香港董事學會
The Hong Kong Institute of Directors

HKIoD's Response to the 2016-17 Budget

Note: The response first appeared in Chinese on 24 February 2016.

Pressing On, Striding Along

(24 February 2016, Hong Kong) – The Hong Kong Institute of Directors made the following statement in response to the 2016-17 Government Budget.

* * *

In the view of HKIoD, the Budget announced today strides along the Chief Executive's policy direction, with support measures to stimulate the economy and with forward planning for future needs. On the whole, it meets expectations.

Stimulate the economy

In the Budget announced today, the Financial Secretary put forth support measures to stimulate economy. The Institute welcomes those measures.

The Financial Secretary will extend the application period for the "special concessionary measures" under the "SME Financing Guarantee Scheme", reduce the annual guarantee fee rate, and will remove the minimum guarantee fee requirement. These measures are not exactly innovative, but together with the profits tax reduction and business registration fee waiver, SMEs should find some help in their cash flow. But if we are to really help smaller businesses cope with cash flow and help them cope with the cost of doing business, we ought to go for a two-tier profits tax regime and to introduce "loss carry back".

The Institute is delighted to see the Financial Secretary allocating resources to launch measures with the tourism industry to better promote Hong Kong and bring higher-spending visitors to come or to come again.

The food truck pilot scheme will get started this year. The Institute is confident that those who have lived away from Hong Kong will not be unfamiliar with food trucks. But if we are to import from abroad, we can probably just give those food hawkers and Dai Pai Dong we long have some better opportunities to thrive.

Nurturing innovation under the new economic order

The Budget makes provisions for the Policy Address initiatives to push on the innovation and technology front. A key issue concerning the development of our innovation and technology industry is to put research results into wider commercial applications. The Institute has great respect for the many achievements local universities have made in upstream academic research, but we need them to redouble the efforts downstream to turn more research into products that have larger societal impact.

The Government will according to prior plan inject $5 billion into the Innovation and Technology Fund, and on top of that, there will be 5 other measures. These measures will provide funding support to universities for midstream and downstream R&D and for technology transfer, assist research teams to establish technology start-ups, encourage private enterprises (SMEs in particular) to put more resources into R&D, and promote the trial of R&D results in the public sector. These are useful measures in the push for commercializing R&D

results, and they do meet our expectations. We also noticed that the scope of tax deduction for capital expenditure incurred for the purchase of IP rights will be expanded.

We believe the measures to support technology start-ups, the creative industries and the fashion industry in particular will help us achieve a more diversified economy.

Finding new markets for the traditional industries

Under the new economic order, traditional industries still have their role to play. As China embark on the Belt & Road Initiative, and as China keeps its door open to two-way traffic – not just foreign investment coming in, but native Chinese investments going out, going global, Hong Kong being the Country's super-connector should see plenty more opportunities for the financial sector. With the China-led AIIB getting into action, much demand in infrastructure project financing is expected. Should there be more RMB finance deals completed in Hong Kong, it will go some distance in shoring up the foundation for Hong Kong to be the leading offshore RMB business center. Some projects can conceivably be backed by bonds to be listed on the Hong Kong market. Doing so should give the local bond market a better shot in the arm than issuing inflation-linked or silver bonds.

The Financial Secretary mentioned that the SFC and the Stock Exchange are planning to conduct shortly a public consultation exercise on enhancing the regulatory structure in respect of listing matters. The Institute looks forward to that.

Ought to refresh the tax system to keep us competitive

The Government has introduced a Bill to amend the Inland Revenue Ordinance to offer incentives to attract multinational and Mainland enterprises to establish corporate treasury centres in Hong Kong. This would reflect the Financial Secretary's recognition of the effect tax incentives in channeling investment to spur economic development. The Government has set its sight on aerospace financing business. The Financial Secretary could have taken up the advice to adopt tax measures to foster its development. Regrettably, the Budget, as in the past, merely commits to explore possible measures generally and has not yet put such in place.

We repeat our call on the Financial Secretary to give a holistic review on the tax regime, to make it more competitive and to better match economic development needs.

Long-term development driven by manpower

Hong Kong's long-term development is to be driven by talents. We recognize the Administration's commitment to develop an orderly framework of education, vocational training and qualification accreditation that features diversity, provides multiple pathways and enjoys high recognition, all towards a seamless integration of education, training, business and employment.

Pilot schemes for the retail and for the insurance/asset management sectors are rolling out. Together with training schemes for other sectors, these should help attract new entrants to various industries.

This Budget included an initiative to further encourage continuing education. Starting from the next academic year, there will be a pilot scheme to provide tuition fee subsidy for students admitted to designated professional part-time programmes offered by the Vocational Training Council. The pilot scheme will cover programmes in construction, engineering and technology disciplines, and will have a total commitment of $200 million. The Institute agrees.

HKIoD believes lifelong training for directors in corporate governance knowledge and skills is an important yet often neglected segment when it comes to nurturing talents for the economic development of Hong Kong.

To maintain Hong Kong's role as a major international financial centre, Hong Kong must keep up with other major financial markets at efforts to improve banking and financial regulations, and to raise corporate governance. But corporate governance is not just for big corporations. Owners of SMEs and those who are thinking about starting a business should also pay attention. There have been plenty of cases where SMEs still find it difficult to take full advantage of loan schemes of one kind or another. One common impediment is that many SMEs could not demonstrate proper internal control and are ill-prepared to submit sound loan proposals. A better corporate governance scorecard will make it more likely for a business to obtain credit and financing.

Company directors are ultimately responsible for corporate governance. Better quality company directors should mean better corporate governance. HKIoD believes that company directors should have a firm measure of competence to perform when they first assume their posts. Over time, they should strive to remain up-to-date with best corporate governance practices. Similarly, directors/governors of social enterprises, charitable organisations and statutory bodies should also be ready and prepared to discharge their duties when they start out and to keep up-to-date with best governance practices over time.

The Institute prays for the Government to draw up measures to help directors of business companies or governors of organisations of various kinds, whether those who now are and those who aspire to be, to obtain quality training so as to raise the level of their corporate governance practices.

Relief measures

With a grim economic outlook, middle class families do have a burden that needs relief. The Budget maintains the reduction of salaries tax and personal assessment, and brings up the allowances for maintaining dependent parents or grandparents. Together with four-quarter waiver of rates, these measures should help the middle-class families make ends meet.

We also support the extra allowances to CSSA, Old Age Allowance, Old Age Living Allowance and Disability Allowance.

On ending the rent waiver for public housing tenants, we agree.

We do worry that the Budget may not have offered much to those in the lower echelon of society. The hope is for the relevant departments to fashion on their own or through the Community Care Fund and social services groups suitable relief measures for the needy.

To improve people's livelihood will require sustained economic growth

The Financial Secretary did not resort to just hand out cash. We agree. Indeed we must better deploy fiscal surpluses to generate more money to meet future needs. The Financial Secretary created the Housing Reserve in 2014, and in the last Budget set aside $50 billion as commitment for retirement protection as well as creating a Future Fund with the balance of the Land Fund. The Budget today included a set aside of $200 billion for the ten-year hospital development plan. The Government is taking steps to meet the major financial commitments that must necessarily come about when seeking to meet the needs of social development and people's livelihood.

The Institute believes economic growth remains our best friend when it comes to finding new monies to tackle livelihood issues. With sustained economic growth, all walks of live are that much more able to share in the prosperity, and the younger generation will have that much less difficulty in finding more jobs and opportunities of their choosing. Making strides in economic growth will require a stable and peaceful environment. The Institute wishes for society to work together towards Hong Kong taking another leap to be the City of Opportunity in the new economic order.

- END -

About The Hong Kong Institute of Directors
The Hong Kong Institute of Directors is Hong Kong's premier body representing directors to foster the long-term success of companies through advocacy and standards-setting in corporate governance and professional development for directors. A non-profit-distributing organisation with membership consisting of directors from listed and non listed companies, HKIoD is committed to providing directors with educational programmes and information service and establishing an influential voice in representing directors. With international perspectives and a multi cultural environment, HKIoD conducts business in biliteracy and trilingualism. Website: http://www.hkiod.com.

Media Enquiries:
Ms Christine Wong (Tel: 2889 4988; Email: christine.wong@hkiod.com; Fax: 2889 9982)