

2016 Policy Address & 2016/17 HKSAR Budget Preliminary Proposals

Objectives for 3 wishes

- To attract innovative start-ups and promote high-tech business
- To relieve burden of the middle class
- To keep tax laws / regulations same pace with the changing business environment, and attract more foreign investment in Hong Kong

Wish 1 – to promote high-tech business in Hong Kong

Background

Hong Kong is one of the most advanced information and communication centre in the world. Two years ago, InvestHK launched a campaign called "StartmeupHK" with an aim to promote Hong Kong as a leading global hub and attract innovative start-ups. In addition, the Government proposed in 2015/16 Budget to inject HK\$5 billion to the Innovation and technology Fund, and Innovation and Technology Bureau will be formally established on 20 November 2015. The Government can consider to further promote development of high-tech business and attract foreign investment to Hong Kong by offering some tax measures.

Suggested Measures

- a. To offer **10%** concessionary profits tax rate for the **initial 5-year** for new companies engaged in high-tech business if met certain criteria, e.g. **80%** of the employees are Hong Kong residents, local spending with over **HK\$5 million**.
- b. To introduce "super deduction" by allowing **200%** tax deduction on "qualifying research and development expenditure" spent by the Company engaging in high-tech business under Profits Tax.
- c. To relieve the criteria for **tax deduction** claim on Research & Development ("R&D") expenditure paid **all** research institutes. (Currently, only in-house R&D expenditure and R&D expenditure paid to the approved institutions are allowable for deduction.)

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Wish 2 – to relieve burden of the middle class

Background

The Budget earlier this year encouraged more housewife to return to the labour market. If both couples need to work, employing domestic helpers are necessary for them to take care of the family. We suggest the Government to offer them some tax allowances.

Suggested Measures

- a. To offer a tax deduction on cost of employing domestic helper capped at **HK\$50,000** for each year of assessment.
- b. To offer working couple allowance at **HK\$30,000** for each year of assessment.
- c. To extend the pre-primary education voucher scheme to **private schools** as soon as possible.

Wish 3 – to provide clearer guidelines to the potential investors / taxpayers

Background

The business environment keeps changing in recent years. The latest OECD development, amalgamation under the New Hong Kong Companies Ordinance and rapid change / development of e-commerce bring potential business challenges and profits tax uncertainties to the taxpayers, e.g. the Inland Revenue Department's view on BEPS, the tax treatment on amalgamation and new business model engaging in e-commerce, etc. Amendments and update on the tax laws and regulation can minimize these uncertainties and increase the potential investor's desire to invest in Hong Kong

Suggested Measures

- a. To review and update the Inland Revenue Ordinance (IRO) and Departmental Interpretation and Practices Notes (DIPN) to accommodate the changing business environment and profits tax developments in order to provide the potential investors / taxpayers clear guidelines, in particular to:
 - BEPS (implement new section to the IRO)
 - New Companies Ordinance (implement new section to the IRO)
 - E-commerce (provide further guidance on DIPN 39)