



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)

The Honourable Mr. Chan Mo-po, Paul, GBM, GBS, MH, JP
The Financial Secretary
Government of the Hong Kong Special Administrative Region
The People's Republic of China

20 January 2023

Dear Sir,

2023-24 Budget Submission

The prolonged pandemic situation affected Hong Kong and all over the world for more than three years during which Hong Kong's economy deteriorated significantly, particularly in the first quarter of 2022 when Hong Kong suffered from the fifth wave. Although local consumption was supported by the subsequent generally stable epidemic situation in the second quarter, improved labour market conditions and the disbursement of consumption vouchers in August, the positive effect was offset by tightened financial conditions and the consequential weaker market performance.

Moving forward, although we see the relaxation of social restrictive measures, resumption on flow of people and goods and economic revival of Mainland China, challenges of the global economy, including (i) geopolitical tensions of the China-US relations; (ii) high interest-rate and global inflationary pressure expected amongst major advanced economies arising from high energy prices; and (iii) weak global demand poses great uncertainties to Hong Kong in the medium to long-term.

With the above facts and consideration, the Society of Chinese Accountants and Auditors ("SCAA") submits the following suggestions and recommendations:

RELIEF MEASURES FOR BUSINESSES & INDIVIDUALS

A. Relief Measures for Businesses

As long as the epidemic situation remains stable and under control, and related social restrictive measures are gradually relaxed in an orderly manner under proper management of risks, economic activities will gradually regain momentum and the society will gradually return to normal. We understand that the counter-cyclical measures, which include one-off reductions and waivers of taxes and rates, the Consumption Voucher Scheme, enhancement of the 100% Personal Loan Guarantee Scheme etc., costing over \$170 billion in 2022/23 Budget for boosting the economy, in particular, relieving the hardship of SMEs, however, certain businesses, especially the smaller and medium sized enterprises, cannot survive due to credit crunch and short-term cash flows problems and would not be able to benefit from the initial stage of economy recovery. As the rescuing of the economy from a collapsing situation would be a more costly option compared to providing assistances and support for businesses in Hong Kong, we recommend the following measures to be implemented as soon as possible. If existing businesses collapsed, the middle-aged employees with children and mortgaged homes will be most affected. Therefore time is of the essence in the present condition.



RECOMMENDATIONS –

- **Group Tax Losses Relief**

The existing Inland Revenue Ordinance does not allow tax losses to be utilized for offsetting against the assessable profits made by other group companies. We considered that the relief could increase tax efficiency as well as the cash flows for groups during the difficult period of time. For purpose of preventing abuse of group tax losses relief, we recommend companies involved must fulfill the 90% or more associated with each other similar to the threshold for association to be eligible for the stamp duty group relief currently available under section 45 of the Stamp Duty Ordinance. The measure can also encourage businesses to prepare for their future BEPS provisions.

- **Waiving of Business Registration fee**

As Business Registration Fee revenue only accounts for a small percentage of the Tax Revenue, we recommend that the Waiver of Business Registration fee for Y/A 2023/2024 be continued as an additional measure to support businesses.

B. Relief Measures for Individuals

We appreciate that timely assistance or relief was provided by the Government to individual taxpayers in combating COVID-19 over the past few years. Whilst the economy is expected to recover slowly by the recent re-opening of the borders and increasing consumption by the general public, we believe certain relief measures for individuals should be introduced under the current “non-encouraging” economy outlook for so as to improve people’s well-being and maintain the mental and physical stability of citizens of Hong Kong.

RECOMMENDATIONS –

- One-off tax rebate of 100% of taxes paid in the previous three years up to a maximum of HK\$20,000.
- The first HK\$2 million of net chargeable income, to be taxed at one-half of the current standard tax rate (i.e. 7.5%); and the remaining net chargeable income to continue to be taxed at the existing 15% standard tax rate, in case standard tax rate applies.
- If individuals apply for Personal Assessment, they cannot take advantage of the two-tier tax rate, therefore we recommend that the two-tier tax rate be applied to Personal Assessment so that equal treatment can be given to individual taxpayers also.
- To continue for one more year the special measure on allowing payment of salaries tax by installments without imposing additional charges and interests.
- An increment from HK\$100,000 to HK\$180,000 for domestic rent deduction as enacted by the Inland Revenue (Amendment) (Tax Deductions for Domestic Rents) Ordinance 2022 in view of the relatively high rental expenses in the property market.
- In many countries, for example, Canada, individuals are allowed to deduct their voluntary contributions to pension plans. However in Hong Kong, although employees are not allowed to take out the MPFs until decades later, they are not allowed to deduct their voluntary MPF contributions. We therefore recommend that some deductions be allowed for individuals for their voluntary contributions to the MPFs.



RELIEF FOR SMALL AND MEDIUM ENTERPRISES (“SMEs”)

C. Extending the Government’s SME Financing Guarantee Scheme

Presently the scheme end on 30 June 2023. Although 6 months appears to be a long enough period, but Banks and SMEs require more certainty to wait for the full recovery of the market. Banks are calling for loan repayments close to the end of the guarantee period.

RECOMMENDATIONS –

- We therefore recommend that the Guarantee Scheme for extended until the end of 2023 providing assurance to banks and businesses.
- Due to the Covid and geopolitical conditions recently, many SMEs have to develop new clientele. However, they may have reached the ceilings in the Export Marketing Fund. We therefore recommend that the ceilings be increased to help SMEs to develop their businesses and to showcase the good products of Hong Kong companies to international buyers.

搶人才 ATTRACTION & RETENTION OF TALENTS

- D. Over the past two years, the local workforce shrank by about 140,000, therefore many sectors in Hong Kong are facing manpower shortage. Apart from actively nurturing and retaining local talents, the Government should implement measures to proactively trawl for talents from Hong Kong and around the world.

Presently there are severe shortages of staffs in many professional fields. In particular, in our Accounting sector, firms of different sizes all face this similar problem. Occupations/ professions that need to go through many professional education or examinations provided hindrances to the younger generation. In the long term, these are surely unfavourable to Hong Kong to continue as an international financial hub. In addition, the high costs of living, particularly rental expenses, hindered many young people in the GBA area to work in Hong Kong.

According to the Demographic Trends in Hong Kong 1991-2021 issued by the Government in December 2022, the population aged 65 and over has increased significantly. :

	1991	1996	2001	2006	2011	2016	2021
Aged 65 and over	8.7	10.2	11.2	12.4	13.3	15.9	19.6

This is a pool of citizens who are educated and experienced to help Hong Kong, especially in the coming 5 years, to overcome our shortage of talents. Nowadays, people over 65 are more educated and healthier. By encouraging them to return to / continue in the work force, besides providing a source of talents, this will encourage their continual contribution to the Society and foster a sense of harmony with the rest of the population at a time when they are most needed.



RECOMMENDATIONS –

- Providing a Senior Citizen Working Allowance of HK\$200,000 to encourage citizens over 65 to continue/return to work.
- Increasing Self-Education Allowance from HK\$100,000 to HK\$120,000 to provide additional incentive for individuals to better equip themselves in the complex changing environment thereby reducing pressure to social security as well as encouraging young people to enter into the more challenging professions.
- Allowing additional deduction of expenditures incurred in respect of professional examinations and related courses which are relevant to their works, apart from the currently defined allowable self-education expenses.
- Expanding the scope of deduction on professional membership fees with capping to HK\$10,000.
- Provide more allowances for occupations that require special expertise, for example, the accounting profession, similar to the “Departure from Home” allowance, or increase the rental fee allowance from HK\$100,000 to HK\$180,000 – HK\$200,000 to attract non local professionals to work in Hong Kong.

Presently for Insurance agents, they are allowed to deduct their membership fees for their professional association. We recommend that similar treatments for deductions for professional associations membership fees be allowed in the Salaries Tax

E. Allow greater flexibility for businesses carried out in Greater Bay Area (“GBA”)

To align with the National 14th Five-Year Plan, more enterprises, especially (i) innovation and technology (I&T); (ii) financial services; and (iii) arts and culture, etc. carried out their businesses in the new ecosystem and some enterprises develop certain portions of their segments in the Greater Bay Area (“GBA”). With the integration of both Hong Kong and GBA areas, specific expenditures such as defined research expenditure or patent right charge, etc. incurred in GBA by Hong Kong enterprises is suggested to allow for deduction of enterprises’ assessable profits in order to reduce their burden, especially during the development phase.

RECOMMENDATIONS –

- To allow certain specific expenditures such as defined research expenditure or patent right charge, etc. as deduction under Inland Revenue Ordinance for enterprises with focused industry which carried out businesses in both Hong Kong and Greater Bay Area.
- To facilitate the integration into the GBA, we recommend that S. 39E which disallows the claiming of depreciation allowance for plant and machinery outside Hong Kong, be reviewed to enhance co-operation and development.



ENVIRONMENTAL, SOCIAL & CORPORATE GOVERNANCE

F. Super deduction on enterprises under green financing/ESG

After decades of breakneck economic growth, China has now made it a priority to develop a green and low-carbon environment and economy. In a speech to the United Nations General Assembly in September 2020, Chinese President Xi Jinping announced that China would peak carbon emissions before 2030 and achieve carbon neutrality before 2060. Accomplishing these goals, the green financing and ESG sectors of enterprises/businesses in Hong Kong will play a critical role in forthcoming years and as an impetus on boosting economy.

RECOMMENDATIONS –

- A super deduction up to 150% on incurred expenditures which fall within environmental guideline definition under Inland Revenue Ordinance that relating to green financing or ESG sectors of enterprises/businesses is recommended to encourage corporations to reallocate resources on adopting green financing and formulating ESG policy.

G. Special Tax Deductions for Equipment, Medicines and Doctor's Consultation Fees for The Elderlies

As the population in Hong Kong is aging at a very fast pace, it is vital that the whole Community in Hong Kong is equipped to embrace this change.

RECOMMENDATIONS –

- Special deductions should be made available for companies and individuals to develop equipment (including innovations in gerontechnology, e.g. wheelchairs, beds and other eldercare equipment, etc.) or renovations made especially for the use of elderly and the disabled.
- Exemptions for special fittings for elderly or disabled persons in Motor Vehicles First Registration Tax.

H. Empowering & Equality for Working Mothers or Working Fathers

In view of the severe shortage of staffs, we propose to introduce the following measures to encourage homemakers to remain in or rejoin the workforce to help as a wage earner for families.

Many homemakers who gave up their career to devote to their families possess high education level and precious working experience that can provide valuable manpower resources and keep in the finances of the family. Some grassroots homemakers who shoulder family burdens lack the skills to work in the present environment. With the support from the Government, employers can attract talents, and Government's financial burden on public expenditure such as Comprehensive Social Security Assistance (CSSA) can be lightened.



RECOMMENDATIONS –

- Setting up a special Parental Program Fund so that, similar to other countries like Canada, UK or Singapore, etc., all maternity payments can be paid by the special Fund instead of having most of it being shouldered by individual employers. This will help alleviate the sexual inequality and discrimination for employees and also help encourage more homemakers to rejoin the work force.

I. Allowing Elderlies to Enjoy the Convenience of the Greater Bay Area

At present, 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 encourages the younger generation to take care of their parents and/or grandparents. However, with the high property prices, the floor area affordable by the younger generation gets smaller and smaller. Forcing the younger and the elder generations to live together in small apartments may create tensions between the generations and therefore lead to other social problems. There is a Chinese saying, “its fine to meet each other but difficult to be living together” (“相見好, 同住難”).

With the High-Speed Rail and the Hong Kong-Zhuhai-Macao Bridge, the retirees and elderlies can take advantage of the lower costs for elderly/residential care homes and care workers by having the additional choice of retiring in the Greater Bay Area while maintaining good connectivity with the younger generations.

RECOMMENDATIONS –

- Extending Additional Dependent Parent and Dependent Grandparent Allowances to taxpayers who have provided living quarters for their parents and/or grandparents, either by renting or purchasing separate properties.
- Dependent parents allowance: According to the existing IRO, the key threshold of claiming the DPA is the parents of taxpayers shall ordinarily reside in Hong Kong. Such threshold is not applicable to other allowances, even the married person allowance. Due to the close linkage between Mainland and Hong Kong, more and more elders have returned to Mainland (especially greater bay area) for retirement. In order to reduce their burden, I suggest lifting this threshold on DPA. We also suggest raising the DPA and ADPA to HK\$60,000 respectively
- Expenses paid for residential care homes situated outside Hong Kong should be an eligible expense for tax deduction. This will help to alleviate the demand for welfare support from the Government.



BROADENING OUR REVENUE BASE

J. Reform Hong Kong's Fiscal System to broaden our revenue base

The pandemic situation over the years evidences that there are flaws and weaknesses in our fiscal system. We have been suffering from economic deficits for three consecutive years. This situation is most unsatisfactory in the long-run. We submit that there is an urgent need to review our fiscal system in order to broaden our revenue base.

We are well aware of the fact that a consultation was conducted in 2006/07 to reform Hong Kong's tax system for broadening our tax base. The consultation appeared to focus on 'Goods and Services Tax ("GST")'. While labeling the consultation as "Broadening the Tax Base", it appeared to us that the exercise aimed at increasing our government revenue since no deduction on direct income tax was proposed to set off any increased revenue arising from the study. The consultation recognized that our narrow tax base would limit our ability to allocate resources to invest for the future and to respond to challenges in the long run. Yet there was no consensus on any solution to the problem.

The consultation report in 2007 recommended that the Government should continue to study options for broadening the tax base and address the fundamental issue at a suitable time in the future. The matter was however held in abeyance probably because we managed to recover within a short spell of time in 2003. The situations nowadays are very different. It is estimated that the economic downturn we are now facing may take several years to recover.

RECOMMENDATIONS –

- We recommend reopening the study on the reform of our tax system. The study should:
 - (i) Aim at 'broadening our tax base' instead of 'increasing our revenue'.
 - (ii) Cover all options instead of limiting to GST.
 - (iii) Place less reliance on sale of land in order to sooth the house prices.

REVIEWING HONG KONG'S TAX SYSTEM

K. Review Hong Kong's tax system

Our schedular tax system was derived from ancient United Kingdom precedent. The IRO provides different deduction requirements and tax rates for Profits Tax, Salaries Tax and Property Tax. These are against the neutrality and equity principles recognized worldwide; for example:

- (a) taxpayers subject to Profits Tax are enjoying more favourable deductions for outgoings and expenses;



- (b) taxpayers subject to Salaries Tax and Property Tax are unable enjoy the two-tier tax rates under Profits Tax.

Although individual taxpayers may be able to reduce their tax liabilities by electing personal assessment, the system does not eliminate the unfairness. After all, the United Kingdom no longer adopts the schedular tax system. We submit that an Income Tax system may streamline the deduction provisions and tax rates across the board.

RECOMMENDATION –

- We recommend reviewing the Hong Kong tax system and study the feasibility of adopting an Income Tax system in place of the schedular tax system.

REVIEWING THE INLAND REVENUE ORDINANCE (“IRO”) TO ACHIEVE FINALITY

L. Review the IRO to increase transparency and certainty and to achieve finality

The principal goal of taxpayers is to have their tax matters resolved fairly with finality. If they have made taxes that are not agreed by the tax administration, they would expect the tax administration to inform them as soon as possible. Finality is a basic right of taxpayers.

Taxpayers’ right to finality is at present impacted by the definition for assessment and the objection provisions.

Section 60 limits an assessor’s right to raise assessment or additional assessment to 6 years after the end of the year of assessment. Loss statement is not an assessment in terms of the IRO. There is no time limit for the Inland Revenue Department (“IRD”) to challenge losses beyond 6 years.

Section 64(2) requires the Commissioner of Inland Revenue (“CIR”) to adjudicate upon a taxpayer’s objections within a reasonable time. The IRO does not define “reasonable time”. The IRO also gives an absolute right to the CIR to make unconditional or conditional order in respect of the tax in dispute. If the CIR grants an unconditional stand over order, the taxpayer will have to suffer large interest on the tax stood over upon determination of the objections. If the CIR makes a conditional hold over order by purchasing a Tax Reserve Certificate (“TRC”), the taxpayer will be deprived of the use of the sums tied up in the TRC. In any event, taxpayers will suffer heavy financial loss by the IRD’s delay. *Yue Yuen Marketing Co., Ltd. v. CIR, HKAL 49/2009* and *Dairy Farm Establishment v. CIR, HCAL 234/2018* are typical complaints in this respect.

The delay in determining objections is particularly obvious in field audit and investigation cases. By issuing repeated protective assessments, demanding purchases of TRCs and delaying determination of the objections, taxpayers under investigation or field audit are often forced to give in. In the USA, the right of finality under the Taxpayer Bill of Rights states, “Taxpayers have the right to know the maximum amount of time they have to challenge the IRS’s position as well as the maximum amount of time the IRS has to audit a particular tax year or collect a tax debt. Taxpayers have the right to know when the IRS has finished an audit.”



RECOMMENDATIONS –

- We recommend establishing a Task Force to review the IRO and to consider:
 - (i) Defining loss statement as an assessment in order to provide finality for loss cases;
 - (ii) Defining “reasonable time” for the purpose of section 64(2) of the IRO

M. Promote Voluntary Disclosure

By taking reference to the publication of tax evasion case in the Mainland which is very alarming and creates effective deterrent for tax evasion. On releasing the news, the State Administration of Taxation of the Mainland (“SAT”) announced that taxpayers who volunteer to make self-correction (自 查 自 繳) would not be penalized.

Although IRD’s Departmental Interpretation and Practice Note 11 states that it is the practice of the CIR to be influenced where a person has made a full confession in respect of any offence to which he has been a party, very few taxpayers receive the message. After all, CIR’s undertaking on penalty is very vague. In this respect, SAT’s pronouncement of no penalty (免予行政處罰) is more appealing to taxpayers. In order to convince delinquent taxpayers to put their house in order, the Administration may consider launching a special exercise to promote voluntary disclosure. This exercise should generate handsome revenue to help reducing our deficits in the short run. Penalties in these cases should be clearly defined, e.g. restricted to interest on tax undercharged.

RECOMMENDATIONS –

- Considering launching a special exercise to promote voluntary disclosure and to restrict penalty to interest on the tax undercharged for taxpayers who volunteer full confession.

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 of our Taxation Committee.

Yours sincerely,

Wu Chun Sing, Parco
President

Law Elizabeth
Taxation Committee Chairman



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Budget Submission Task Force of Taxation Committee

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2. Chan Cheong Tat (Advisor)
3. Wong Lung Tak, Patrick (Deputy Chairman)
4. Ng Wing Fai (Deputy Chairman)
5. Cheng Chung Man, Alan (Deputy Chairman)
6. Chen Chi Hing, Andrew
7. Chau Kam Wing, Donald
8. Lau Kwok Hung, Kenneth
9. Wu Chun Sing, Parco

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The Society of Chinese Accountants and Auditors was formed in 1913 and incorporated in 1971. 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 clients, their directors and employees and consequentially understand their needs and concerns.