order to sustain our economic competitiveness in the upcoming years.

### **RECOMMENDATIONS –**

- Increasing the New Born Baby Child Allowance by HK\$35,000 (50% of Child Allowance) if the baby is born in a Public Hospital; HK\$100,000 if the baby is born in a Private Hospital;
- Introducing a new Child Education (Textbooks) Allowance.

## **6. INCREASING THE TIME LIMIT AND THE MAXIMUM AMOUNT OF HOME LOAN INTEREST**

As a result of the sky-rocketing property prices, taxpayers can hardly finance the purchase of properties with 10-year mortgage terms. To assist young couples on their home purchases and to relieve the burden of middle income earners on home mortgage loan, the home loan interest deduction should be reviewed.

### **RECOMMENDATIONS –**

- Extending the entitlement to home loan interest deduction to 20 years;
- Increasing the annual maximum amount to HK\$200,000.

## **7. PROVIDING RELIEF FOR HIGH RENTAL EXPENSES**

On the other hand, there are many taxpayers who cannot afford to purchase any property and opt to rent rather than purchase their residential property. Although the Government wishes to keep property prices at an affordable level, these measures may not take effect

immediately.

RECOMMENDATIONS -

- Introducing a Home Rental Allowance for 2 years for an amount up to HK\$100,000 per year.

## CARING FOR THE EMPLOYERS

### 8. BUSINESS REGISTRATION FEE

Under the current inflationary economy, the Government should continue to attract investors to carry out business in Hong Kong and to help reducing the burden of the small and medium sized businesses.

RECOMMENDATIONS –

- Extending the waiver of business registration fee for three years.

### 9. CHARITABLE DONATIONS

Donations to charitable institutions may partially release the financial burden on the Government to additional demands from the education and social welfare sectors during years of economic downturns. Although some warm-hearted taxpayers continue to donate to non-governmental bodies under severe financial pressure, the Government should take initiatives to attract more donations and to encourage companies and individuals to take up more social responsibilities.

RECOMMENDATIONS –

- Increasing the limit of approved charitable donation deduction from 35% to 50% of assessable profit/income;
- Allowing deductible donations to be added to the loss and carried forward in the year when the taxpayer incurred loss. In the circumstance, the allowable donations may be limited to the average of the donation deductions allowed to the taxpayer in the past 5 years.

### 10. GROUP LOSS RELIEF AND LOSS CARRY-BACK

There have been public outcries for group loss relief and loss carry-back for many years. We believe that it is time for the Government to respond to the public's requests.

Our neighboring areas, such as Singapore and Japan, have adopted group loss relief or similar system. Hong Kong has placed itself in a global tax and economic disadvantage in comparison with our competitors.

Taxpayers are obliged to pay tax on profit made during a year. However, loss results in subsequent years cannot be carried backward and will be forfeited upon cessation of business. In order to assist small and medium enterprises to survive through the current unstable economic conditions and to provide a more favourable tax environment to attract potential investors, we suggest that the Government should consider granting tax relief for carrying back losses.

#### RECOMMENDATIONS –

- Introducing new legislation allowing group loss transfer;
- Allowing current year loss to be carried back for setting off the profits of the last two years.

### 11. MAINTAINING TAX NEUTRALITY, EQUITY AND SIMPLICITY

In the past months, there were waves of discontentment, resistances and challenges in Hong Kong. It is therefore vital that an efficient and fair tax system be established to stimulate economic activities while distributing the resources on a fair and equitable basis.

Neutrality, equity and simplicity are general tax principles emphasized by Adam Smith in his well-known book: "The Wealth of Nation". It was quoted in a research paper, "Tax Policy for Developing Countries", published by the IMF in March 2001. (The original paper can be found at: <http://www.imf.org/external/pubs/ft/issues/issues27/index.htm>)

S. 16 of the Inland Revenue Ordinance provides that *"In ascertaining the profits in respect of which a person is chargeable to tax under this Part for any year of assessment **there shall be deducted all outgoings and expenses** to the extent to which they are incurred during the basis period for that year of assessment by such person in the production of profits in respect of which he is chargeable to tax under this Part for any period....."*

However, the provisions for outgoings and expenses deductions for taxpayers that pay Property Tax and Salaries Tax are less generous..

#### Property Tax

As stated previously, many baby boomers will be retiring from the workforce and are in the stage of planning for their retirements. Holding properties to earn income is becoming a simple and viable investment to maintain a steady income during their retirement days. Presently, taxpayers (e.g. D23/11, IRBRD Volume 26, 2<sup>nd</sup> supplement) are only allowed a deduction of 20% of the rental income in lieu of the actual expenditure paid by the payer in maintaining the properties to earn the related rental income. The different deduction provisions have prompted taxpayers to seek reporting their rental income under Profits Tax

(e.g. D122/02 IRBRD Volume 18; D14/09 IRBRD Volume 24, 2<sup>nd</sup> supplement). With the increasing maintenance costs, we recommend that properties owners be allowed to choose to deduct the actual related expenses and interest expenses to achieve fairness and equity and to reduce tax appeals.

### Salaries Tax

*S.12(1)(a) of the Inland Revenue Ordinance stated that “(1) In ascertaining the net assessable income of a person for any year of assessment, there shall be deducted from the assessable income of that person-*

*(a) all outgoings and expenses, other than expenses of a domestic or private nature and capital expenditure, **wholly, exclusively and necessarily** incurred in the production of the assessable income;*

It is well-known that the words “wholly, exclusively and necessarily” are notoriously rigid, narrow and restricted. With these words in the present tax legislation, the chance of a salaried taxpayer claiming deductions is nearly zero (*Lomax v Newton* (1953) 34 TC 558, 561-562). In D61/06 (IRBRD Volume 21, 3<sup>rd</sup> supplement), a teacher was unfairly disallowed expenses for purchase of books; in *CIR v Franco Tong Sui Lun*, HCIA 2/2006, a securities dealer was disallowed bad debts that were deducted from his commission income, etc. The Court and the Board of Review agreed that the expenditure incurred by the taxpayers would have enhanced the quality of the taxpayers’ work, were reasonable and were deductible if the taxpayers were subject to Profits Tax. Nevertheless, the Court/Board decided that the expenditure were not “legally deductible” under Salaries Tax.

In D102/03 (IRBRD Volume 18, 3<sup>rd</sup> Supplement), the Board of Review had paid regard to the inherent unfairness in the contrasting rules governing Salaries Tax and Profits Tax deductions. In other words, the present legislation in this respect is not neutral.

### RECOMMENDATIONS –

- Establishing a **Tax Policy Steering Committee** (or, “special unit”) under the Financial Services and Treasury Bureau to conduct a thorough review of our complete tax system with a view to maintaining neutrality, simplicity and equity.

## **12. INTRODUCING REGIONAL HEADQUARTERS TAX INCENTIVES (RHQs)**

Amid the present global economic crisis, it is also important to solidify Hong Kong’s position as the regional operation hub in Asia. The Government should take initiatives to attract more overseas investors to establish their headquarters in Hong Kong.

### RECOMMENDATIONS –

- Providing RHQs in the form of lower tax rate or tax rebate for selected businesses.

### **13. REVIEWING THE INCENTIVES FOR MANUFACTURING AND PROCESSING INDUSTRY**

With the increase in wages and other operating costs in our neighboring cities, many companies owned by Hong Kong residents are considering to relocate their factories. This is an opportune time for Hong Kong to attract our local businesses to reestablish their high value-added / high technology manufacturing and/or processing activities back to Hong Kong. These businesses can provide long term stable employment opportunities and job satisfaction to the less educated residents. In addition to contributing to their wages and salaries, the factories can provide strong basis for our banking and logistics services.

#### **RECOMMENDATIONS –**

- Allowing tax incentives of 50% tax reduction for a period of 5 to 7 years for qualifying manufacturing and processing businesses relocating from elsewhere.

Our Society is celebrating our 100<sup>th</sup> anniversary in 2013. We have been supporting Hong Kong throughout the years and it is our wish that Hong Kong will strive and prosper in the future 100 years.

We will be happy to answer any further questions that you may have. Should you require more information, please do not hesitate to contact the undersigned or Ms. Elizabeth Law, Chairman of our Taxation Committee, or Mr. Chan Cheong Tat, Advisor to our Taxation Committee.

Happy New Year of the Snake!



Nelson Lam  
President

c.c. Mr. K C Chan GBS, JP, Secretary for Financial Services and the Treasury