

Hong Kong Urged to Reduce Corporate Taxes

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Hong Kong's economy has worsened sharply since early 2004, enabling the Chief Executive to promise in his election pledge to reduce the profits tax rate to 15 percent over his current term of office. This would form a reduction of nearly 14 percent from the current headline rate, enhancing Hong Kong's reputation as one of the world's most efficient jurisdictions in which to do business.

A Hong Kong-based financial consultancy reports on its website that the Hong Kong government has been pressed to utilize its record budget surplus to reduce taxes on corporate profits. The government in Hong Kong was urged to bring down Hong Kong corporation tax further, considering the global trend, the financial consultancy reported.

Yvonne Law Shing Mo-han, chairman of the Hong Kong Institute of Certified Public Accountants' taxation committee, said providing increased tax relief would stimulate more corporations to root regional headquarters in the territory.

She said the institute backs Hong Kong Chief Executive Donald Tsang's call to decrease the corporate profits tax and standard rate of salary tax by 1 percent to 16.5 percent and 15 percent. But, Law added she believes "there is space for further slash in the years to come".

Law said that it is not a secret that various jurisdictions utilize tax incentives to improve their stature as business centers, and Hong Kong is no exception. Law also said that they support giving regional headquarters full profits tax exemption for management and consultancy income generated by the Hong Kong entity from associated overseas entities.

The high rate of Hong Kong corporation taxes are a drag on the entry of foreign direct investments (FDI) into the country as opponent economies such as China, Spain, Singapore and Germany are likely to cut tax rates, a consultancy firm said in a report.

In a survey spreading across 92 countries, the consultancy firm said the average rate of corporate tax in the EU was 24.2 per cent, compared with 27.8 per cent in the OECD countries, 28 per cent in Latin America and 30.1 per cent in Asia-Pacific.

The institute also called on the government to put into effect 'polluter pays taxes' comprising electronic road pricing, fuel duties, air and water pollutant taxes, and other resource consumption taxes. Hong Kong will possibly post a record budget surplus of HK\$105.2 billion (US\$13.5 billion) in the 2007-08 fiscal year and offer tax cuts consequently. Close to HK\$40 billion in tax relief may be announced by Financial Secretary John Tsang.

With the large budget surplus, it is believed the government can afford to introduce some concessions to assist the less fortunate in society. Hong Kong was successful in achieving a second straight budget surplus of HK\$58.6 billion in the 2006-07 year. The government predicts another surplus of HK\$25.4 billion

for the year closing March 2008. "Education, technology and globalisation are driving wealth creation, resulting in a shift of economic power to the East."

Wealth managed out of Singapore comes from clients worldwide, including China, Hong Kong and Taiwan, and as far away as Russia and Europe. Japan's wealth is largely serviced domestically, industry figures said.

While rich Middle Easterners are traditionally served out of London and Switzerland, they are increasingly looking at investments in Asia as revenues from soaring oil prices fill their coffers, said Kreis of Credit Suisse.

An industry source, who asked not to be named, said the European Union's moves to step up scrutiny of European tax havens could prompt wealthy Europeans to increasingly look at offshore banking centres in Asia such as Singapore and Hong Kong.

Source: Gregory Smyth



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