

Richard Albuquerque & Co.

CERTIFIED PUBLIC ACCOUNTANTS (Practising)

Newsletter

Issue - 1
March 2019

About Us

Richard Albuquerque & Co. is a Certified Public Accountants Firm ("CPA Firm") founded in 2004 which provides professional accounting, statutory audit and tax and corporate services. The firm has a team of professionals who act as trusted advisers and have extensive experience in providing solutions and value to our clients.

Our firm provides statutory audit services for HK and offshore companies and provide different variety of agreed-upon procedures engagement services. Richard Albuquerque & Co is an experienced company formation service provider in Hong Kong company formation and offshore company formation in BVI, Samoa, Seychelles amongst others.

Our firm provides a wide range of taxation services which includes company tax compliance, salaries tax compliance, Individual and corporate tax planning, and tax audits. Our firm provides assistance in getting an employment and investment visa in Hong Kong and China.

With offices in Hong Kong, China, India, Australia, United Kingdom, Singapore and Dubai we are well equipped to service your every need. Get in touch with us.

 Richard Albuquerque & Co.
Certified Public Accountants

Room A & B, 2nd Floor,
Lee Kee Commercial Building,
221-227 Queen's Road Central,
Hong Kong



supriya@rjacpahk.com



+852 2544 4068



+852 2544 5568

1. Two-tiered Profits Tax rates regime

The Inland Revenue (Amendment) (No.7) Bill 2017 has been passed and become a law, which introduces a two-tiered profits tax rate regime, commencing from the year of assessment 2018/19, as follows:

Assessable Profits	Corporations	Unincorporated business
Assessable Profits	8.25%	7.5%
In excess of the first HK\$2 Million	16.5%	15%

ANTI-AVOIDANCE

In order to primarily benefit small, medium and micro enterprises (“SMME”) and to prevent income splitting, the new law contains restrictive provisions prescribing that “connected entities” can only elect a single entity as eligible for the two-tiered regime for a given year of assessment.

BUSINESS RESTRUCTURING

The government has indicated that business restructuring, including amalgamation of companies, involving a transfer of business from one company to another are generally considered as normal commercial activities. As such, any increased tax benefits under the two-tiered regime as a result of such restructuring will not generally be considered as a tax avoidance arrangement falling foul of the new law.

COMMENTARY

The passing of the new law together with the clarifications are welcomed. The new law will reduce the tax burden on enterprises, especially SMMEs, thus fostering a favourable business environment, driving economic growth and enhancing Hong Kong’s competitiveness.

2. Base Erosion and Profit Shifting

The Inland Revenue (Amendment) (No.6) Bill 2017 has been passed and become a law. The main objective of the Bill is to codify certain transfer pricing (“TP”) principles and introduce mandatory TP documentation requirements into the Inland Revenue Ordinance (“IRO”) and implement the minimum standards released in the Consultation Report on Measures to Counter Base Erosion and Profit Shifting (“BEPS”).

The Bill includes the following amendments to the IRO:

- Codify rules on transfer pricing
- Require income or loss from provision between associated persons to be computed for tax purpose on an arm’s length basis
- Provide for an advance pricing arrangement regime
- Require documentation relating to transactions (Intra-group transactions and intra-entity dealings)



3. Tax deductions for expenditure on qualifying research and development activities

Overview

R&D expenditure, normally incurred with a view to developing new products and improving existing production methods, is generally regarded as being capital in nature and thus such cost is not allowable for deduction

However S16B(1) of IRO specifically provide for a tax deduction for R&D expenditure related to the trade, profession or business of a taxpayer

(a) Payments made to approved research institute for R&D;

(b) In-house R&D activities, including capital expenditure incurred on fixed assets, like plant and machinery.

New regime

Introduction of “super-deduction”

Type B expenditure : First HK\$2M – 300% deduction, remainder at 200%

- i. a payment to a “designated local research institution” for out-sourced R&D activities;
- ii. an expenditure in relation to an employee (excluding a director) who is engaged directly and actively in a qualifying R&D activity; and
- iii. an expenditure on a consumable item that is used directly in qualifying R&D activities

Type A expenditure : 100% deduction

Any qualified R&D expenditure other than Type B

Summary

			Expenditure or payment involved	Type of expenditure
“R&D activities”	“Qualifying R&D activities” (wholly undertaken and carried out in Hong Kong)	In-house	Staff costs and consumables	Type B
			Other R&D expenditure (including capital expenditure on plant and machinery)	Type A
		Outsourced	Undertaken by a “designated local research institution”	Type B
	Other “R&D activities” (undertaken in or outside Hong Kong)	In-house	R&D expenditure (including capital expenditure on plant and machinery)	Type A
		Outsourced	Undertaken by an “R&D institution”	Type A



4. Hong Kong 2019-2020 Budget - Highlights

- Reduce profits tax, salaries tax and tax under personal assessment for 2018-19 by 75%, capped at HK\$20,000;
- Waive government rates for 2019-20, capped at HK\$1,500 per quarter for each rateable property;
- **Waive the business registration fees for 2019-20;**
- Provide 50% profits tax concession to eligible insurance business including the marine insurance industry;
- Provide one additional month of various social security payments;
- Provide a one-off additional HK\$1,000 worth of Elderly Health Care Vouchers, and increase the accumulation limit of vouchers to HK\$8,000;
- Provide a one-off grant of HK\$2,500 to each student in need;
- Pay the examination fees for school candidates sitting for the 2020 Hong Kong DSE Examination;
- Earmark HK\$10 billion as a public health care stabilization fund to prepare for additional expenditure in case of unexpected circumstances

5. Hong Kong 2019-2020 Budget – Insights

While Hong Kong remains a low-tax environment, the costs of housing, availability of adequate medical services and school places are real, daily concerns. The Government will need to develop innovative measures to overcome these. The Government is keen to introduce various tax incentives to support and boost the economy.

To address the need to develop strategic tax measures “to enhance our competitiveness and stabilise our revenue”, the Tax Policy Unit will no longer be under the Financial Services and Treasury Bureau but will report directly to the Financial Secretary’s Office. The result of this measure will be much greater focus on tax measures and possibly more resources to develop them.

The current high levels of investment and welfare spending would mean a deficit in this year’s Budget without the write-back of the Housing Reserve to the Fiscal Reserve over the next four years. But while this measure addresses the immediate problem, the longer-term question is how to maintain stable government revenues to fund growing future expenditures.

The overall tone of this year’s Budget is one of caution, reflecting a commitment to long-term investment and direct spending, rather than one-off relief measures “sweeteners”.