

HONG KONG TAX ALERT

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New tax measures proposed in Hong Kong Chief Executive's 2017 Policy Address

Summary

The Chief Executive laid out a wide range of measures to enhance the economy and address various social issues. Included in the proposals are a number of tax related measures.

Overall, the proposals continue the trend of welcome enhancements to the Hong Kong tax system to maintain its position as Asia's leading international business centre.

Background

On 11 October 2017, Carrie Lam, the Chief Executive of Hong Kong, gave her first policy address ([2017 Policy Address](#)) to the Legislative Council. The annual address is an opportunity for the Government to lay out its plans for future policy initiatives and programmes. In her address, the Chief Executive laid out a wide range of measures to enhance the economy and address various social issues. Included in the proposals are a number of tax related measures.

Tax proposals

Progressive Profits Tax regime for companies

The centre point of the tax measures was the proposal to introduce a progressive Profits Tax rate for companies. Under the proposal, the first HK\$2 million of profits earned by a company will be taxed at half the current tax rate (i.e., 8.25%). The remaining profits will continue to be taxed at the existing 16.5% tax rate. There will be an anti-fragmentation measure to prevent corporate activities from being divided amongst a large number of companies who could benefit from the lower tax rate - each group will have to nominate only one company in the group of companies to benefit from the progressive rate. The proposed rate reduction could apply as early as the 2018/19 year of assessment.

R&D Incentives

As part of a broader plan to increase the amount of research & development (R&D) investment made in Hong Kong, the Government will introduce a tax incentive through enhanced deductions for qualifying expenditure. The first HK\$2 million of expenditure will qualify for an enhanced 300% tax deduction with remaining expenditure enjoying a 200% deduction. These new rules could apply as early as the 2018/19 year of assessment. As with any tax measure, the key will be understanding what expenditure qualifies and how strict and complex are the measures which the IRD will take to police these rules. Taken at face value, this incentive is globally competitive.

Health insurance deductions

The Chief Executive noted that, to support the Voluntary Health Insurance Scheme, tax legislation will be amended to offer tax incentives, presumably in the form of a capped deduction against Salaries Tax, for individuals to buy health insurance products.

Expanding the double tax treaty network

Ms Lam said that she hopes to expand Hong Kong's Comprehensive Double Taxation Treaty network to 50 such agreements over the next few years. There will be particular focus on the Belt and Road countries. This is a welcomed measure given Hong Kong's role as a finance centre for the Belt and Road initiative.

Upcoming tax summit

The Chief Executive also signalled continued support for a more open dialogue on the continued development of tax policy in Hong Kong. This includes her attendance at the "Summit on the Directions for Tax Policy" later this month.

Comment

Overall, the proposals continue the trend of welcome enhancements to the Hong Kong tax system to maintain its position as Asia's leading international business centre. KPMG expects that the progressive tax rate change will grab most of the headlines and will benefit a large number of smaller businesses which are the backbone of the wider Hong Kong economy. However, for medium and large enterprises, the enhanced R&D deduction scheme, if implemented with sensible rules that make it relatively simple and easy to use, could provide greater benefits and encourage more economic activity in Hong Kong.

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