2017-2018 Hong Kong Budget

KPMG China survey highlights and proposals

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In December 2016 and January 2017, KPMG China conducted a survey of over 200 senior business executives about their concerns regarding business in Hong Kong, and their expectations of the 2017-2018 Hong Kong Budget. We greatly appreciate their participation in the survey.

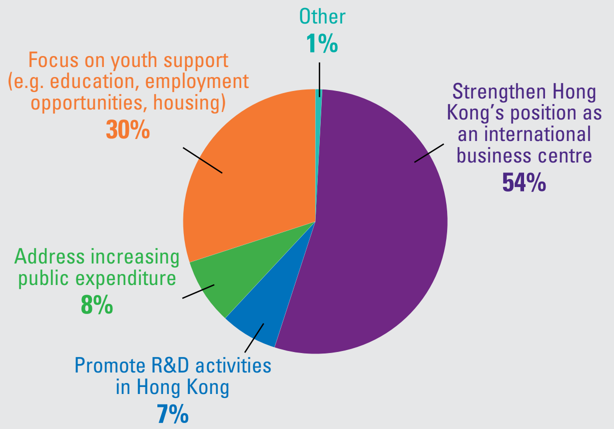
Our key survey findings are highlighted below:

- 54 percent of respondents believe that the top priority for the upcoming Hong Kong Budget is to strengthen Hong Kong's position as an international business centre.
- In terms of measures/new tax incentives targeting the middle class, 54 percent of respondents suggest that the existing Salaries Tax bands and/or rates for individuals should be adjusted. 34 percent support tax deductions for medical insurance expenses.
- Over 90 percent of respondents believe that Hong Kong's tax system is currently competitive. However, respondents are divided regarding the tax system's future competiveness – 49 percent expect that Hong Kong's tax system is likely to remain competitive, whereas 45 percent hold an opposing view.

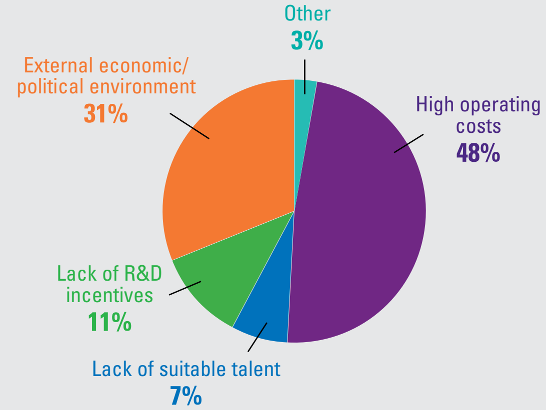
Other KPMG proposals include the following:

- To improve the standard of living for the general public, the government could waive the Stamp Duty for Hong Kong permanent residents purchasing their first residential property with consideration at or below HKD 5 million for their own use.
- In the face of an ageing population, the government can provide subsidies to middle-aged people for health checks. Also, tax incentives such as enhanced deductions can be offered for companies employing older employees, thereby preserving this valuable resource.
- Tax can also play a role in supporting technological advancements and innovations in Hong Kong. To encourage investment in business start-ups, we propose that the government introduce a super deduction for R&D expenses, and provide incentives (e.g. an accelerated depreciation allowance on capital expenditure incurred on buildings and structures) to businesses operating in the Hong Kong/Shenzhen Innovation & Technology Park.
- In terms of public finance, Hong Kong should study how the principle of a balanced budget should be applied. Tax policy is an effective tool for the government to use in support of social and economic goals. We suggest that the government adopt competitiveness as the new value proposition for Hong Kong's tax system and set up a Tax Policy Unit with full-time specialist resources for the research, recommendation and monitoring of tax policies.

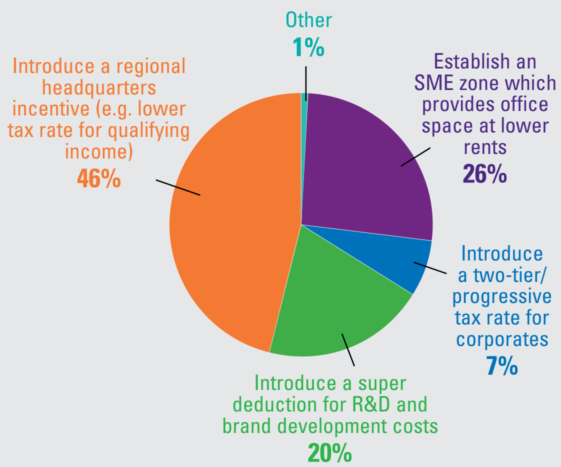
What do you think is the top priority for the upcoming Hong Kong Budget?



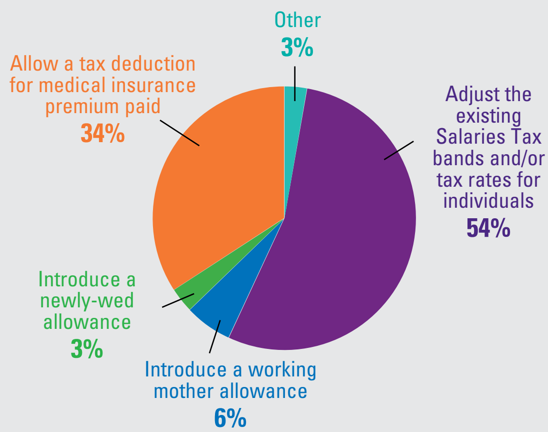
In your opinion, which of the following has the most negative impact on business carried out in Hong Kong?



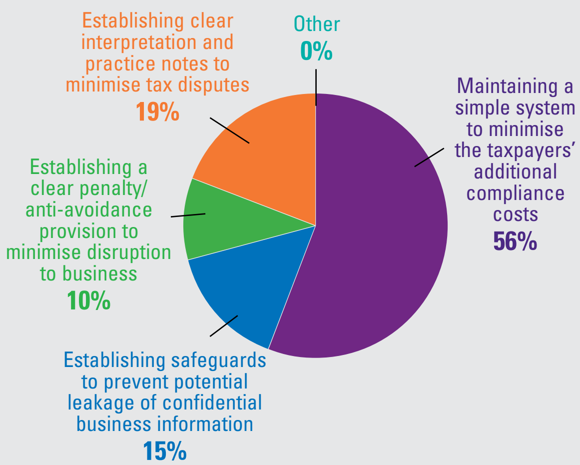
In your opinion, which of the following would be most effective in enhancing Hong Kong's attractiveness to investors?



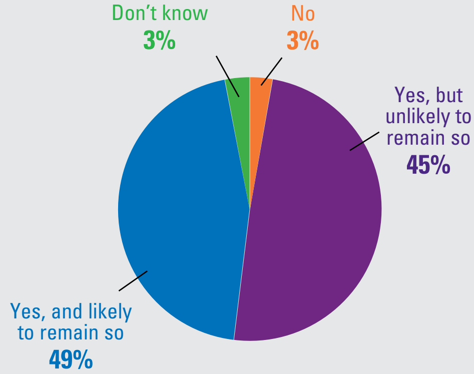
In your opinion, which of the following measures/new tax incentives should be considered by the HKSAR Government to target the middle class in Hong Kong?



The HKSAR Government plans to implement some of the OECD's Base Erosion and Profit Shifting (BEPS) initiatives to tackle international tax avoidance, including the introduction of transfer pricing legislation. Which of the following should be the HKSAR Government's top priorities when dealing with public concerns about this proposal?



Hong Kong has historically had a competitive tax system, but other jurisdictions in Asia (and elsewhere) have been reducing their tax rates over the last few years. Do you think Hong Kong's tax system remains competitively attractive today compared to other jurisdictions?



Proposed new measures for 2017-2018 Budget

Increase competitiveness

- Implement tax incentives for regional headquarters and extend tax exemption to onshore funds

R&D

- Provide a super deduction for R&D spending
- Accelerated depreciation allowances on buildings and structures in the Hong Kong/ Shenzhen Innovation & Technology Park
- Expand the scope of deductible IP-related capital expenditure

Improve standard of living

- Waive the Stamp Duty payment for Hong Kong permanent residents purchasing their first residential property for their own use (with consideration ≤HKD 5 million)
- Provide subsidies to the middle-aged for health checks
- Provide tax deductions for voluntary health insurance expenses
- Adjust Salaries Tax rate bands and allowances with indexation

Support ageing population

- Allow a super deduction for businesses employing older workers (i.e. aged 65 or above)
- Provide tax deductions for voluntary MPF contributions made for oneself and a non-working spouse

Details of KPMG proposals

Proposed relief measures	Details	Purpose
Waive Stamp Duty for Hong Kong permanent residents buying first residential property for their own use	Waive the applicable Stamp Duty for property transactions at or below HKD 5 million	To help the younger generation buy their first residential property
Super deduction for businesses employing older workers	Allow a 150% deduction on qualifying remuneration expenditure (capped at HKD 180,000 per year per aged worker) for workers aged over 65	To encourage businesses to employ older workers
Medical insurance premiums deduction	Allow a tax deduction for medical insurance premiums paid (capped at HKD 20,000 per household per year)	To encourage residents to plan for their health needs
Subsidies on health checks for the middle-aged	Provide financial subsidies (up to HKD 1,000) for health check expenditure for residents aged between 40 and 65	To encourage residents to identify health issues earlier and alleviate public healthcare costs
Super deduction for R&D expenditure	Provide a super deduction for R&D spending (overseas countries offer deductions ranging from 150% to 400%)	To provide an incentive for innovation and technology development activities in Hong Kong
Accelerated depreciation allowances on capital expenditure incurred on buildings and structures in the Hong Kong/ Shenzhen Innovation & Technology Park ("the Park")	Provide accelerated depreciation allowances (shorten to four years) for capital expenditure incurred for buildings and structures in the Park	To encourage more innovation and technology development in designated areas
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 the qualifying regional headquarters in Hong Kong	To enhance Hong Kong's attractiveness as a fund and regional headquarters location

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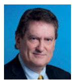

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