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# Tax Analysis

# 2020-21 Budget Analysis

## A compassionate but prudent budget in the context of Hong Kong's fiscal deficit

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The Financial Secretary for the Hong Kong Special Administrative Region (HKSAR), Mr. Paul Chan Mo-po, delivered his 2020-21 Budget speech today. This is the fourth budget prepared by Chan since his appointment as Financial Secretary.

Chan announced the first fiscal deficit since 2003-04 for the financial year (FY) 2019-20 amid various headwinds, including prolonged social unrest, the US-China trade friction and the outbreak of the new coronavirus. The deficit of HKD37.8 billion for FY2019-20, down from a surplus of HKD58.7 billion for FY2018-19, is mainly a result of the introduction of counter-cyclical support measures and reduced tax and land revenue due to a weakening economy.

In recent months, Chan has already introduced four rounds of enhanced relief measures in addition to those proposed in the 2019-20 Budget.

In this Budget, Chan announced a wider range of measures with the objective of "supporting enterprises, safeguarding jobs, stimulating the economy and relieving people's burden" during this challenging time. In particular, the Budget is aimed at maintaining Hong Kong's financial stability and the soundness of public finances, to facilitate the sustainable development of Hong Kong's society and economy. Nevertheless, it does not introduce many tax measures.

For a summary of the Budget measures, please see our *Tax Newsflash – Hong Kong Budget 2020/21 Summary of Tax Measures*. This article focuses on analyzing the tax-related proposals in the Budget.

### Key tax-related measures

#### One-time relief measures for individuals

Chan proposed to allow a reduction of salaries tax and tax under personal assessment for the year of assessment 2019/20 by 100 per cent, subject to a ceiling of HKD20,000. In addition, as a special one-off measure, the Government will give a disbursement of HKD10,000 to Hong Kong permanent residents aged 18 or above. The Budget also introduces other livelihood and social welfare measures to relieve different group's financial burden. Deloitte welcomes these measures which can reduce people's tax burden and relieve urgent financial needs.

## One-time relief measures for businesses

The Budget reduces profits tax for the year of assessment 2019/20 by 100 per cent, subject to a ceiling of HKD20,000, to ease the burden of profits tax payers. Deloitte welcomes this measure to relieve the tax burden of businesses in this challenging environment.

## Securities market

The Budget proposes to waive the stamp duty on stock transfers paid by Exchange Traded Fund (ETF) market makers in the course of creating and redeeming ETF units listed in Hong Kong. We welcome this measure to strengthen the competitiveness of Hong Kong as an ETF listing platform.

## Asset and wealth management

With a view to attracting more private equity funds to domicile and operate in Hong Kong, the Budget proposes to provide tax concession for carried interest issued by private equity funds operating in Hong Kong, subject to the fulfilment of certain conditions. The relevant arrangement will be applicable starting from 2020/21 upon completion of the legislative exercise. We are happy that our suggestion of providing tax concession for carried interest has been heard.

## Maritime sector

Echoing the Government's plan to provide tax concessions for ship leasing businesses set out in the 2019 Policy Address, the Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Bill 2020 was published in the Gazette by the Government in January 2020 to give profits tax concessions to ship lessors and ship leasing managers. Besides, the Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Bill 2019 which was introduced earlier also provides tax concessions for insurance businesses including marine insurance. The Government further mentioned in the Budget that it will explore other tax measures to attract more global shipping business operators and commercial principals to set up business in Hong Kong. Deloitte welcomes these tax incentives, which will help maintain and enhance Hong Kong's competitive edge as a leading regional ship leasing hub.

## Tax policy

In the Budget Speech, Chan gave a heads-up on the potential challenge that Hong Kong tax system is facing. The Organisation for Economic Co-operation and Development (OECD) is exploring the proposal of setting rules for imposing a global minimum tax rate. The proposal may challenge Hong Kong's low tax policy and territorial source based tax regime. It may increase the tax burden and compliance costs of multinational corporations and hence reduce the incentives for investing and operating in Hong Kong. We appreciate that the Government is aware of the rapid changes in the international tax landscape and will continue to keep a close watch on the developments of the OECD's work. As we have proposed to Chan, it is important that the Government conduct a comprehensive review of Hong Kong's tax system and tax policy to keep up with the international standards.

## Areas not yet addressed

Tax relief for individuals – Other than the one-off tax rebate, the Budget does not propose any measures regarding Salaries Tax. Amid the turmoil of the current economic climate, high housing and borrowing costs, the Government could consider offering targeted tax measures to relieve people's financial burden. For example, the Government may introduce a deduction of residential rental expense, offer working couple an additional allowance, increase the basic and married person's allowances to help relieving financial burden of the middle class in the long term.

Innovation and technology – The Budget does not introduce any new tax measures related to innovation and technology. To expedite the development of innovation and technology, we suggest the Government provide tax incentives to eligible companies in high-tech or innovative industries, especially those with related investments in the Greater Bay Area. Compared to other jurisdictions that also offer tax incentives for research and development, there is room for Hong Kong to make its regime more competitive. To encourage enterprises in Hong Kong, especially small and medium sized enterprises, to invest resources to develop workplace automation, we recommend the Government consider allowing enhanced tax deductions on related expenses. We also look forward to the Government improving the current enhanced deduction regime for research and development expenditures, or exploring other tax incentives, to provide a more favorable tax environment for innovation- and technology-driven industries in Hong Kong.

Financial and professional services – The establishment of regional headquarters (RHQs) in Hong Kong will increase demand for local employees, senior executives and talents, as well as financial and professional services. It will also attract foreign investments, which will in turn benefit the development of Hong Kong's economy as a whole. We suggest the Government consider strengthening Hong Kong's competitive edge as a regional hub for multinational corporations by providing tax incentives.

Ways to broaden tax base – Currently, the Government derived its revenue mainly from proceeds from profits tax, salaries tax, stamp duties which are heavily influenced by economic cycles and external fluctuations. The salaries tax and profits tax rates, on the other hand, remain at a relatively low level. Such a taxation system fails to guarantee long-term and stable tax revenue and hence creating challenges in maintaining the sustainable development of Hong Kong's economy. As addressed in the Budget, it is vital for the Government to explore ways to increase revenue. Although it may not be a right time to introduce new tax to broaden the tax base under the current challenging economic situation, broadening the tax base should be one of the Government's agendas in the near future.

## Concluding remarks

Overall, the Budget is within expectation and has responded to the public's request to a certain extent. Deloitte welcomes the measures, in particular immediate ones that are needed urgently to alleviate the burden of those affected by the current economic recession and coronavirus outbreak. The proposed one-off cash payout of HKD10,000 responded to the high demand from the general public. While the cash payout draws much attention of the public, the Budget contains fewer-than-expected tax measures. In the long run, we hope the Government will consider more tax measures for a wider range of industries to strengthen the competitiveness of Hong Kong. Hopefully, the Government will lead Hong Kong to overcome its current difficulties and reach another peak soon.

Tax Analysis is published for the clients and professionals of the Hong Kong and Chinese Mainland offices of Deloitte China. The contents are of a general nature only. Readers are advised to consult their tax advisors before acting on any information contained in this newsletter. For more information or advice on the above subject or analysis of other tax issues, please contact:


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