



# 2018-2019 Hong Kong Budget

## KPMG China survey highlights and proposals

February 2018



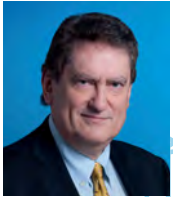
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From December 2017 to January 2018, KPMG China conducted a survey of over 300 senior business executives about their concerns regarding business in Hong Kong, and their expectations of the 2018-2019 Hong Kong Budget. We greatly appreciate their participation in the survey.

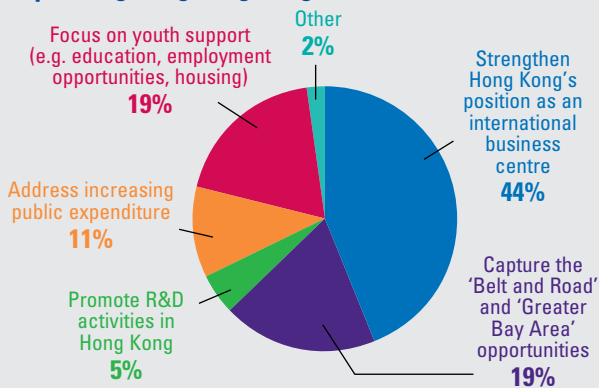
### Our key survey findings are highlighted below:

- 92 percent of respondents believe that Hong Kong's tax system is currently competitive. However, only 38 percent believe that it can remain competitive, compared to 52 percent last year, which shows that respondents may have become more pessimistic regarding the future competitiveness of Hong Kong's tax system.
- Over 50 percent of respondents would not consider taking advantage of the corporate treasury centre tax incentive. The most common reason was the complexity and uncertainty of the tax incentive, followed by the high implementation and operating costs in Hong Kong.
- In terms of tax measures promoting research and development (R&D) activities in Hong Kong, respondents supported each of the three proposed measures almost equally ('expand the scope of "approved research institutions" for R&D tax deduction purposes', 'allow tax losses incurred from R&D activities to be cashed out instead of being carried forward' and 'expand the scope of deductible intellectual property- (IP-) related capital expenditure').
- The majority of respondents – 59 percent – believe that 'high operating costs' has the most negative impact on business carried out in Hong Kong, up from 48 percent last year.
- Similar to last year, in terms of measures/new tax incentives targeting the middle class, 57 percent of respondents suggest that the existing Salaries Tax bands and/or rates for individuals should be adjusted.

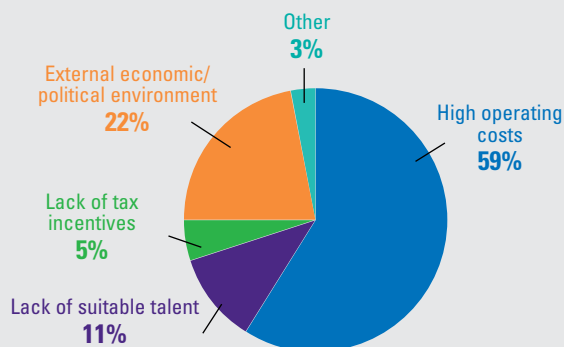
### Other KPMG proposals include the following:

- Tax policy plays a significant role in increasing Hong Kong's competitiveness. To encourage foreign investment, we suggest that the government introduce tax incentives for regional headquarters, extend tax exemption to onshore funds, and shorten the statutory period in which tax affairs are finalised.
- To improve the standard of living for the general public, the government could waive the Stamp Duty for Hong Kong permanent residents buying their first residential property for their own use, with consideration at or below HKD 6 million.
- Tax can also play a role in supporting technological advancement and innovation in Hong Kong. To encourage investment in business start-ups, we propose that the government introduce group tax loss relief, include a personal tax exemption clause in the Double Taxation Agreement (DTA) for scholars and researchers, and expand the scope of R&D expenditure qualifying for tax deduction.
- In terms of seizing business opportunities, the government should expand its DTA network to 'Belt and Road' countries, especially ASEAN countries. We also suggest that a super deduction be provided to corporations for the interest expenses and related expenses incurred on the issuance of green bonds.

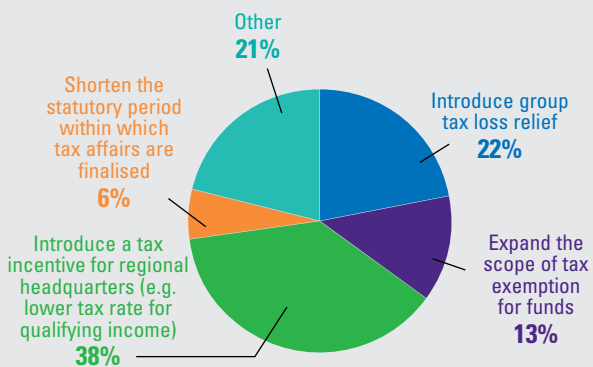
### What do you think is the top priority for the upcoming Hong Kong Budget?



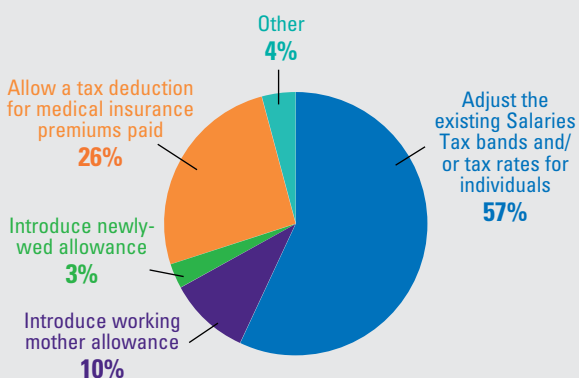
### In your opinion, which of the following has the most negative impact on business carried out in Hong Kong?



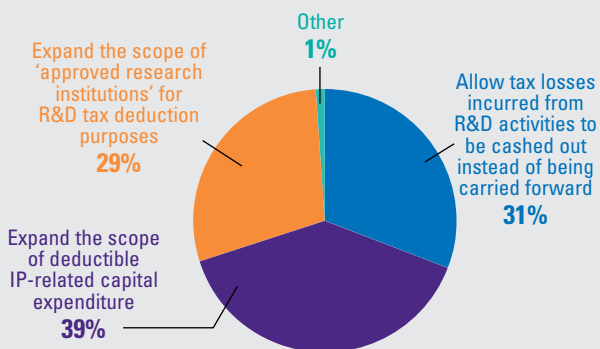
### In your opinion, which of the following would be most effective in enhancing the competitiveness of Hong Kong's tax system?



### In your opinion, which of the following measures/new tax incentives should be considered by the HKSAR Government targeting the middle class in Hong Kong?



### In your opinion, which of the following tax measures should be considered by the HKSAR Government to promote R&D activities in Hong Kong?



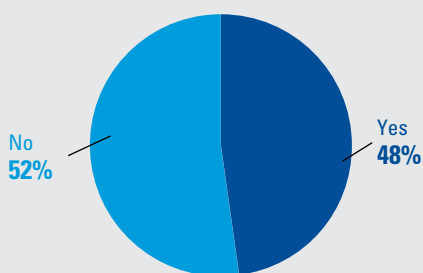
### Is Hong Kong's tax system currently competitive?

|          | Last year | This year |
|----------|-----------|-----------|
| Positive | 94%       | 92%       |
| Negative | 3%        | 6%        |

### If it is competitive now, how about in the future?

|          | Last year | This year |
|----------|-----------|-----------|
| Positive | 52%       | 38%       |
| Negative | 48%       | 62%       |

### Would you consider making use of the corporate treasury centre tax incentive?



#### Reasons for not making use of the incentive:

- High implementation and operating costs
- Complexity or uncertainty of the tax incentive

# Proposed new measures for the 2018-2019 Budget



## Increase competitiveness

- Introduce tax incentives for regional headquarters
- Extend tax exemption to onshore funds
- Shorten statutory period in which tax affairs are finalised

## R&D

- Expand R&D tax incentives
- Introduce group tax loss relief
- Introduce personal tax exemption under DTA for scholars and researchers



## Improve standard of living

- Waive Stamp Duty for Hong Kong permanent residents buying their first residential property for their own use (capped at ≤HKD 6 million)
- Allow for deduction of medical insurance premiums
- Adjust Salaries Tax rate bands and allowances with reference to the Consumer Price Index

## Grasp the opportunities

- Expand the DTA network to 'Belt and Road' countries, especially ASEAN countries
- Introduce personal tax exemption under the DTA with mainland China to enhance the movement of people within the Greater Bay Area
- Allow a super deduction for interest expenses and related expenses incurred on the issuance of green bonds



## Details of KPMG proposals

| Proposed relief measures   | Details  | Purpose  |
|--|--|--|
| Introduce a tax incentive for funds and regional headquarters in Hong Kong                           | Extend tax exemption to onshore funds, and halve the Profits Tax rate for certain income derived from qualifying regional headquarters in Hong Kong  | Enhance Hong Kong's attractiveness as a fund and regional headquarters location, and supplement the tax incentive for corporate treasury centres |
| Introduce group tax loss relief  | Allow tax loss transfer amongst wholly-owned group companies   | Encourage entrepreneurial risk-taking, and promote innovation and technology development activities in Hong Kong                                 |
| Include a personal tax exemption clause for scholars and researchers in DTAs                         | Add a specific personal tax exemption clause in Hong Kong's DTA for scholars and researchers conducting teaching and research in Hong Kong   | Attract R&D talent to Hong Kong, and promote the exchange of knowledge   |
| Expand R&D tax incentives  | Expand the scope of 'approved research institutions' for tax deduction purposes; allow tax losses for R&D activities to be cashed out; expand the scope of deductions to cover customer lists, franchise rights, rights of telecommunications cable systems, spectrum fees, etc. | Enhance Hong Kong's attractiveness as a place to conduct R&D activities and promote the exchange of knowledge                                    |
| Introduce personal tax incentive under the DTA with mainland China, focusing on the Greater Bay Area | Introduce personal tax exemption on employment income generated from the Greater Bay Area, with reference to the tax exemption provision for frontier workers contained in some DTAs of European countries   | Enhance the movement of people within the Greater Bay Area   |
| Expand the DTA network   | Expand the DTA network to 'Belt and Road' countries, especially ASEAN countries  | Grasp the business opportunities arising from the 'Belt and Road' Initiative   |
| Introduce a tax incentive for the issuance of green bonds  | Provide a super deduction for interest and related expenses incurred on the issuance of green bonds  | Develop a green bond market in Hong Kong supporting green projects related to the 'Belt and Road' Initiative                                     |
| Allow for deduction of medical insurance premiums  | Allow a tax deduction for medical insurance premiums paid (capped at HKD 20,000 per household per year)  | Encourage residents to plan for their health needs   |

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