



# Revitalising Hong Kong's economy for greater success

## Key highlights



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Hong Kong faces uncertainties arising from the impact of global trade tensions and social unrest, and now, the coronavirus outbreak.

Given this background and the forecast fiscal deficits in the coming years, we believe it is time for Government to take bold and swift action to drive economic growth and explore new sources of revenue.

At PwC, our purpose is to build trust in society and solve important problems. This is the very reason why we issued the paper – *'Revitalising Hong Kong's economy for greater success'* – which is intended to arouse public interest, provoke discussion and encourage exploration of different options and most importantly, to revitalise Hong Kong's economy.

Here is a snapshot of our key recommendations. The full report can be downloaded via the QR code overleaf.

## Attracting funds and businesses to Hong Kong



- Strengthen Hong Kong's role in RMB internationalisation and as an offshore RMB centre
  - revisit the regulatory framework to encourage more IPOs in RMB in Hong Kong
  - facilitate dual-currency (HKD and RMB) trading on the HKSE
- Introduce business and tax incentives to attract MNCs to set up RHQs in Hong Kong
  - include rental subsidies, concessionary profits tax rate, salaries tax incentive for RHQ frequent travellers, school availability for expatriates

## Capitalising on GBA Opportunities



- Provide incentives or financial assistance for (1) young Hong Kong people to gain work experience in the GBA and (2) Hong Kong enterprises to expand their businesses in Hong Kong to the GBA
- Work with Mainland regulators to expedite the launch of 'Insurance Connect' and 'Wealth Management Connect'
- Extend the super R&D tax deduction to R&D activities conducted within the GBA

## Redefining the Government's roles in driving economic development and revenue growth



- Go beyond a 'facilitator and promoter' role and act as a 'driver' in fostering high-growth industries
- Encourage a more flexible, bold, innovative and commercially-focused mind-set in government
- Adopt a holistic, long-term approach to policy formulation and implementation
- Enhance effectiveness and efficiency of policy execution through coordinated efforts and technology



## Nurturing, attracting and retaining talent



- Provide employment opportunities and career prospects for young talent joining the innovation and technology (I&T) sector
- Build a vibrant I&T ecosystem by attracting high-tech firms, venture capital funds and overseas I&T talent to Hong Kong
- Establish an employment matching programme for local STEM graduates and employers in Hong Kong and the GBA
- Use tax and non-tax incentives (housing subsidies, cash bonuses and tax deduction for education) to attract overseas talent to work and stay in Hong Kong

## Making the Hong Kong tax system more competitive



- Conduct a comprehensive review of the tax system to respond to new business models and a fast-changing international tax landscape
  - draw up response to BEPS 2.0
  - review taxation of digital economy
- Revisit tax policies to encourage offshore funds and entities to domicile in Hong Kong
- Ensure tax incentives are business-friendly, commercially viable and effectively promoted. Conduct regular reviews of their impact
- Administer the tax law with certainty, clarity and a commercially-oriented approach



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There have been many good government initiatives in recent years, but effective and efficient execution is key.

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## Adopt incentives for specific industries



### Funds and asset management

- Treat funds' interest income on debt securities as a tax-exempt transaction
- Tax-free carried interest
- Introduce tax measures to attract family offices to locate their investment management activities in Hong Kong

### Crypto and virtual assets

- Enhance licensing regime and regulation to attract more industry players to Hong Kong
- Develop a safe, regulated crypto trading platform in Hong Kong
- Introduce clear tax law and guidance for digital assets and crypto transactions

### Innovation and technology

- Provide a tax environment conducive to businesses owning IP in Hong Kong for their global operations
  - provide tax exemption for royalty income from licensing of IP for use outside Hong Kong, or
  - introduce unilateral tax credit for royalty income subject to both tax in Hong Kong and overseas

### Transportation and logistics

- Introduce concessionary profits tax rate for distribution service income from logistic service providers/couriers

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