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## **HKIoD's recommendations for Government Budget 2019-20**

The Hong Kong Institute of Directors issued the following statement ahead of the Budget Speech scheduled to be delivered on 27 February 2019.

Much of the content of what we have recommended in recent years remains timely and appropriate. In this communication, we seek to highlight what we see as over-riding issues that deserve particular mention in the upcoming Budget.

### **Hope and Happiness, make it real**

The Chief Executive had the desire to deliver Hope and Happiness in her maiden Policy Address. A year on, the promise is still far. The Policy Address several months ago was to make some steps to make up ground. The Budget will need to match those steps.

### **The Hope for a better economy**

Economic strength will remain our best friend for new monies to tackle the many deep-seated livelihood issues. Fiscal reserves in vast quantity are a gift to Hong Kong. They can be and should be better deployed, to generate earnings that support our social expenditure now and in future, to invest in infrastructure, and to be seed monies for our economic development. With sustained economic growth, all walks of life are that much more able to make real their hope and happiness.

The Hong Kong economy is slowing down. World trade and economic order is in adjustment. We expect the trade tensions between the U.S. and China to linger on. Some Hong Kong businesses may be particularly affected. The Government should have plans in place to give them appropriate support.

Prudence in managing public monies is all appreciated, but to be overly cautious and shrink investments in Hong Kong's future can hurt. The Financial Secretary will need to show the ways for having more stable revenue for the Government, and the means to keep our economy strong and competitive.

### *Belt & Road, are we ready? Greater Bay Area, are we ready?*

The Policy Address delivered in October 2018 was to reiterate the concept of Hong Kong being the "super-connector", to "do its best as 'facilitator' and 'promoter' to capitalize on Hong Kong's strength to serve the country's needs."

How well we capitalize on the opportunities stemming from the grand vision of "One Belt, One Road" and the ambition of a Guangdong-Hong Kong-Macao Greater Bay Area can be telltale of Hong Kong's ability to stay relevant.

Belt & Road will mean vast market corridors for Hong Kong businesses and service providers. We expect the Government to have pragmatic measures to facilitate the freer movement of capital, people, goods and services across border. Hong Kong's own planning for the future should also factor into account the potential synergy that could be achieved through the collaboration of the Greater Bay Area constituents.

The Greater Bay Area Development Plan just released may bring some excitement and encouragement, but it should not alter too much what should already be Hong Kong's strategy. The test for Hong Kong is to have policy resolve, right resources, and effective implementation to achieve that strategy.

*For those living and working across the border*

Hong Kong persons living and working across the border are increasingly being given "national treatment" regarding eligibility for and access to social services and amenities there. That is all good, but we are also aware that there are requests for Hong Kong persons to be given breaks of one kind or another for Mainland tax and levies. Mainland authorities can of course resolve to offer such concessions, but Hong Kong People may not want to be seen as taking too much a leap from being "super-connectors" to "supra-nationals" when indeed we are the one seeking green pasture.

*Refresh our tax system to keep us competitive*

Hong Kong has fallen off its pace in the race for economic development, and the Chief Executive in her October 2018 Policy Address made the point to develop new areas of economic growth.

Appropriate incentives and concessions have the effect of channeling investments into areas of the economy we want to develop. Our neighbouring jurisdictions are all competing with Hong Kong for investments, and they offer tax incentives and concessions in many forms and shapes to do so. This has dulled so much the Hong Kong tax system's competitive edge.

The usual argument in defense of the Hong Kong tax system is that it is "simple" and "convenient", and the tax rates are "low". Global trend to reduce corporate tax rate, however, is making the Hong Kong profits tax rate not nearly as attractive as it once was. And the treatment of tax losses under Hong Kong's tax system would also make a simplistic comparison of headline rates misleading. To believe that a lower headline rate is all that is important could be hypnotic complacency.

The Hong Kong tax code has seen many changes and additions to meet international tax treatment and reporting standards. The introduction of various tax concessions over the years, while desirable and necessary, had also made the system not as simple. The pertinent problem, however, is not about complexity but how well do the concessions on offer achieve the intended economic benefits.

We should end the wait (at the least, begin the end of that wait) for a comprehensive review of the tax regime, to spur development, to make it better match business reality, to reinstitute the notion of fairness, all for a better economy.

We ask the Government to provide tax incentives to better support the hope for more companies to set up regional headquarters in Hong Kong.

We again ask the Government to introduce "group loss relief" and "loss carry back", to encourage entrepreneurial risk taking and innovation, and to help SMEs weather economic storm. We note that the Financial Services Development Council has also recommended the introduction of a group loss relief to the Hong Kong tax regime.

We again ask the Government to amend the tax law (Section 39E refers) to permit tax depreciation allowance for plant and machinery used under import processing arrangements outside Hong Kong, or to provide an alternative relief.

We ask the Government to offer further incentives to promote innovation and technology development, and to foster a Creative Economy.

We expect the Government to continue its work on expanding the tax treaty network, with priority given to our top trading partners and select Belt & Road jurisdictions. In the meantime, unilateral foreign tax credit can be made a feature of the Hong Kong tax system.

We ask the Government to make tax assessments especially tax loss positions more certain and not subject to re-assessment for too long.

We expect a firmer game plan for the Tax Policy Unit to do its job.

#### *Help SMEs with cash flow, help them cope with the cost of doing business*

We can help small businesses cope with the cost of doing business. These could include additional deduction allowances on business costs that smaller businesses routinely and legitimately incur, and a longer time window for them to pay taxes. A more streamlined tax administration (wider use of e-filing and online processes, for instance) could also result in faster processing and earlier certainty for taxpayers.

Loan guarantee schemes have been put in place. Some would-be participants lament that they don't help (e.g., requirements too rigid) and may in fact be not affordable (e.g., interest rates too high). The Government may give SMEs better help by re-tuning those schemes or to offer alternatives.

#### *Keep visitors coming*

Visitors bring economic benefits, but Hong Kong has for long been in the predicament of having to receive a huge number of visitors relative to its geographic size. Not having the capacity (and the will!) to welcome and handle visitors could mean that visitors, high-end or low-end, overnight or day travellers, will desert us for other nicer friendlier destinations.

### **The Hope for stronger growth through innovation**

#### *Must invest in R&D*

R&D spending as part of GDP remains low, and there is room – and need – for further incentives to encourage R&D.

Super-deductions for R&D expenses (200%, up to 300% under certain conditions) are now possible, but the deductions are limited to R&D activities either wholly undertaken in Hong Kong or are outsourced to a designated local institution. The realities of collaborative research, however, is such that there will be genuine reason or need for certain research activities to be conducted outside Hong Kong or by other entities (e.g., research laboratories elsewhere, or industry partners). We believe there should be the leeway for at least a normal (100%) deduction in these circumstances. We also believe there should be a cash-conversion feature in connection with the deductions for R&D expenditures to better help the startups not yet in profitability.

We also believe there should be better tax relief for capital expenditures incurred on acquisition of non-IP intangible property rights (indefeasible rights of use, operating licences, franchises,

etc.) in situations where the value of such rights are realized by the taxpayer through self-use in the normal course of business rather than through the sale of such as capital asset.

### *The Hope for a Smart City*

Hong Kong is still some distance away from being a real smart, intelligent city that incorporates wider use of design in the delivery of public service. It is perhaps the case that design realises its true value when put into addressing societal challenges and instigating positive changes. Businesses, social enterprises and public agencies can all tap the power of better and smarter design in finding new ways to deliver services that enhance user (citizenry) experience, whether in banking or in healthcare.

As a start, the Financial Secretary can make that happen by extending the concept of Social Innovation and Entrepreneurship Development Fund to have a scope beyond fighting poverty.

To go further, the Government may have to revisit the funding model, such that money and resources that could produce innovative integrated solutions are not scattered and administered across different departments and bureaus without the right measure of coordination.

### **Housing and land supply**

The previous Administration demonstrated a strong determination to increase the supply of housing units, and this Administration must continue the effort.

#### *If we cannot afford to buy, we will have to rent ...*

Home buyers can claim a tax deduction on their loan interest. Home renters may just as well deserve a similar tax deduction for rental payments. The Government had indeed considered the option but did not get around to introduce it in the last Budget. Would this year be the year? For low income renters, a tax deduction may not be as helpful as a direct rental subsidy would. The Financial Secretary may want to consider alternative reliefs for them.

#### *The Land Debate*

There are certain views expressed out there, and it is also our impression, that the Public Engagement has detached land use from the debate on how to increase land supply. What options ought to be taken to increase land supply could well depend on the perceived need for land sites so obtained.

The most pressing need for land use and the most talked about is for housing. The Institute supports the Chief Executive when she made the pledge to increase the ratio of public housing on new land developed by the Government to 70%.

With the completion of more housing units, we can probably re-establish a flight of steps for younger persons and families to improve on their housing condition and quality of living in realistically reachable climbs. For those seriously in need for public rental housing to satisfy basic housing, the promise of a three-year waiting time can also be better kept.

HKIoD would like to reiterate another concern, that in meeting the acute housing demand now, we do not forget the other long-term goal of increasing the living area per person. Perhaps we can add a bit of creativity in the floor plan design of the new housing units, such that when the pressure on housing lessens, the units can be suitably re-modelled to become larger units. At the least, we need smarter floor plans with better actual usable space so smaller units can still make for a good habitat.

As we build more homes, we should not do so at the expense of quality urban life. To build more housing in already crowded communities without worsening the living environment for everyone is not easy. And every new town we create will need to have proper and adequate public amenities, which will translate into another realm of land need. There is no point in building more communities if we cannot access and live comfortably in them.

And while we think about housing, we should not forget about land use for commercial use. Trends in demographics will also call for a rethink of how to utilise Hong Kong's land resources for social and health services.

Land supply in Hong Kong should not just be a matter of revenue generation. The decisions to put Hong Kong's land resources to various use must comport with strategic developmental goals.

Land may be a precious commodity in Hong Kong, but developable land in Hong Kong has surely not been exhausted. A better more efficient utilisation of idling land sites must be considered alongside the search for new plots, whether through reclamation or otherwise. Land sites now occupied by one use could well be released if such use can be suitably relocated.

To release existing land sites for another use will involve a bargain with the existing holders of the land interest. In some situations, public-private partnership will be a sensible tool to be deployed. In those situations, the public will expect the Administration to not shed its responsibility in dictating land use with public interest in mind. Holders may rightfully make a gain on their interest in land, but it will be a public outcry if their gain is seen as too much of a windfall just from having a stockpile of land plots.

### **Consumer protection must protect consumers**

Hong Kong residents will have to look to the Government for their peace of mind when turning on the tap or when consuming food and health products. While food labels are required (for the most part), some food labels are plastered over the original packaging covering information that may – just may – provide information for customers to make a choice. Other food labels have prints so small as to require a magnifying glass. And the micro-fiche phenomenon is even more so with safety information on some electronic devices (voltage/current specifications on phone chargers, for instance). With age, eye sight goes. We should need to think of ways to keep protecting ageing consumers.

### *Wet markets are a Hong Kong way of life*

Some years ago, a real estate investment trust scheme was devised with the aim to make food markets in many housing estates better for shoppers. Years later, shoppers in many of those neighbourhood are yearning for options away from look-alike malls. We believe better smarter wet markets can provide that option for residents in many parts of the city. That would also help us keep and preserve a Hong Kong way of living. The problem that we saw, however, is that existing wet markets are not properly managed, causing pollution and obstruction. The Government will need to address those issues while new ones are considered.

### *Who bags the plastic bag levies?*

To have a levy on the use of plastic bags should have the effect of changing consumer habits and be good to the environment. But if money is being charged for what should be exempt under the rules, and if the money so collected is bagged by the businesses, the result is not necessarily fair on the shoppers.

### **Public transport and the commute**

There could be more conviction at rationalizing bus routes. Cross-harbour buses, once they crossed the harbor, can be better deployed to serve local needs and potentially reduce the number of buses running on same stretches of road.

The public will now demand bus drivers to drive safely, but they must also have the skill to operate a vehicle with passenger comfort in mind. Many ageing riders have had bad – even dangerous – experiences with rocking motions when a bus is pulling to speed or braking to a stop. The same goes to other modes of public transport.

If “tapping on and tapping off” is the way to let riders enjoy lower fare for shorter segments travelled or to enjoy a more generally available transfer fare mechanism across different operator platforms, we could be having happier commuters with fewer vehicles on the street. We surmise riders will eventually not mind too much, if at all, an extra tap getting off if they can save some real dollars.

With rail services being the backbone to our public transport, riders will want assurance of its reliability. Riders should also find plain cheaper tickets better than complicated discount or rebate offers.

It may be time for another comprehensive transport study.

### **Making ends meet**

#### *Fight poverty*

HKIoD agrees that public resources should be used in appropriate circumstances to help the disadvantaged. In doing so, we must rely less on handing out welfare but more on giving people the ability and means to construct their future. We are behind the broad policy direction of self-reliance through employment. Strong showing in economic development will only create more opportunities for more people to improve their livelihood and exit the trap of inter-generational poverty.

While abuse may need to be prevented, to spend a disproportionate amount on administrative costs and to create confusion and chaos in trying to hand out assistance monies to the disadvantaged may not have been particularly wise.

#### *Middle class relief*

The middle income earners contribute much fiscal revenue, but they are also squeezed by high living costs. HKIoD members will support an increase in personal income tax deduction allowances, both as to quantum and to type, to help middle class families make ends meet.

### **For better health**

#### *Medical incidents, far too many!*

With the number of medical incidents making headline news, the public will want better assurance of the safety and reliability of the public health services.

#### *Do we need more hospitals, or more doctors and nurses?*

Hong Kong is probably still playing catch up in terms of the healthcare services capacity, given the ageing population. Building more hardware is one thing. Having enough doctors and nurses to staff the facilities is another. To bring doctors from overseas to Hong Kong is a sensible option. As we do so, we must avoid the predicament where qualified doctors are turned away

because of some narrowly guarded sectoral interest. Once they are here and are doing a good job, we need better ways to keep them.

#### *Smarter healthcare*

There is a strong case for funding to develop pilots for smart clinics where artificial Intelligence and other smart technologies can be deployed to facilitate diagnosis, by remote sensing or imaging if necessary.

#### *Public-private partnership*

A wider application of a public-private partnership concept in healthcare services may be the solution to shorten waiting time and improve service delivery.

### **Between the elders and the young**

#### *Surrogate for youth policy outcome*

The Government has been pushed and swayed into coming up with some kind of youth policy. The younger generation deserves help where due, but in our mind, the bulk of thoughts and energy should be put to effectuate structural growth and development that will arrest the loss and further loss of Hong Kong's ability to perform and compete in the long run. The best surrogate to arrive at any good youth policy outcome is an effective economic development strategy. A more diversified economy will create more opportunities for them to construct their future.

The growing contingent of our elder population will deserve an elder policy no less – probably more – than the younger generation for a youth policy.

#### *For happy retirement*

When assessing options for retirement protection, we need to consider schemes that enable workers of today to have less need to rely on the safety net when they age. This should require an overall assessment of the purpose and effectiveness of the Mandatory Provident Fund and the social security schemes now in operation.

If we believe in the utility and purpose of MPF, there can be better incentives for the working population to save larger sums via voluntary contributions.

Retirement protection meant for supporting a living should probably only go to those with real need but not the means. Yet we can see the rationale for the Old Age Allowance scheme, paying nominal amounts to the elderly out of respect. We can see room to allow for higher amounts on a progressive scale against suitable age thresholds.

Further integration into a Greater Bay Area should afford more possibilities for Hong Kong elders to settle and retire across the border. Welfare schemes for eligible elders should be made more portable. Tax allowances for the support of parents and grandparents should also accommodate this trend.

### **Long-term development driven by manpower**

#### *Better means to construct their future*

Hong Kong's long-term development is to be driven by talents. Our schools should be churning out graduates who can make up the workforce for current needs as well as future development. Access to formal education or vocational training, and wider more generous support for continuing education, will only help workers of all ages acquire better knowledge and skills to fill the jobs in demand now and develop careers with rewards and respect over time.

The new economy may be calling for skills and capabilities not embodied in current realm of licenses or qualifications. Rules for self-education expenditure deduction may need to be appropriately relaxed.

It may be true that all workers should have the heart to learn something new, but they will be helped along if employers find better incentives to usher their employees to do so.

*Better quality directors for better corporate governance*

HKIoD believes life-long 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 for Hong Kong.

Company directors are ultimately responsible for corporate governance. Better quality company directors should mean better corporate governance. As part of the HKSAR 20<sup>th</sup> anniversary celebration, there was held in March 2017 a Corporate Governance Roundtable. HKIoD was a proud supporting organization for the event. Through the event, the Government wants to promote and enhance good governance. The Financial Secretary can further that purpose by highlighting the importance of initial and continuing training of corporate directors to better help them fulfill their duties.

As shown in the results of HKIoD's 2016 Corporate Governance Score-card, the sample companies have improved considerably on longer standing areas of assessment, but they may have not made much headway when it comes to newer assessment criteria stemming from the heightened expectations and requirements of the more recent 2015 OECD Principles of Corporate Governance. (For more information, follow this link: <http://www.hkiod.com/scorecard.html>)

Indeed, striving for good corporate governance is not a static endeavor but a constantly evolving dynamic process. It is that much more important for company directors to pay attention to and equip themselves to master new developments in board and corporate governance practices.

Corporate governance is not just for profit-seeking companies. Social enterprises, charitable organisations and statutory bodies should also find it to be good investment to help their directors/governors get ready and be prepared to discharge their duties with good training.

Amidst calls for a review of the lump sum grant subvention scheme, thoughts could be given to find ways to permit – and encourage – subvented organisations to invest in and benefit from corporate governance training for their governors/trustees and senior management.

We pray 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.

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**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>.

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