HONG KONG TAX ALERT

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The Hong Kong Government unveils new round of stimulus amid COVID-19

Summary

In light of the ongoing impact of the COVID-19 outbreak, on 8 April, the Hong Kong government unveiled a HKD137.5 billion financial relief package to support struggling Hong Kong businesses and individuals. This is the biggest Government relief package to date and comes after the government's initial HKD30 billion Anti-epidemic funding that was launched in February 2020 and the HKD120 billion relief package announced in the 2020-21 Budget.

While these new measures are welcomed to many businesses, further clarity is needed around these measures and how it will apply in practice.

Overview

The Hong Kong Government unveiled a new round of stimulus package of HKD137.5 billion on 8 April 2020 to support businesses and individuals as the COVID-19 outbreak continues to severely damage the global economy. The stimulus package represents approximately 5% of Hong Kong's gross domestic product and covers a broad range of issues and sectors. These measures will go towards helping businesses stay afloat, alleviate some of the financial burden suffered by individuals and businesses and ultimately assist the Hong Kong economy in recovering after the COVID-19 crisis passes.

This latest round of stimulus builds on the HKD120 billion relief package announced in the 2020-21 Hong Kong Budget and also the HKD30 billion Anti-epidemic Fund approved by Legislative Council on 21 February 2020. The total relief provided by the Government to date has reached HKD290 billion, representing approximately 9.5% of Hong Kong's gross domestic product. Details can be found here.

The key measures announced in the latest economic stimulus announced by the Government have four key components:

1. Job retention, job creation and job advancement;
2. Sector-specific relief;
3. Government rental concessions, fee waivers, provision of loans and loan repayment deferrals; and
4. Other relief through Government facilitation.

Job retention, job creation and job advancement

As part of an HKD80 billion Employment Support Scheme (ESS), the Government will provide a wage subsidy to eligible employers. The subsidy is calculated at 50% of the employee's monthly wage, capped at an eligible salary of HKD18,000, for six months – a maximum monthly subsidy of HKD9,000 per employee. This is to assist eligible employers to retain their employees and is conditional on no redundancies are implemented by the employer. It is expected that 1.5 million employees will benefit from this scheme.

All private sector employers making MPF contributions will be eligible, not just those in particularity hard hit industries. Whether the scheme will cover all employees of such employers including those who are exempt from enrolling in the MPF, such as new employees or certain expatriates, need to be clarified. Key exclusions from the ESS include the Government, statutory bodies and Government subvented organisations. The Secretary for Labour and Welfare, Law Chi-Kwong, noted that employers would be given the flexibility to designate one of the months between January and April to be the basis on which the subsidy for that business will be calculated. The subsidy will be made to eligible employers in two tranches, with the first payment being no later than June 2020. Further details on how the subsidy will apply is expected to be released soon.

Employers in other sectors such as catering, construction and transport (mainly taxi and red mini-bus drivers) which are not fully covered by the MPF scheme will be assisted in the sector-specific schemes. A one-off lump sum subsidy will be provided to self-employed persons who have made MPF contributions.

Other measures include creating 30,000 time-limited jobs in both public and private sectors in the coming two years, supporting job advancement projects for staff to upskill and helping enterprises to adopt and apply technology.

Sector-specific relief

Additional funding of approximately HKD21 billion is to be provided to 16 specific hard-hit sectors including SME Exchange participants and SFC licensees, travel industries, construction-related enterprises, education, school bus operators and the aviation industry.

Government rental concessions, fee waivers, provision of loans and loan repayment deferrals to reduce financial burdens

To further assist small and medium sized enterprises, the Government is also looking at enhancing the SME Financing Guarantee Schemes by increasing the maximum loan amount per enterprise depending on the guarantee amount. Concessionary interest rates of up to 3% will be provided for one year for loans under 80% and 90% guarantees.

Other measures include providing tenants of government properties a 75% rent concession for six months, waiving registration fees for medical workers for three years and deferring payment of salaries tax, personal assessment and profits tax due for payment in April, May and June 2020 by three months. The MTR Corporation will also reduce fares by 20% for six months commencing from 1 July 2020.

Other relief through Government facilitation

One of the worst hit industries during the COVID-19 crisis is the aviation industry with the industry coming to a virtual standstill. Further relief of HKD2 billion will be provided to the Airport Authority, airlines and its immediate supporting operators to ease pressure on their liquidity.

The Hong Kong Monetary Authority will increase its lending capacity to HKD1 trillion enabling banks to lend and provide individual clients “Principal moratorium” for a specified period to help provide liquidity to businesses, especially the SMEs.

In addition, all major insurance companies are offering a grace period of premium payment up to 30 to 180 days for holders of individual life, critical illness and medical policies for a specified period.

KPMG Observations

The economic impact of COVID-19 has been devastating for many local and global businesses. The latest round of measures is much welcomed to help alleviate the financial pressure on struggling businesses and individuals. However, there are several details in the implementation of the stimulus package that will need to be worked out.

Some key points to note include:

- From a tax perspective, it is unclear whether the subsidies made under these relief measures are taxable. Ordinarily, grants or subsidies in connection with trade, profession or business would be taxable under Section 15(1)(c) of the Inland Revenue Ordinance unless the sums were specifically used to fund capital expenditures. It therefore remains to be seen whether the Inland Revenue Department ("IRD") will issue a guidance on whether the grants or subsidies received as part of a financial aid would be taxable or whether the Government will provide a specific exemption for this relief. To increase the net benefit to businesses we hope the Government would consider allowing a tax-exemption while still allowing a tax deduction for relevant costs many businesses are incurring to remain open.
- Although the ESS is encouraging and will benefit businesses across the board, details of how the scheme will apply are yet to be released. Key considerations for businesses before applying for the subsidies include:
  - In order to apply for the subsidies, the employer needs to undertake that no redundancies would be implemented. Businesses therefore need to carefully study how "redundancies" would be defined and for how long this undertaking needs to be made. These should be considered against the businesses' own manpower plan in the coming months or so.
  - While there is a flexibility to choose a month from January to April as the basis for counting the number of employees in calculating the subsidy amount, businesses need to review its hiring plan in order to make an appropriate choice. For instance, where the workforce had been shrunk over the months and there is no plan to have new hiring, then the business should not elect the earlier month as the base or otherwise the subsidy would potentially be clawed back.

The IRD has also announced various administrative measures to assist taxpayers experiencing financial difficulties as a result of the COVID-19 outbreak including:

- Delaying the issuance of Profits Tax returns and Salaries Tax returns for the year of assessment for 2019/20 by one month to 4 May and 1 June respectively;
- Extending the deadlines for lodgement of objections and holdover applications as well as filing due date of tax returns that fall between 23 March and 2 May to 4 May;
- Extending the filing due date of Country-by-Country Reporting notification for entities with accounting periods ended between 31 December 2019 and 29 February 2020 to 1 June 2020; and
- Deferring the deadline for payment of Profits Tax, Salaries Tax and Tax under Personal Assessment for the year of assessment 2018/19 due for payment in April, May and June 2020 by three months.

Overall these measures are a further welcome addition to the Government support for hard pressed businesses in Hong Kong. We encourage all businesses to carefully consider their eligibility for the grants and other relief measures. This includes considering the impact, if any, that measures already taken to save costs may have on eligibility for the ESS. Until the details of the scheme are available we suggest employers act with caution on taking other cost saving measures. While anticipating further details on how to access these measures will be available shortly, we encourage the Government to act swiftly to get money into the economy.

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