AIMA Hong Kong Education Seminar
Hong Kong Tax Committee Update

22th November 2017

Speakers:

Angelica Kwan (PwC)

Christine Jones (EY)

Darren Bowdern (KPMG)

Florence Yip (PwC)

Paul Ho (EY)

Summit on New Directions for Taxation – 23 October 2017

Summit on New Directions for Taxation

AIMA

23 October 2017 covering:

- Global trends for tax policy
  - Mr Paul Chan, Financial Secretary
  - Mr Pascal Saint-Amans, OECD
  - Professor Lawrence Lau, The Chinese University of Hong Kong

- Tax initiatives for enhancing economic development
  - Panel Discussion 1 – Reinforcing Pillar Industries
  - Panel Discussion 2 – Towards a Diversified Economy

Summit on New Directions for Taxation

AIMA

Mrs Carrie Lam, the Chief Executive

Fiscal Policy

- Use of tax policies and measures to enhance ***competitiveness***, promote ***economic diversification*** and foster ***social development***
- Use of ***tax incentives*** to improve business environment without compromising the simple and low tax regime
- Taking up the roles as ***"facilitator"*** and ***"promoter"***
- Tax incentives may reduce tax revenue in the short term but will bring ***benefits to Hong Kong*** in the ***longer term***

Summit on New Directions for Taxation

AIMA

Mr Paul Chan, Financial Secretary

Tax Policy

Underlying principles in considering different tax policies and measures:

i. The relevant measures should be ***targeted***

ii. They should be able to ***generate economic and social benefits***

iii. They should allow Hong Kong to maintain the existing ***simple and low tax regime***

iv. They should be able to ***meet international tax standards***

Summit on New Directions for Taxation

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Panel 1: Reinforcing Pillar Industries

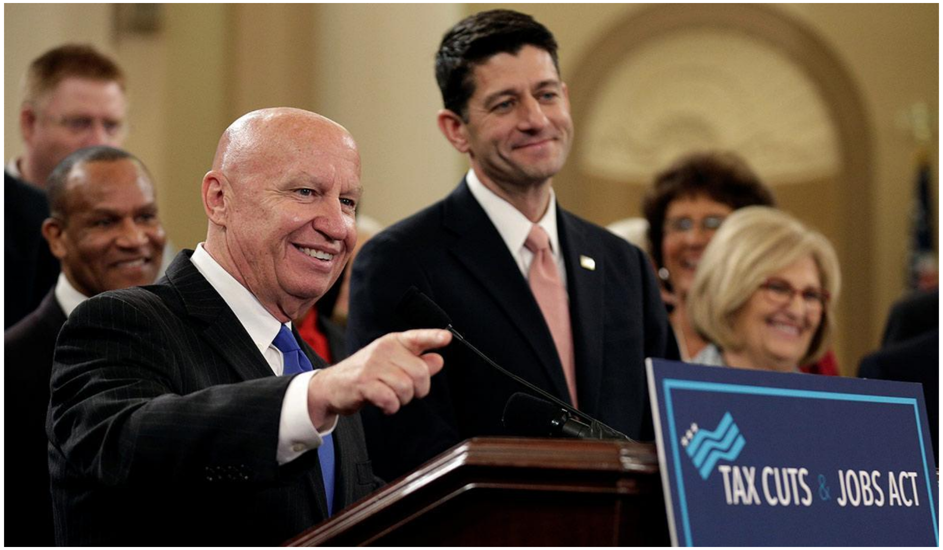
Financial Services

- Asia Pacific is the fastest growth region in the world
- Wealth management – personal wealth is accumulating fast
- Hong Kong is **not yet a fund hub** – there are many issues to fix and holes to fill
- Tax incentives
- Areas that need improvement / reform
  - OFC
  - Credit fund
  - …
- Harmful tax regime

Tax updates on audits of US partnerships and tax reform bill

Tax Cuts and Jobs Act

- 2 November 2017: **House** Ways and Means Committee released long-awaited tax reform bill. Bill passes House 16 November
- 9 November: **Senate** Finance Committee released a Senate version, which is later approved by that Committee and is now at full Senate
- Proposed tax reform under both bills would be largest overhaul of US tax law in 30 years



Some tax reform proposals

Proposal	House Bill	Senate Bill	Current Law
US Corporate tax rates	20%	20% (from 2019)	35%
Carried interest	**3 year holding period** requirement to be able to benefit from long-term capital gain treatment	Similar to House	No specific statute (1 year)
Partnerships	Max 25% rate for individual partners from certain qualified **business income** derived from a partnership	Individuals generally can deduct 17.4% of US 'qualified business income' from partnership	
US Outbound International tax Regime	• Partial 'territorial' system • 1 time repatriation toll charge • Partial current inclusion of 'foreign high tax returns' • Changes to CFC rules	• Partial 'territorial' system • 1 time repatriation toll charge • Current inclusion of 'global intangible' low-taxed income • Changes to CFC rules	'Worldwide' system with foreign tax credits
Cost recovery - full expensing	100% full expensing for certain property after 27 Sept 2017 and before 1 January 2023 (excl property used in real property business)	Similar to House	Tax depreciation rules

Some tax reform proposals

Proposal	House Bill	Senate Bill	Current Law
NOLs	NOL deduction limited to 90% of taxable income. NOLs can be carried forward indefinitely, but not carried back	Generally similar to House But NOL deduction limited to 80% of taxable income from 2023 on	100% deduction; 2 years back; carry forward
Business interest expense	Net interest expense deductions limited to 30% of adjusted taxable income. Would apply to related and third party debt	Generally similar	Related party interest may be limited
Business interest expense –additional limitations	• Would limit US net interest expense deductions for US entities that are part of 'inter-national financial reporting group' -- where group annual gross income >= US$100M • Calculates US entity's share of group's EBITDA	• New rules would limit net interest expense deduction for US entity that is member of 'worldwide affiliated group' • No smaller group exception • Calculates limitation based on comparison of debt-equity ratio	
Anti-base erosion measures	New 20% excise tax new excise tax for 'specified amounts' paid or incurred by US corporation to non-US corporation that is member of same 'international financial reporting group'	Proposes other base erosion and anti-abuse tax on certain inbound 'base erosion payments.' Some of the rules cause US companies to pay excess of tax computed at 10% on expanded definition of taxable income over their regular tax liability reduced by certain credits	

More rules affecting hedge funds

- Funds with US founders / key professionals
- US tax exempt investors
  - New **1.4% excise tax** on net investment income of private universities where endowments >= US$250K/student
  - Senate bill restricts ability to **offset UBTI loss** from one business against UBTI income from another business

Q&A

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