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Founded in 1913

香港華人會計師公會  
The Society of Chinese Accountants & Auditors

(在香港註冊成立之有限公司)

(Incorporated in Hong Kong as a company limited by guarantee)

1 February 2018

Clerk to Bills Committee  
Legislative Council Secretariat  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong  
Email: [bc\\_03\\_17@legco.gov.hk](mailto:bc_03_17@legco.gov.hk)

Dear Sir,

**Re: Inland Revenue (Amendment) (No. 7) Bill 2017**

The Society of Chinese Accountants and Auditors ("SCAA") is an incorporated body of professional accountants in Hong Kong established since 1913. The CPA firms of which our members are partners, directors or managers, service a significant majority of businesses in Hong Kong as well as companies investing into or through Hong Kong. Our members directly and regularly communicate with clients, their directors and employees and consequentially understand their needs and concerns.

We welcome the Government's initiative to reduce the tax burden on enterprises and to provide a competitive taxation system to promote economic development amidst the international trend to reduce corporate tax rates.

**Limiting the application to only one enterprise nominated from among the connected entities**

We understand the requirement to prevent abuse of the tax reduction, but we are concerned about the proposed restrictions on connected entities. It is understandable that the Government wishes to reduce and minimize possible abuse of the tax reduction, yet we foresee the following issues which may create unwarranted conflicts and/or difference amongst partners and/or shareholders of entities that have segregation(s) of business(s) for genuine reasons (other than solely for purposes of tax savings), such as (among others) inherent and/or investment risks, sectorial expertise and management etc., and such possible perceived disputes may, in some circumstances, deter foreign investors from investing in or otherwise maintaining and/or establishing companies and/or other entities in Hong Kong.



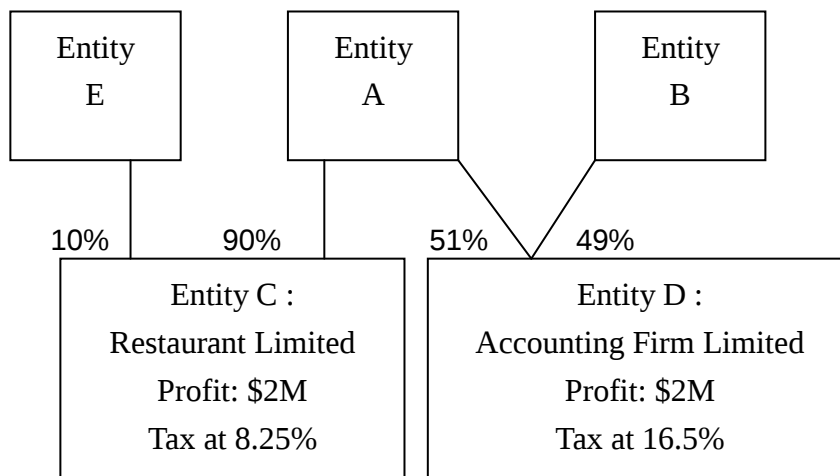
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We would like to take the following example:



In this case, Entity C and Entity D would be considered as connected entities and for obvious commercial reasons, Entity A (as the majority shareholder in Entity C) would vote for Entity C to be taxed at the reduced tax rate, whilst Entity E (as the other minority shareholders of Entity A) would similarly enjoy the benefit of the tax reduction. Needless to say, Entity B (as the minority shareholder of Entity D) would, in such circumstances, not benefit from this tax reduction, and may thereby lead to possible unwarranted shareholders' disputes.

## **RECOMMENDATIONS –**

- Bearing in mind the intention of the Government in introducing Inland Revenue (Amendment) (No. 7) Bill 2017, we recommend that the reduced tax rate be applicable to all companies, provided that the connected entities are not having same or substantially similar businesses.
- For connected entities having same or substantially similar businesses, we suggest that only up to 5 entities can benefit from the tax reduction if there are differences in the shareholdings.

Our Society has been supporting Hong Kong since 1913 and it is our wish that Hong Kong will strive and prosper harmoniously in the future.

We will be happy to answer any further questions that you may have. Should you require more information, please do not hesitate to contact Ms. Elizabeth Law, Chairman of our Taxation Committee.

Yours faithfully,

Andrew Chen  
President