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Hong Kong Tax Analysis

2022-23 Budget Analysis

A comprehensive and forward-looking budget set to lead Hong Kong towards economic recovery

The Financial Secretary of the Hong Kong Special Administrative Region, Paul Chan Mo-po, delivered the 2022-23 Budget speech today. This is the final budget prepared by Mr. Chan for the current government.

The Financial Secretary revised the projected fiscal deficit for the 2021-22 financial year from HKD101.6 billion to a projected surplus of HKD18.9 billion. Fiscal reserves are expected to stand at HKD946.7 billion as of 31 March 2022. The change of projected financial position from deficit to surplus was due to more revenue from land premium and profits tax.

Nonetheless, the unstable pandemic situation poses uncertainties and ongoing challenges to global economic recovery. The 2022-23 Budget was prepared amid the fifth wave of the COVID-19 pandemic and a complicated, fast-changing international political and economic landscape. Chan therefore took a balanced approach in providing relief and support to those affected by the pandemic and promoting economic development for the post-pandemic economic recovery in the 2022-23 Budget.

For a summary of the Budget measures, please see our *Hong Kong Tax Newsflash – Hong Kong 2022-23 Budget Highlights*. This article focuses on analyzing the tax-related proposals in the Budget.

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Key tax-related measures

Relief measures for individuals

The Financial Secretary proposed to provide a tax deduction for domestic rental expenses starting from the year of assessment 2022/23, subject to a deduction ceiling of HKD100,000 for a year of assessment, to ease the taxpayer's burden in renting a private property. The deduction would apply to taxpayers liable to salaries tax and tax under personal assessment who are not owners of domestic properties.

Other than the new initiative above, the Financial Secretary also proposed one-off relief measures to individuals that are similar to last year's, including a 100% reduction of salaries tax and tax under personal assessment for the year of assessment 2021/22, subject to a ceiling of HKD10,000, and the issuance of electronic consumption voucher with a total value of HKD10,000 by instalment to each eligible Hong Kong permanent resident and new arrival aged 18 or above.

We are happy that our suggestion to provide tax deduction on residential rental expenses has been heard and welcome these measures as they reduce people's tax burden. On the other hand, the Electronic Consumption Voucher Scheme introduced last year achieved a good outcome in terms of boosting the economy. It is hoped that the new round of vouchers can maintain this momentum.

Tax relief for businesses

The Budget also reduced profits tax for 2021/22 by 100%, subject to a ceiling of HKD10,000, to ease the burden of profits tax payers. Deloitte welcomes this measure to relieve the financial burden on businesses.

Maritime and port sector

Echoing the Government's plan to develop high value-added maritime business services as set out in the 2021 Policy Address, the Budget proposed a half-tax concession (i.e. a tax rate of 8.25%) with a view to attracting more maritime enterprises to establish a presence in Hong Kong.

In recent years, the Government has spared no efforts in formulating strategies to facilitate business operations of the maritime industry with a view to consolidating Hong Kong's position as an international maritime centre. For example, tax laws were enacted in 2020 to provide tax concessions to ship leasing and marine insurance businesses. The proposed tax concession is welcomed as it makes the tax concessionary regime for the maritime sector comprehensive and will foster Hong Kong's position as a leading international maritime centre.

Family office business

Since last Budget, the Government has been working with the asset management sector to review the tax arrangements for family offices, which is a fast growing and increasingly important sector in the asset management space. To attract more family offices to establish a presence and manage their investments in Hong Kong, the Budget proposed to provide tax concessions for the eligible family investment management entities managed by single-family offices. The Government will consult the sector on the detailed proposal as soon as possible. It is expected that the relevant tax concessions will come into effect in the year of assessment 2022/23. We are happy that our suggestion to provide tax concessions to family offices has been heard, and it remains important for the Government to seek sufficient industry feedbacks during the drafting of the new laws, so that the tax concession regime could be practical and attractive.

Offshore Renminbi (RMB) Business

In order to expand the channels for the two-way flow of cross- boundary RMB funds, as well as continue to promote the development of offshore RMB products, the Government will roll out supporting measures such as waiving the stamp duty on stock transfers paid by market makers in their transactions relating to RMB-denominated stocks.

Guangdong-Hong Kong-Macao Greater Bay Area (GBA)

The Budget has general directions to support GBA development rather than any tax-related measures. We hope the Government will consider providing tax incentives for businesses and individuals, especially those in high-tech and innovative industries to enhance Hong Kong's competitiveness in the GBA. We suggest it offer preferential tax rates to hi-tech enterprises and super deductions for the salaries of qualified talent to attract high growth, high technology enterprises to invest in Hong Kong. For individuals, we suggest it extend the tax deduction for self-education expenses to courses run by qualified education providers in Mainland cities of the GBA so Hong Kong talent, particularly young people and professionals aiming to develop a career or business in the GBA, can acquire the professional qualifications they need.

Innovation and technology (I&T)

The Government is dedicated to developing Hong Kong into an international I&T hub as promulgated in the 14th Five-Year Plan. It has invested more than HKD130 billion over the past few years in nurturing talent and has co-invested with venture capital funds in local innovation and technology start-ups. In this Budget, the Government committed to allocate additional resources to the I&T sector to keep reinforcing the entire value chain and the I&T ecosystem. We are pleased to see its commitment to develop Hong Kong into an international I&T hub.

From a tax perspective, we suggest the Government conduct a comprehensive review of the current tax regime and remove its stringent limitations so as to align tax policy with economic policy. We also recommend that it enhance the deduction for development or acquisition costs in relation to intellectual property (IP) to encourage multinational groups to move their IP ownership to Hong Kong. This would allow them to start carrying out certain research and development (R&D) activities and gradually expand their operations in Hong Kong. In the long-run, to further improve the competitiveness of Hong Kong's I&T industry, the Government should consider offering a preferential regime for IP income (e.g. licensing income) with substantial activities requirements. This would encourage large multinationals and start-ups to establish IP-related businesses in Hong Kong.

Tax policy

<u>Revision of the rating system</u>

To better reflect the "affordable users pay" principle, the Budget proposed to introduce a progressive rating system for domestic properties as follows:

Annual rateable value	Proposed rates percentage
First HKD550,000	5% (same as the present level)
Next HKD250,000	8%
Above HKD800,000	12%

The proposed progressive rating system will be introduced in 2024-25.

The Budget also proposed that for future rates concession for domestic properties, only those eligible owners who are natural persons can apply for rates concession for one domestic property under their name. This proposal will be rolled out in 2023-24. In other words, the rates concession proposed in this Budget would not be affected.

Deloitte welcomes these measures as they provide a fairer basis for charging rates and providing concessions.

Implementation of Global Minimum Tax regime

Hong Kong and more than 130 member jurisdictions of the OECD/G20 Inclusive Framework on BEPS agreed a two-pillar solution (BEPS 2.0) in October 2021 to address tax challenges arising from the digitalization of the economy.

The Financial Secretary mentioned in the Budget that the Government plans to implement the Global Minimum Tax regime in accordance with the international consensus. It has been exchanging views with the affected multinational enterprises (MNEs) with global turnover of at least EUR750 million on matters relating to the implementation of BEPS 2.0, and reaffirmed that it would endeavour to maintain the strengths of Hong Kong's tax system (i.e. simplicity, certainty and transparency) and the territorial source principle of taxation as well as minimise the compliance burden on MNEs when implementing BEPS 2.0. Substantial changes to Hong Kong tax law are expected in the coming years to implement Pillar Two, with the Global Minimum Tax rules brought into law in 2022 and effective in 2023.

At the same time, to safeguard Hong Kong's taxing rights, the Government will consider introducing a domestic minimum top-up tax on the affected MNEs starting from the year of assessment 2024/25 to ensure that their effective tax rates reach the global minimum effective tax rate of 15%.

We are pleased to see the Government take steps to prepare for the implementation of the Global Minimum Tax regime. We hope it will launch a public consultation as soon as possible given the tight deadline.

Concluding remarks

Although the Budget was prepared amid the fifth wave of COVID-19 pandemic, it adopts a comprehensive and forward-looking approach that seeks to balance short-term relief of people's burden with the medium-term recovery and long-term development of different industries. Deloitte applauds the Government's efforts to maintain and strengthen Hong Kong's competitiveness, especially in the maritime and financial services sectors. However, there should be a comprehensive review of whether our current tax laws and regulations (e.g. on R&D and IP) can drive the economic achievements required for Hong Kong’s sustainable development. Deloitte concurs with the Government's visionary strategy and efforts to pave the way for the post-pandemic economic recovery. We believe the Hong Kong economy will continue to flourish and hope the Government will lead its rebound to new heights 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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