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Clerk to Bills Committee on
Inland Revenue (Amendment) (No. 4) Bill 2015

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Re: Opinion on Bills Committee on Inland Revenue (Amendment) (No.4) Bill 2015

We note and welcome the proposed amendment of the Inland Revenue Ordinance that facilitates the development of the Corporate Treasury Centre ("CTC") in Hong Kong.

Many of the members of our Association are senior treasury executives of major corporations in Hong Kong. Therefore, we understand the importance of the treasury function to a company and the benefits that a CTC can bring to the society.

The Importance of CTC

As a general introduction, treasury is a function within an organization which looks after a company's cash, investment, financing and the financial risks which are vital not only to the profitability but sometimes also to the survival of a company during adverse market conditions. Since the Asian Financial Crisis in 1997/98 and then the Global Financial Crisis in 2008, the matters managed by Treasury have been escalated to become Board level governance and risk management issues that the Board members of a company pays direct attention to.

For companies with larger scale of operations, they need a CTC to act as "in-house bank" to provide full-fledged treasury services (including cash and liquidity management, intra-group borrowing and lending, external debt and equity financing, investment, foreign exchange risk management, interest rate management, commodity risk management, etc.) to the group companies in different countries and regions. As such, the operations of a CTC involve high-value and high-volume financial transactions managed by highly-skilled professionals with strong financial, accounting and taxation background. For these reasons, many governments are competing to seek the multi-national corporations ("MNC") to locate their CTC in their countries.

Benefits to Hong Kong as a Hub for CTC

When making the decision on the location for their treasury functions, a corporate has to consider a combination of factors. But amongst all those factors, tax costs to the set-up and on-going operations of a CTC usually carry a lot of weight. This is the reason for the government in many other countries offering very attractive tax incentives to CTC. If Hong Kong can provide sufficient incentives to these corporates to make Hong Kong as their priority choice for CTC, there will be tremendous benefits that will flow back to Hong Kong as a whole.

First of all, a CTC is an entity that by its business nature demands for a great deal of professional services from banks, financial advisors, accounting firms, legal firms and other ancillary services. With a critical mass of CTC established in Hong Kong, they will serve as a magnet to draw the above service providers to set up or expand their business operations in Hong Kong. It is the clustering effect of such financial related services that Hong Kong needs to reinforce its status as an International Financial Centre ("IFC").

On the more tangible side, the growth of the financial sector driven by the development of CTC will bring in incremental tax revenue to the Government and support the employment in this high-value-added sector. The demand for talent in CTC and the related professional streams will also provide the much needed upward mobility opportunities to younger people in Hong Kong by allowing them to develop their career in a growing sector that Hong Kong has a strong competitive advantage.

The setting up of CTCs in a particular city would also in many occasions attract the setting up of their regional headquarters (RHQs) there. Such kind of set up in Hong Kong will definitely create more job opportunities in different disciplines, especially Accounting, Treasury, Finance, even Sales & Marketing, etc. In addition, there will be spill-over effect, as these CTCs and RHQs will demand a lot of external services including:

- Banking
- Accounting & Taxation
- Telecommunication (for communication within different subsidiaries as well as with HQ)
- Travelling (for staff travelling within the region)
- Tertiary education and continuous professional training

The real estate sector (both the residential segment for expatriates and office segment for CTCs and RHQs) will benefit from this policy. In a deflationary and a slowing Mainland Chinese economy environment, such external demand is timely and important to Hong Kong.

Potential Problems of Certain Existing Tax Rules

Over the years we appreciate that Hong Kong has a simple, low-rate tax system that create conducive environment for business activities. However with globalization and the advent of technology, Hong Kong is losing competitive edge by being insensitive to the increasingly competitive financial landscape when some of our neighboring countries have been luring MNCs for CTC establishment through aggressive tax incentives.

In addition, there exist an important tax provision in the Inland Revenue Ordinance that indeed unfairly penalizes corporates providing genuine treasury services to its overseas group companies. Under the existing tax rules, a corporate providing intra-group financing to its overseas group companies is required to pay Hong Kong profit tax on the interest income received from the loans. However, in a reciprocal situation where a Hong Kong corporates borrowing through an intra-group loan from a group company, the interest expense incurred may or may not be tax deductible, depending on whether the corresponding interest income earned by the group company is chargeable to Hong Kong profit tax.

Such a tax asymmetry treatment not only has put Hong Kong in a significantly disadvantageous position in the competition for seeking corporates to choose Hong Kong as the location for their CTC, but will also lead to adverse ripple effects on the following aspects:

a) Losing companies to other jurisdictions for centralizing their treasury functions, especially on investment and risk management, instead of Hong Kong unavoidably results in a declining momentum in buy-side demand of treasury services provided by banks and other intermediates. We should not underestimate the downward spiral effect of such vicious cycle as service providers will downsize in Hong Kong and move capacity to alternative CTC location(s). If such an undesirable situation happens, we have grave concern that Hong Kong as an IFC will be marginalized;

b) China is in the important stage of financial reform in the internationalization of RMB and promoting Chinese companies to grow their international business. These companies need a platform in Asia time zone to maximize the effectiveness in managing their international treasury operations and at the same time coordinate seamlessly with Headquarters' decision makers / regulators in Mainland. Without the proposed changes in the Bill, Hong Kong will lose this golden opportunity to attract Chinese enterprises to set up CTC in Hong Kong;

c) The One Belt One Road Policy also means that Chinese companies need a place to manage their currency risks, cash, liquidity and financing requirements in the emerging markets covered by the Policy. Hong Kong could be viewed as less attractive to other Asian CTC location(s) due to the lack of comparable tax incentives. Our CTC policy is therefore critical to maintaining Hong Kong's competitive edge as a preferred CTC location.

d) Based on past experience, Singapore has attracted over 5,000 MNCs to set up CTC there since 1997 when Hong Kong transitioned through the change of sovereignty. Once rooted in a chosen place, it is hard to attract these MNCs back to Hong Kong. Therefore, it is advisable to learn from this lesson and not to lose the chance again.

Hong Kong is a small territory with area of 1,100 square kilometres with little natural resources. However we are among the few economies in the world with AAA/AA sovereign rating with recurring fiscal surplus and is virtually debt free. We can afford to be more flexible in our tax regime if we take a more holistic view. After all the CTC tax incentive is not a zero sum game. By attracting more corporates to set up CTCs in Hong Kong, our tax income should actually increase.

Hong Kong already reaches the top ranking in Asia time zone and ranks among the global league in financial intermediation capability such as IPO, equity market capitalisation and offshore RMB business. The CTC tax incentive removes the last obstacle and will place Hong Kong at a level playing field with other CTC location(s) around the world.

Industry Support to the Proposed Bill

Since 2012 IACCT has participated in the CTC Working Group from the very beginning stage of the Policy formulation and we are in full support of this initiative. Three of our members are on the Working Group. We established a CTC Treasurers Forum to fully engage the treasurer community and gather feedback from our peers on the design of the Policy. Throughout the consultation period, we provided in May and in October our detail recommendations to the Government. At the annual meeting of the International Group of Treasury Associations (IGTA which is de facto the "United Nation of National Treasury Associations around the World"), our representative promoted the CTC Policy to all IGTA members. We believe that the passing of this bill is a big step to enhance the attractiveness of Hong Kong as a CTC location not only because the controversial tax asymmetry issue will be rectified, it will also offer Hong Kong a valuable opportunity to package a set of rules that are potentially superior in the following aspects than other competing locations:

a) Better transparency and certainty in CTC regulation: Singapore requires a corporate to re-apply after 3 to 5 years while there is no such requirement in the proposed bill;

b) Reduced administrative burden: there is no minimum headcounts and onerous application requirements;

c) Competitive concessionary rate: applicable profit tax rate to qualifying CTC being 8.25%, lower than the 10% in Singapore.

If you have any questions, please feel free to reach me (at peter.wm.wong@hk.pwc.com or by phone at 69866088) or other IACCT representatives on the Working Group (Stephen Leung of CITIC Limited and Allen Leung of COFCO) who help put our letter together.

With best regards,

Peter Wong

Peter Wong
Founding Chairman
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cc Distribution:
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