



HONG KONG TAX ALERT

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Tax exemptions for most of the Anti-epidemic Fund subsidies and financial assistance now confirmed

Summary

Most of the subsidies and financial assistance granted under the Anti-epidemic Fund (AEF) will be exempt from Profits Tax / Salaries Tax.

The tax exemptions will take effect from the year of assessment 2019/20.

The same principles will be adopted to provide tax exemptions as and when future relief measures are rolled out under the AEF.

Overview

Following the release of substantial stimulus packages to support businesses and individuals adversely impacted by the COVID-19 outbreak, the Hong Kong Government issued "The Exemption From Salaries Tax and Profits Tax (Anti-epidemic Fund) Order" (Order) on 27 May 2020 giving tax exemptions for most of the subsidies and financial assistance granted under the Anti-epidemic Fund (AEF) to businesses and individuals. These tax exemptions will take effect from the year of assessment 2019/20.

The Order, which will be gazetted and take effect on 29 May 2020, will be tabled at the Legislative Council for negative vetting on 3 June 2020.

Key points include:-

- Beneficiaries of the assistance granted under the AEF will be exempt from Profits Tax and Salaries Tax unless "the sums are paid for general business activities and are not paid in a matching arrangement". Most of the key supports for businesses such as the Employment Support Scheme are covered by the tax exemption. A summary of the proposed tax treatment for the two rounds of measures under the AEF is shown below.
- The same principles will be adopted to provide tax exemptions as and when further relief measures are rolled out under the AEF.
- In respect of the 2019/20 tax returns:-
 - Employers and employees do not need to report the sums exempted in the tax returns upon commencement of the Order.
 - Businesses or individuals who have already filed their tax returns can submit written notifications to the Hong Kong Inland Revenue Department (IRD) to amend the relevant information. Employers should file revised Employer's return(s) for the relevant employee(s), if applicable.

KPMG Observations

Businesses most certainly welcome this much awaited confirmation of the tax treatment of the financial assistance granted under the AEF. The granting of tax exemptions for most of the relief measures, including the Employee Support Scheme, further help to alleviate the financial burden of industries, businesses and individuals impacted by the COVID-19 outbreak. However, whilst tax remains an important consideration, businesses should not lose sight of other factors, such as long-term business plans, when assessing their eligibility for the relief measures.

From a tax return filing perspective, businesses or individuals who have previously included the subsidies received under the AEF as taxable income (now confirmed to be tax exempt) in their tax returns should seek to amend these tax returns. We suggest that businesses consult their tax advisers on the implications of receiving tax exempt subsidies when preparing or revising tax returns for submission to the IRD.

Summary of Proposed Tax Treatment for Two Rounds of Measures under the AEF



Measures which will be covered by the tax exemption

1. Subsidy for factories to set up production lines of surgical masks under the Local Mask Production Subsidy Scheme
2. Anti-epidemic Support Scheme for Property Management Sector
3. Subsidies for construction industry stakeholders
4. Financial support to frontline workers engaged by Government and Hong Kong Housing Authority service contractors
5. Retail Sector Subsidy Scheme
6. Food Licence Holders Subsidy Scheme
7. Reimbursements of the actual fuel or electricity cost and/or subsidies to specified means of transport
8. Convention and Exhibition Industry Subsidy Scheme for organisers of exhibitions and international conventions/ conferences
9. Subsidies for live marine fish wholesale traders, specified fresh food wholesalers and fishing vessels with Mainland deckhands
10. Special grant for child care centres
11. Arts and Culture Sector Subsidy Scheme
12. Licensed Guesthouses Subsidy Scheme
13. Travel Agents Subsidy Scheme
14. Special grant to specified training bodies
15. Licensed Hawkers Subsidy Scheme
16. Subsidy to employers and self-employed persons under the Employment Support Scheme
17. Funding to non-government public bodies and private corporations for creating time-limited jobs
18. LAWTECH Fund to SME law firms/barristers' chambers and related persons
19. Subsidy for early deployment of 5G in public and private sectors
20. Funding to private enterprises under the Distance Business Programme

21. Training subsidies for consultants in the construction sector
22. Training funds to bodies/ associations under the Matching Grant Scheme for Skills Upgrading (on matching arrangement)
23. Relief grant for tutorial schools
24. Relief grants for providers of catering services for schools and post-secondary education institutions and providers of interest group and school bus services
25. One-off grant to registered sports coaches
26. Relief grants for freelance workers hired by subvented non-governmental welfare organisations to provide training and coaching for service users
27. Subsidy for the refuse transfer station account holders for transporting municipal solid waste
28. Subsidies for local primary producers
29. Special subsidy to Hong Kong Exchange's participants and Securities and Futures Commission's licensees
30. Cash subsidy for individual licensees in the estate agency sector
31. Reimbursement of the actual regular repair and maintenance costs and insurance premium to operators of specified means of transport, subsidy to eligible registered owners and passenger service licence holders of specified means of transport, eligible taxi and red minibus drivers, and employers of eligible green minibus and local ferry employees
32. Cinemas Subsidy Scheme & Printing and Publishing Sector Subsidy Scheme
33. Subsidies/Refund under Tourism Industry Support Schemes
34. Subsidies to the construction sector
35. Subsidy to operators of Revitalizing Historic Buildings Through Partnership Scheme and Fly the Flyover Operation
36. Subsidy for the aviation sector
37. Subsidy to employers in catering sector and catering businesses under the Catering Business (Social Distancing) Subsidy Scheme
38. Amusement Game Centres Subsidy Scheme
39. Commercial Bathhouses Subsidy Scheme
40. Fitness Centre Subsidy Scheme
41. Subsidy to licensed Places of Amusement for anti-epidemic efforts
42. Place of Public Entertainment Licence Holder Subsidy Scheme
43. Mahjong/Tin Kau Licence Holder Subsidy Scheme
44. Subsidy Scheme for Beauty Parlours, Massage Establishments and Party Rooms
45. Club-house Subsidy Scheme
46. Sports and Recreational Sites Subsidy Scheme
47. Financial assistance to MTR Corporation Limited in providing fare concession (on 50:50 matching arrangement)



Measures which will be subject to tax

1. Payment from orders from the Government and/or non-Government parties under Local Mask Production Subsidy Scheme
2. Payment to businesses for providing technology applications such as reusable masks
3. Administrative fees paid to service contractors of the Government and the Hong Kong Housing Authority for disbursing allowances
4. Reimbursements and administrative fees paid to oil companies for providing price discounts on liquefied petroleum gas to taxis and public light buses
5. Reimbursements to the Hong Kong Cyberport Management Company Limited for providing rental waivers
6. Reimbursements to landlords or operators of arts spaces for providing rental waivers
7. Administrative fees paid to MPF trustees for implementing the Employment Support Scheme
8. Funding to eBRAM Centre for initial set-up cost as well as fees for mediators and arbitrators
9. Administrative fees paid to National Sports Associations and sports organisations for implementing AEF programme
10. Administrative fees paid to service providers for implementing the Subsidy Scheme for Beauty Parlours, Massage Establishments and Party Rooms



Measures which have no tax consequence

1. Additional funding to the Hospital Authority for combating the epidemic
2. Grant to the Hong Kong Productivity Council under the Local Mask Production Subsidy Scheme
3. Funding to Government for global procurement of personal protective equipment
4. Funding to Government for installation of emergency alert system
5. Funding to Government for making available monitoring devices for home quarantine
6. Ex-gratia payment to prospective households of the two public housing estates designated as quarantine centres
7. Reimbursement to the Trade Development Council for providing fee reduction and implementing the Retail Sector Subsidy Scheme
8. Special allowance for eligible Working Family Allowance and Student Financial Assistance households
9. Additional student study grant for 2019/20 school year
10. Reimbursement to the Hong Kong Science and Technology Parks Corporation for providing rental waivers
11. Funding to Government departments and tax-exempt non-government public bodies for creating time-limited jobs
12. Reimbursement to the operator of Police Married Quarters (PMQ) for providing rental waivers and subsidies to PMQ
13. Waiver of monthly fixed rent and management fees of the Kai Tak Cruise Terminal
14. Funding to Government for engaging accounting firm(s) for conducting compliance checks and providing related services under Catering Business (Social Distancing) Subsidy Scheme
15. Temporary relaxation of the monthly threshold of the Public Transport Fare Subsidy Scheme

* Source: https://gia.info.gov.hk/general/202005/27/P2020052700379_342102_1_1590563908780.pdf

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