香港董事學會
The Hong Kong Institute of Directors

The Hong Kong Institute of Directors' Budget proposals call for supportive policies for manufacturing SMEs, development of government bond market and professional education hub, and fundamental change to fiscal policy

A More Accommodating Tax Policy for Manufacturing SMEs

The Hong Kong Institute of Directors' Budget proposals advocate more supportive measures for manufacturing SMEs during tough economic times, including a more accommodative tax policy in the areas of the source rule on profits and the tax treatment of import processing.

The source rule on profits is a nagging concern for manufacturers, particularly where it applies to the taxation of cross-border manufacturing profits and trading profits under the totality of facts approach. This area needs greater clarity and more accommodating tax treatment.

Policy change in the Mainland in recent years has forced many manufacturers to switch from contract processing to import processing. However, the Hong Kong tax treatment towards import processing is much less favorable than for contract processing. This disparity needs to be rectified for it throws up a serious obstacle to manufacturers that are trying to restructure their operating mode to cater to changing Mainland policy.

The Institute also asks for closer cooperation between the Government and Mainland authorities to help Hong Kong companies gain access to the domestic Mainland market and to secure banking facilities on the Mainland to service their business.

Development of Government Bond Market

The recent international banking panic shows that there could be a substantial unmet demand for government bonds as a safe investment vehicle and a store of value. The Institute therefore suggests the Government to look into the possibility of issuing government bonds to meet a potential market need. Government bonds could serve as a tool for better and more flexible fiscal policy management, and the development of a vibrant bond market would also bolster Hong Kong's role as a financial center.

Fiscal Policy

The Institute's Budget submission also urges the Government to rethink the way it manages the fiscal budget over the business cycle. Fiscal policy in Hong Kong needs a fundamental change away from a tax and expenditure pattern that feeds rather than counters the economic cycle.

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Land policy should also be adjusted so that it is not viewed primarily as a revenue source but as a resource for territory-wide development.

Corporate Governance and Professional Education

The Institute proposes to develop Hong Kong into a regional hub for professional and higher education.

Hong Kong, being a regional hub in the provision of business services, already possesses many of the ingredients for it to also become a hub for professional education. Becoming a professional education hub would not only help maintain the competitive edge of our professional services, but would itself serve as an impetus to economic growth.

One type of professional education that needs to be promoted is corporate governance, which is essential for the long-term survival of our businesses. The importance of good corporate governance is illustrated by the rather disappointing outcome of the SME Loan Guarantee Scheme, where despite government effort to expand the Scheme few new loans have been granted to manufacturers. There are myriad reasons for this unsatisfactory outcome, but one factor is that many SMEs do not have sound corporate governance including proper internal and financial control, and thus are ill prepared to submit sound loan proposals.

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