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Hon Kenneth Leung
Chairman
Bills Committee on Inland Revenue (Amendment) (No. 5) Bill 2018
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

Sent by email to: bc_09_17@legco.gov.hk

20 July 2018

Submission on the Inland Revenue (Amendment) (No. 5) Bill 2018 (the Bill)

Dear Hon Kenneth Leung,

Thank you for inviting our firm to make a submission on the Bill, which seeks to implement the following three measures starting from year of assessment 2018/19:

1. to allow husband and wife the option of electing for personal assessment (PA) separately;
2. to allow enterprises to claim tax deduction for capital expenditure incurred for procuring environmental protection installations in full in the year of acquisition instead of over five years; and
3. to extend the scope of tax exemption for debt instruments under the Qualifying Debt Instrument (QDI) Scheme.

We welcome the HKSAR Government's proposal of implementing the above three measures, with our specific comments on each of them set out as below.

1. Election for PA by married persons separately

We are supportive of removing the requirement for a married person to elect for PA jointly with his/her spouse. Granting a married person an option to elect for PA separately would give more flexibility to taxpayers in handling their tax matters and reflect the principle that each individual is a separate taxable person for Hong Kong salaries tax purpose. We have no further comment on the technicality of the provisions on this measure in the Bill.

2. Immediate tax deduction for environmental protection installations

We also support the proposal of allowing taxpayers to deduct the capital expenditure incurred in procuring eligible environmental protection installations in full in the year where such capital expenditure is incurred. We have no further comment on the provisions on the accelerated tax deduction, the claw-back of the proceeds from sale of such environmental protection installations as taxable trading receipts arising in or derived from Hong Kong, and the related transitional arrangement in the Bill.

3. Extended scope of tax exemption under the QDI Scheme

To promote further development of the bond market in Hong Kong, the Bill proposes to expand the scope of profits tax exemption for QDIs by:

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1. granting profits tax exemption to QDIs of any duration for instruments that are issued on or after 1 April 2018; and

2. amending the definition of "debt instrument" in section 14A(4) of the Inland Revenue Ordinance such that it also includes debt instruments listed on a stock exchange in Hong Kong. The new definition will apply for instruments issued on or after 1 April 2018.

We are pleased to see that enhancements are being made to the QDI Scheme. This is a positive first step towards developing Hong Kong's local bond market. We agree that this will make the Hong Kong platform more competitive for bond issuance, investing and trading, thus bringing more investors and business to Hong Kong.

We look forward to seeing how else the government will make policy changes to remove the current obstacles as well as support and encourage the development of the debt instrument market in Hong Kong. Particularly, by considering changes / clarifications to the offshore fund tax exemption regime to bring bond / credit funds on an equal footing with their equity hedge fund and PE fund counterparts. This includes clarifying that interest income forms part and parcel of the income from specified transactions, rather than incidental income, and giving greater certainty to the meaning of the term "money-lending business". These measures will all help preserve Hong Kong's reputation as an attractive jurisdiction for the fund management industry and its position as an eminent international financial centre.

If you have any questions on our submission, please feel free to contact me [redacted] or Rex Ho [redacted] or Anita Tsang [redacted].

Yours sincerely,
For and on behalf of PricewaterhouseCoopers Limited

Charles Lee
PwC China South and Hong Kong Tax Leader