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Tax Analysis

2019/20 Budget Analysis

A conservative yet practical approach, with clear direction of Hong Kong's economic development

Author:

Hong Kong
Sarah Chan
Tax Partner
Tel: +852 2852 1628
Email: sarahchan@deloitte.com.hk

Ellen Tong
Tax Director
Tel: +852 2852 6530
Email: etong@deloitte.com.hk

Alfred Chan
Tax Director
Tel: +852 2852 6531
Email: alfchan@deloitte.com.hk

The Financial Secretary for the Hong Kong Special Administrative Region (HKSAR), Mr. Paul Chan Mo-po, delivered his 2019/20 Budget speech on 27 February 2019. This is the third budget prepared by Mr. Chan since his appointment as Financial Secretary.

Various external headwinds, including trade friction between China and the US and volatility in global financial markets, have started to impact the Hong Kong economy. In the 2019/20 Budget, the Financial Secretary announced a wide range of measures with a view to supporting enterprises, safeguarding jobs, stabilizing the economy and strengthening livelihoods. In particular, the 2019/20 Budget aims to enhance Hong Kong's competitive edge as a financial hub for multinational corporations, foster the development of maritime industries and seize opportunities from the direction and strategies of China's economic development by leveraging Hong Kong's distinctive advantages.

The surplus of HKD58.7 billion for FY2018/19, down from HKD148.9 billion for FY2017/18, is mainly a result of lower-than-expected revenue from land premiums and stamp duty. We welcome the government's demonstration of its clear vision for Hong Kong's economic development through various proposed initiatives to further promote the financial services industry and support the development of innovation and technology. Although the public had been expecting more sweeteners, short-term stimulus measures and increased public expenditure, the 2019/20 Budget can be viewed as conservative yet practical.

This article analyzes the impact of the key proposals in the 2019/20 Budget. For our summary of tax measures affecting individuals and businesses, please see our *Tax Newsflash – 2019/20 Hong Kong Budget Highlights*.

Businesses

One-time relief measures for business

Like last year, the 2019/20 Budget provides a rebate of 75% of 2018/19 tax payable, albeit with the cap reduced from HKD30,000 to HKD20,000, to ease the burden of profits tax payers.

Tax incentives for maritime industries

The Financial Secretary mentioned in the Budget that a task force has been set up to study tax and other measures to encourage ship financing business in Hong Kong and develop Hong Kong as an Asia-Pacific ship leasing center. The results of the study are expected to be released in the second half of 2019. In particular, the Budget mentioned a 50% profits tax concession for eligible insurance businesses, including marine insurers. This aims to promote the development of marine insurance and provide better support to ship-owners and shipping companies.

Deloitte welcomes the proposed measures to maintain and enhance Hong Kong's competitive edge as a leading ship leasing hub. We look forward to the government releasing the concrete tax incentive measures soon.

Innovation and technology

As mentioned in the *Outline Development Plan for the GBA*, a "Guangzhou-Shenzhen-Hong Kong-Macao" innovation and technology corridor will be developed. To echo this intention, the Budget provides for funding support and measures with a view to developing innovation and technology infrastructure and promoting research and development (R&D) in Hong Kong. We appreciate the government's continuous efforts to enhance the environment for innovation and technology.

Last year, the government introduced an enhanced tax deduction regime for qualifying R&D expenditure to encourage R&D activities in Hong Kong. However, the requirements were too stringent and the effectiveness of the tax incentive was questionable. Deloitte therefore suggests that the government consider relaxing criteria for this tax incentive by covering more R&D activities and expanding the scope of deductible expenditure. The government could also consider providing tax concessions on income from intellectual property generated by R&D. Such measures would attract a broader scope of R&D and intellectual property-related activities to Hong Kong.

Financial services industry

The Bill on unified exemption for funds was passed a week before the Budget release. The tax concessions for the fund industry are in line with international requirements on tax co-operation, and at the same time can promote development of the asset management industry in Hong Kong. To expedite the development of Hong Kong's asset management industry, the Financial Secretary indicated in the Budget that the government has been studying the establishment of a limited partnership regime for private equity funds. We are happy that our suggestions on this limited partnership regime have been accepted. The government will continue to study fund industry tax arrangements, particularly measures to attract private equity funds to set up and operate in Hong Kong. Deloitte welcomes the proposed measures that aim to maintain and further enhance Hong Kong's competitive edge as a leading international financial hub.

Other tax policies

In addition to putting forward attractive tax measures, we are pleased to see the government has been actively expanding the tax treaty network to enhance the overall business environment and attract investment.

In the Budget, the Financial Secretary mentioned the importance of attracting more multinational groups to establish their regional headquarters (RHQs) and Corporate Treasury Centers (CTCs) in Hong Kong. Hong Kong currently only offers tax incentives to CTCs. Although the importance of RHQs was noted, the Budget did not contain any proposals on the long-anticipated RHQ tax concession. We hope the government will consider introducing an RHQ tax concession regime, for example by granting a concessionary tax rate of 8.25% on relevant qualifying income. This would enhance the sustainability of Hong Kong as an international RHQ and treasury hub.

Greater Bay Area (GBA) development plan

A symposium on the outline GBA development plan was held last week in Hong Kong. Hong Kong will aim to strengthen and enhance its position as an international financial center and a hub for renminbi business, trading and international transportation. To enable businesses to capitalize on opportunities from the GBA, the Budget proposes to develop Hong Kong's financial services, trading and logistics, innovation and technology industries, which would complement the GBA development plan. We believe these competitive policies can expedite Hong Kong companies business and facilitate a more interactive flow of people, capital, resources and goods within the GBA.

Social Welfare

Welfare of the public

Relieving people's financial burden continues to be one of the government's cornerstone priorities. The Budget proposes several short-term relief measures, including extra one month payments for Comprehensive Social Security Assistance, Old Age Allowance, Old Age Living Allowance or Disability Allowance, and an additional HKD1,000 Elderly Health Care Voucher.

Deloitte welcomes these measures, which can achieve short-term objectives. Long-term measures were also mentioned to address the challenges created by an aging population, such as the provision of additional residential and day care places for the elderly and resources for professional outreach services, including social workers and physiotherapists. We hope the government is able to find a solution that balances the need for retirement care and the desire to alleviate pressure on long-term expenditure.

Middle-class tax burden

Unlike prior years, no tax relief measure (e.g. increasing dependent allowances) were introduced to reduce the Salaries Tax burden, except the traditional one-off tax rebate of 75% (up to HKD20,000) for 2018/19 tax payable. Our understanding is that the government was conservative in offering sweeteners with a view to coping with the unstable global economy. Nevertheless, we still hope it can roll out appropriate relief measures to take care of people's livelihood and ease taxpayers' burden.

Comments

The 2019/20 Budget can be described as "pragmatic" in its provision of caring measures for the underprivileged, elderly and students. From a business perspective, we welcome its initiatives to cover a wider range of industries, particularly measures to stimulate the development of maritime and related insurance, innovation and technology and the financial services sector. We hope the government will consider more tax measures to promote Hong Kong's status as an intellectual property hub, a preferred location for setting up RHQs and an international treasury center. Overall, Deloitte welcomes the government's efforts to strengthen Hong Kong's competitiveness. Hopefully, these measures can widen the government's sources of revenue and improve the long-term sustainability of the Hong Kong economy.

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Beijing
Andrew Zhu
Partner
Tel: +86 10 8520 7508
Fax: +86 10 8518 7326
Email: andzhu@deloitte.com.cn

Chengdu
Frank Tang / Tony Zhang
Partner
Tel: +86 28 6789 8188
Fax: +86 28 6500 5161
Email: ftang@deloitte.com.cn
tonzhang@deloitte.com.cn

Chongqing
Frank Tang / Tony Zhang
Partner
Tel: +86 23 8823 1208 / 1216
Fax: +86 23 8859 9188
Email: ftang@deloitte.com.cn
tonzhang@deloitte.com.cn

Dalian
Bill Bai
Partner
Tel: +86 411 8371 2816
Fax: +86 411 8360 3297
Email: bilbai@deloitte.com.cn

Guangzhou
Victor Li
Partner
Tel: +86 20 8396 9228
Fax: +86 20 3888 0121
Email: vicli@deloitte.com.cn

Hangzhou
Qiang Lu
Partner
Tel: +86 571 2811 1900
Fax: +86 571 2811 1904
Email: qilu@deloitte.com.cn

Harbin
Jihou Xu
Partner
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056
Email: jihxu@deloitte.com.cn

Hong Kong
Sarah Chin
Partner
Tel: +852 2852 6440
Fax: +852 2520 6205
Email: sachin@deloitte.com.hk

Jinan
Beth Jiang
Partner
Tel: +86 531 8518 1058
Fax: +86 531 8518 1068
Email: betjiang@deloitte.com.cn

Macau
Raymond Tang
Partner
Tel: +853 2871 2998
Fax: +853 2871 3033
Email: raytang@deloitte.com.hk

Nanjing
Rosemary Hu
Partner
Tel: +86 25 5791 6129
Fax: +86 25 8691 8776
Email: roshu@deloitte.com.cn

Shanghai
Maria Liang
Partner
Tel: +86 21 6141 1059
Fax: +86 21 6335 0003
Email: mliang@deloitte.com.cn

Shenzhen
Victor Li
Partner
Tel: +86 755 3353 8113
Fax: +86 755 8246 3222
Email: vicli@deloitte.com.cn

Suzhou
Kelly Guan
Partner
Tel: +86 512 6289 1297
Fax: +86 512 6762 3338
Email: kguan@deloitte.com.cn

Tianjin
Bill Bai
Partner
Tel: +86 411 8371 2816
Fax: +86 411 8360 3297
Email: bilbai@deloitte.com.cn

Wuhan
Gary Zhong
Partner
Tel: +86 27 8526 6618
Fax: +86 27 6885 0745
Email: gzhong@deloitte.com.cn

Xiamen
Charles Wu
Partner / Director
Tel: +86 592 2107 055
Fax: +86 592 2107 259
Email: chwu@deloitte.com.cn

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National Tax Technical Centre
Email: ntc@deloitte.com.cn

National Leader
Ryan Chang
Partner
Tel: +852 2852 6768
Fax: +852 2851 8005
Email: ryanchang@deloitte.com

Southern China (Hong Kong)
Ryan Chang
Partner
Tel: +852 2852 6768
Fax: +852 2851 8005
Email: ryanchang@deloitte.com

Northern China
Julie Zhang
Partner
Tel: +86 10 8520 7511
Fax: +86 10 8518 1326
Email: juliezhang@deloitte.com.cn

Southern China (Mainland / Macau)
German Cheung
Director
Tel: +86 20 2831 1369
Fax: +86 20 3888 0121
Email: gercheung@deloitte.com.cn

Eastern China
Kevin Zhu
Partner
Tel: +86 21 6141 1262
Fax: +86 21 6335 0003
Email: kzhu@deloitte.com.cn

Western China
Tony Zhang
Partner
Tel: +86 23 8823 1216
Fax: +86 23 8859 9188
Email: tonzhang@deloitte.com.cn

If you prefer to receive future issues by soft copy or update us with your new correspondence details, please notify Wandy Luk by either email at wanluk@deloitte.com.hk or by fax to +852 2541 1911.

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