

## 2017 Hong Kong Policy Address Commentary

### Overview

On 11<sup>th</sup> October, 2017, Mrs. Carrie Lam, the Chief Executive of Hong Kong, delivered her first speech on policy address at the Legislative Council.

The policy address has proposed the following new taxation proposals that will impose large impact to most taxpayers in Hong Kong:-

### Two-Tier Profits Tax System

In order to provide further tax relief to small and medium-sized enterprises (“SMEs”), the Chief Executive proposed to launch a two-tier profits tax system to replace the current tax system that all assessable profits are subjected to 16.5% of profits tax rate. In the proposed tax system, the profits tax rate for the first HKD2 million of profits of enterprises will be lowered to 8.25%, while profits above that amount will continue to be subject to the standard tax rate of 16.5%.

However, in order to ensure that the tax benefits will target SMEs, the Chief Executive also proposed an anti-avoidance rule for such system that restrictions will be introduced such that each group of enterprises may only nominate one enterprise to benefit from the lower tax rate.

### Additional Tax Deduction for Research and Development Expenditure

To encourage research and development (“R&D”) investment by enterprises, it is proposed that the first HKD2 million of eligible R&D expenditure will enjoy a 300% tax deduction with the remainder at 200%.

Currently, companies get only a 100% deduction for eligible R&D expenditure. This means that a company with HKD100 million in profits but HKD5 million in eligible R&D expenditure would be deemed to have an assessable profit of HKD95 million.

But under the new policy, the same company would enjoy a greater tax deduction on eligible R&D expenditure, please refer to the below calculation for your easy understanding:-

	<u>HKD</u>
Profits	100,000,000
First \$2,000,000 R&D expenditure @300%	(6,000,000)
Remainder \$3,000,000 R&D expenditure @200%	(6,000,000)
Assessable profits	<u>88,000,000</u>

The above two proposals have not yet enacted as the Hong Kong Government is going to have further investigation before submitting the draft legislation. All companies shall keep an eye on any announcement made by the Hong Kong Government.

Should you need further explanation on the above matters, please kindly contact us at (852) 3929-4800 to seek our professional advice.

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