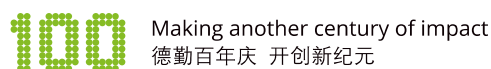




## **Tax Newsflash**

### **Hong Kong Tax News: Tax Measures Announced in The Policy Address 2018/19**



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The Chief Executive of Hong Kong SAR, Mrs. Carrie Lam, delivered her first Policy Address today. In the Policy Address, two tax related measures were mentioned:

#### Two-tier Profits Tax regime

Mrs. Lam has mentioned in various occasions ways to help small and medium-sized enterprises (SMEs) in Hong Kong. In the Policy Address, she reiterated the two-tier Profits Tax regime that for the first HK\$2 million of profits generated by companies, they will be subject to Profits Tax at 8.25%, i.e. half of the current Profits Tax rate. Profits exceeding HK\$2 million will be subject to Profits Tax at the prevailing rate of 16.5%. Restrictions will be introduced such that each group of companies may only nominate one entity to benefit from the lower tax rate. Implementing this new measure will result in a reduction of tax revenue of approx. HK\$6.5 billion.

#### Additional tax deduction for Research & Development (R&D) expenditure

To promote innovation, R&D and help Hong Kong to become an "Intelligent City", Mrs. Lam proposed a number of measures, amongst which additional tax deduction of R&D expenditure was introduced. It has been proposed that for the first HK\$2 million eligible R&D expenditure incurred, the

company can enjoy a 300% tax deduction. Expenditure exceeding HK\$2 million will be entitled to a 200% deduction.

Implementation of these two initiatives requires formulation of detailed guidelines and consultation with the businesses and professional bodies. We foresee that the Government will submit draft legislation very soon, with a view to implementing the proposals in 2018.

As the tax measures mentioned in the Policy Address are still preliminary, there are a number of areas that need to be further clarified. For example, will the two-tier Profits Tax system apply to unincorporated businesses? How does the nomination regime work? What kinds of R&D expenditure are eligible for the additional tax deduction? What are the requirements and restrictions in claiming the additional R&D expenditure deduction? We anticipate more details will be provided by the Government at a later stage.

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