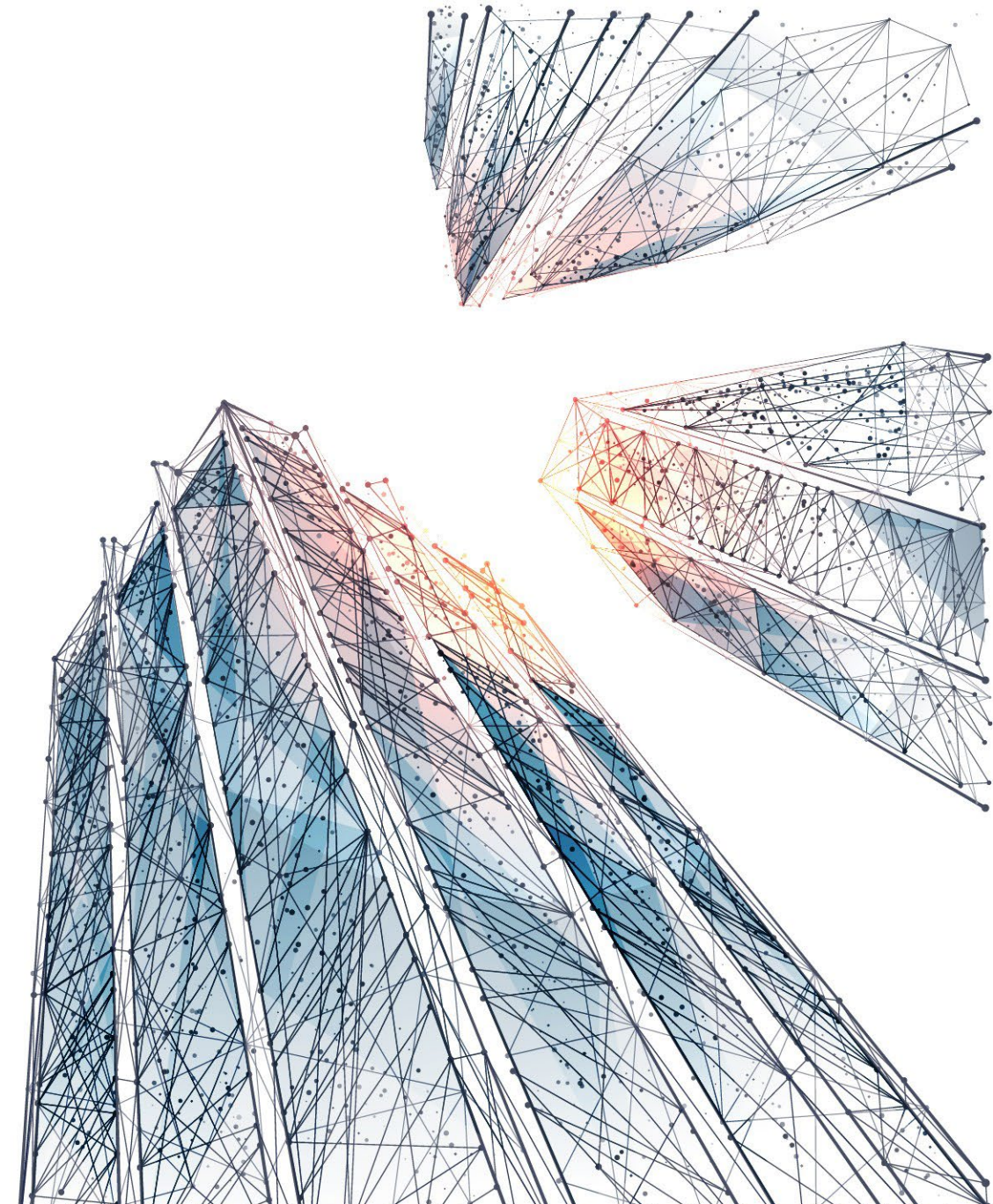
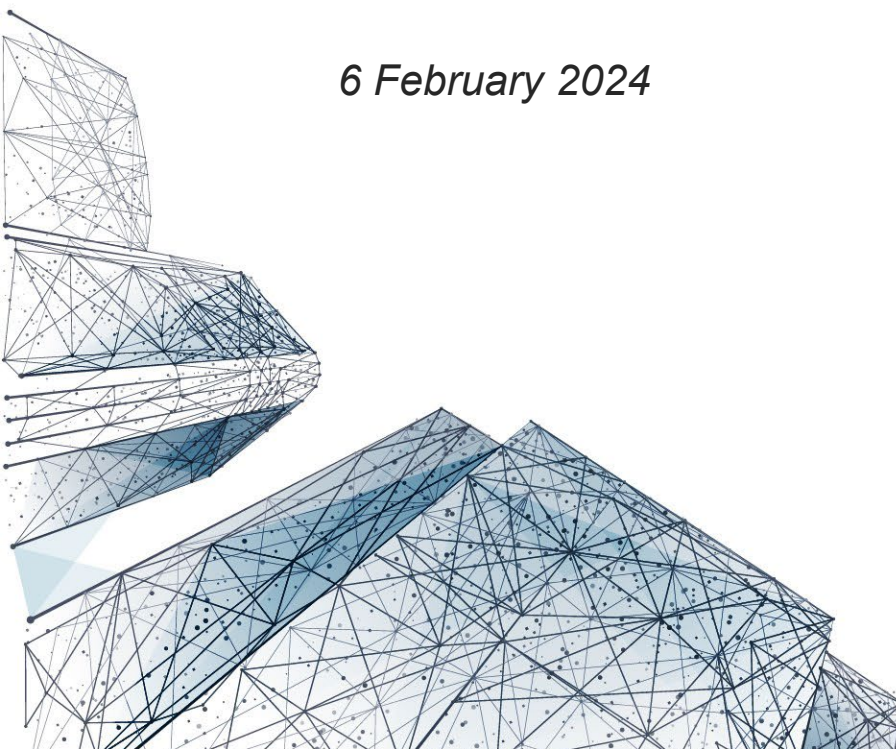


Wealth for Good: Hong Kong as a Regional Philanthropic Hub

6 February 2024



Distinctive Strengths of Hong Kong's Philanthropic Ecosystem

Contribution of UHNWIs and family offices (FOs)

- Across the globe, 74% of family offices are engaged in philanthropy. On average, FOs in North America donated US\$ 7.5 million annually, while European and Asian Pacific FOs contributed US\$ 6 million and US\$ 2.7 million respectively in 2021.
- According to the Hurun China Philanthropy List 2022, 49 individuals in Mainland China donated RMB 100 million or more respectively between 1 April 2021 to 31 August 2022. The total philanthropic contributions of these individuals amounted to an impressive US\$10 billion.
- Notably, 35% of the companies owned by these philanthropists are based in the GBA. This could indicate a concentration of philanthropic activity within this economically vibrant region.



Distinctive Strengths of Hong Kong's Philanthropic Ecosystem

Immense wealth and long-standing history of giving

For the year of assessment 2020-21, the amounts of approved charitable donations allowed under profits tax and salaries tax were HK\$4.35 bn and HK\$7.45 bn respectively.

Value proposition as an International Financial Centre



Hong Kong ranked second in the world's top 10 cross-border wealth management booking centres according to BCG.

Hong Kong's well-established banking system, robust regulatory framework, and depth of financial services make it an ideal location for managing philanthropic funds.

Proximity to Mainland China



Hong Kong could serve as a conduit for international philanthropy, while also unlocking the potential to channel Mainland China's burgeoning wealth towards global philanthropic endeavours.

Staunch Government support

The Government provides social services mainly through social delivery organisations (SDOs) by way of subventions. In 2022/23, this amounted to HK\$ 23.3 billion.

The Government's commitment to developing the city as a leading philanthropy hub as a key strategy in its family office policy statement.

Vibrant and diverse social sector

The number of charities exempt from tax recognised by the IRD increased by 27.9% since 2013 (7,592), reaching 9,709 at the end of March 2022.

Challenges for philanthropic organisations and foundations to maximise their Impact

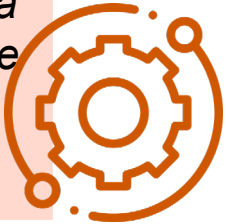
Taxation on philanthropic giving

- Hong Kong imposes a limit for tax on the amount of deduction. The total amount of tax deductions for charitable donations is capped at 35% of the reduced assessable income.
- This restriction has been perceived as not sufficiently conducive for donors, including family offices and family foundations, to make significant contributions.



Cumbersome administrative process

- The social sector and its relevant philanthropic activities are not regulated or under the purview of one centralised stakeholder.
- The number of days for organisations to acquire a clearance from the IRD is higher than the average in Asia of 124 days.



Regulation and registration of charities in HK

- Lack of regulatory clarity
 - Definition of charitable organisations
 - Outdated definition of charitable purposes
- Registration of charities
 - The list of tax-exempt charities maintained by the IRD does not necessarily include all the charities operating in Hong Kong.



Cross-boundary donations

- Cross-boundary donations to Mainland China present a unique set of challenges due to the country's regulatory framework and political environment.
- One of the primary challenges is navigating the stringent regulations governing foreign donations.



Policy recommendations



Giving momentum: further tax incentives for philanthropic activities

- **Remove/adjust the 35% ceiling on income eligible for tax deduction for charitable donations**
- **Expanding the coverage of “approved charitable donations” to non-monetary donations** could relieve financial pressures on non-profits by supplementing or replacing cash donations with equally valuable goods and services.



Doing good made easy: providing regulatory clarity and certainty

- ***Providing regulatory certainty and clarification of various philanthropic concepts***

Enhancing the description of charitable purposes in a more comprehensive manner can foster greater trust between the government and the philanthropy sector.

- ***Establishing a centralised directory/registry of charities***

A charity registrar ensures transparency and accountability within the charitable sector. The setup of a centralised directory would facilitate all stakeholders in the industry in terms of operations and check and balance within the industry.

- ***Promoting a balance between transparency and efficiency in administrative and reporting processes facilitated by technology***

On transparency, Hong Kong can consider streamlining its application process in terms of setting up a charitable organisation and applying for tax exemption. Relevant stakeholders should consider measures to enhance charitable organisations' disclosure of information such as financials and list of charitable activities



Policy recommendations



Coordinated philanthropy: the feasibility of establishing a cross-sectoral committee and a “one-stop shop” for the charity industry

Establishing a cross-sectoral steering committee for better policy design, support and coordination

The committee can be in charge of formulating a strategic direction and roadmap for the industry, and providing capacity building and talent development strategy for the industry. Furthermore, the committee should spearhead efforts to deepen collaboration with Mainland China to facilitate cross-boundary giving.

Setting-up a one-stop shop under the steering committee to facilitate operations of charitable organisations and enhance trust and quality of reporting within the sector, which may also help coordinate with counterparts on the Mainland

The steering committee may evaluate the feasibility of establishing a coordinated body to oversee the philanthropy industry. It is noteworthy that a “one-stop shop” does not necessarily warrant a regulatory function. It could be set up in the form of a servicing centre to facilitate the operation of charitable organisations in Hong Kong as well as enhance trust within the sector.

Some of the proposed objectives and relevant responsibilities of the one-stop shop can include:

Facilitating the carrying out of various administrative functions, such as the reporting requirements proposed earlier

Registration of charitable organisations in Hong Kong as well as maintenance of a centralised directory

Provision of guidance to the public on setting up new charitable organisations in Hong Kong and educating the public on the charitable and philanthropic sector

Monitoring and analysing HK's philanthropic landscape to identify areas or gaps in need of resources, and facilitate impactful collaborations between donors and beneficiaries in addressing pressing societal needs

Communicate with relevant authorities in Mainland China to foster collaboration and establish mutual access mechanisms that facilitate cross-border donation flow



Thank you

Charitable Purposes in Hong Kong

- To be a charity at law, the institution or trust must be established for purposes which are exclusively charitable.
- Charitable purposes are currently classified into four heads, based on the “four principal divisions” of Lord Macnaghten’s case dated 1891

| Current definition of charitable purposes | | Proposed definition of charitable purposes | | | | |
|---|--|---|---|---|--|---|
| The relief of poverty | The advancement of religion | The prevention or relief of poverty | The advancement of education | The advancement of religion | The advancement of health | The saving of lives |
| The advancement of education | Other purposes of a charitable nature beneficial to the community not falling under any of the preceding heads | The advancement of citizenship or community development | The advancement of the arts, heritage, culture or science | The promotion of religious or racial harmony | The promotion of equality and diversity | |
| | | The advancement of environmental protection or improvement | The relief of those in need by reason of youth, age, ill-health, disability, financial hardship or other disadvantage The advancement of animal welfare | The advancement of animal welfare | | Any other purpose that may reasonably be regarded as analogous to any of the preceding purposes |