

Issued on: 17 February 2021

**HKIoD's Statement
ahead of
the Financial Secretary's Budget Speech
scheduled to be delivered on 24 February 2021**

Since the Coronavirus outbreak, the world has not been the same. Though vaccines are out, the outlook is still grim. What comes next is uncertain. Hong Kong may still have what it takes to emerge better, but we will have to set our priorities right and we must get out acts together.

Targeted relief, save ammunitions for later

Large sums have been pouring into the economy to keep it afloat, yet there are murmurs of some people getting money they don't need while those struggling don't get help. With or without a fifth wave, there is the pressure for more relief measures still. Yet resources are limited, we need to watch our spending. Hong Kong needs ammunitions for later.

Some relief measures will have to stay, they should be more targeted. For supermarket chains who stand to gain from a forced change in lifestyle and consumption patterns to have received relief monies must be an irony when thousands of businesses in F&B, travel and tourism sectors had to close their doors during the past year.

For businesses, especially SMEs:

We ask the Government to consider further possibilities to enhance the various loan assistance and funding schemes, by relaxing the requirements and by broadening the coverage.

For businesses and individuals:

We will support a combination of relief for provisional tax in future assessment periods and tax rebate for past years.

We believe consumption vouchers or subsidy schemes will stimulate consumer spending thereby creating a multiplier effect on the economy that would be more useful to spark a recovery than to pay cash to businesses again.

Orderly revival of economic and social activities

Consumer spending closer to normalcy would be more possible when businesses and families can revive economic and social activities while being mindful of social distancing and other precautionary measures.

Hong Kong people may not mind too much the tight-loose cycles of social distancing measures. What they will mind much more is for these measures to be ambiguous, to be against the grain of commonsense expectations. If a football pitch is thought safe enough to operate as flower market for Chinese New Year, many would think a normal sports game should also have been possible all along.

Some public space venues routinely accommodate catering as a selling point to attract organisers to put up events there. It would seem natural to allow these venues to follow the restaurant rules for limiting seats per table and distance in between, rather than to hold them

to a strict rule on banning gatherings (which could see no more than two or four in the whole space that could have accommodated hundreds in normal time).

A game plan to resume cross-border traffic

The Mainland economy should see quicker turnaround than the rest of the world. Hong Kong can, indeed must, ride that wave. We expect the Government to think it through and roll out a game plan to resume cross-border traffic.

A game plan to bring business and tourism back.

The ETOs, TDC, InvestHK, The Tourism Association, and business chambers and industry associations alike can do their part to re-market Hong Kong as a desirable place to do business or to raise capital, and a choice destination for leisure or for vacation.

With the Bishop Hill reservoir and the Devil's Peak battery as cases in point, we would suggest the Government to truly unearth treasures that could make for real tourist attractions.

In the meantime, Hong Kong people who like travelling abroad for vacation may have to do more staycations. They will learn to savour their own city more if there is a better cityscape for them to savour. Better road surfacing to rid the potholes, and nicer pavements that won't trip people over or sprain their ankles are little things that can go a long way to make people like the place. Little projects here and there perhaps, but the little projects will mean jobs for the construction sector.

The financial market and public finance

The financial market and supporting services are still Hong Kong's greater strength and attraction. We ask the Government to push further policy measures to enable Greater Bay Area and Mainland capital to tap the Hong Kong market and for wider range of financial products to be available to potential customers and investors cross the border.

Speaking last year to the press, the Financial Secretary hinted at issuing bonds to finance infrastructure projects. We will give this our general support. For one, such could enable the go-ahead of worthy projects to keep Hong Kong competitive and livable, projects which may otherwise be stalled and postponed. The financial market should in turn benefit from a more developed bond market.

We agree with the Financial Secretary, in cautioning against issuing bonds just for the purpose of meeting recurring expenditure needs.

Insofar as the Hong Kong market has sufficient attraction and incentives for issuers and investors to tap, insofar as the stock market remains active, we can see room for the levies on stock transactions to go up to yield more money for the public coffer.

Tax base, tax policy and public finance

Refresh our tax system to keep us competitive

In last year's Budget Speech, the Financial Secretary explained that there is movement towards making rules on a new global minimum tax rate, essentially to guard against base erosion and profit shifting. Such could make Hong Kong less attractive for multinational companies to locate in Hong Kong if we don't have a proper response plan ready.

We should end the wait for a comprehensive review of the tax regime. 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 regime not 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 rate misleading.

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 anymore. The pertinent problem, however, is not about complexity but how well do the concessions on offer achieve the intended economic benefits.

Tax measures and incentives

We ask the Government to provide further incentives to attract more businesses to set up Regional Headquarters here.

We urge the Government to continue the good effort at building out the network of CDTAs with trading partners.

We ask the Government to introduce Loss Carry Back and Group Loss Relief.

Tax base

That there is the problem of Hong Kong relying on too narrow a tax base is nothing new. To introduce a change to taxation will not be any easy political task, we concede, but the process needs to start.

Duty on alcoholic beverages

We are aware of some calls to re-introduce a duty on alcoholic beverages (wine, beer, etc.). We see merits in the proposal. When tobacco has long been subject to a hefty duty, one would ask why alcohol which is just as much an addictive and health threatening substance has been off the hook. There was the rationale for fashioning and supporting a local wine industry. We think the industry has found its footing. Wine drinkers also lamented they don’t seem to have been paying less for the same bottles. Where did the difference go? All in all, wine consumption may have become much more inelastic to be able to withstand the re-imposition of a duty. With bonded warehouse arrangements, the larger cross-border trade and distribution need not be affected.

Betting duty

We are aware of some calls to raise the betting duty and some calls to extend the range of sports where bets could be made. What we understand is there has been a sharp increase in bets on football matches, now exceeding that on horse racing. What we know is the Government finds it necessary to regularly air public service announcements to warn against gambling addiction.

Like in our comments above regarding duty on alcoholic beverages, the Government may need to think about the potential of driving activities to underground illegal channels. Here, we may also need to assess the potential knock-on effect on the quantum of monies that could go to Jockey Club’s charity trust.

Tax policy Unit

Setting tax policy and collecting the tax are related yet separate tasks. We expect a firmer game plan for the Tax Policy Unit to do *its* job.

Control spending, free up resources, improve efficiency

The pandemic may have made more people getting used to doing things digitally on-line. There will be opportunities for enhancing e-government services still, which in turn can free up more space previously occupied or required for in-person government services (e.g., service centres, especially those at or near prime commercial sites or locations). Further digital transformation could see other possibilities to improve on staffing and resources utilisation. The gain in efficiency will translate into savings, which means monies can be spent on other worthy causes.

We will have a massive deficit for 2020-21. With disruption to our economy still anticipated for at least some parts of this year, and with recurring expenditures having been rising at a faster rate than revenue, we may be looking at budget deficits for future years as well. Some measures to control (recurrent) spending would be advisable. But we still believe economic strength will remain our best friend for new monies to finance our needs. We need real sparks to our economy.

Reindustrialise for a diversified economy

If previous talks were mere warnings, the outbreak should have made evident the hollowing nature of the Hong Kong economy, that we are relying on too few pillars to prop up the tent.

It may be a late start, but we could still catch up and catch on with Industry 4.0. For high-end production lines to come to Hong Kong, we will need a good supply of industrial space. There could be further incentives to encourage the development or refurbishment of sites and lots for those industrial use.

To better plan for Industry 4.0 and make the right policy decisions, we will need a better understanding of the impact and significance of the Hong Kong manufacturing sector.

To have things “Made in Hong Kong” will surely be a plus to the domestic economy. To have things “Made by Hong Kong”, to have Hong Kong brand name products made, even at production plants outside of Hong Kong, could still have a feedback effect on the Hong Kong economy. Higher end production should drive the demand for higher end producer services. The longer the production chain the more value are added. This should in turn require more economic activities and create more good jobs that we can bring to or keep in Hong Kong.

For R&D and innovation:

We ask the Government to further revise or relax tax rules on deduction or credit for R&D expenditure.

Keep Hong Kong the choice hub for air travel

Planes have been grounded. People are not flying. Delay is less a problem now. Survival of airlines and related industries is. Hong Kong people should not want its flag carrier to go under, but they will pay attention to how government assistance monies are spent and how it plans to emerge from trouble.

Rescue the businesses that are going under, and save the jobs

A sad fact would be that some number of businesses will run into serious difficulties. To save these businesses from going under is to save the jobs. The Institute will support the introduction of a corporate rescue regime, but it ought to be one flexible enough to give sitting company directors real leeway to explore restructuring options without undue insolvent trading liability.

“Gee, you have not paid your rent!”

Many businesses and families will have run into difficulty making rent payments and they may be in default. There are calls for such, but still we are not in favour of instituting eviction bans.

We can support suitable tax incentives designed to encourage property owners to take meaningful haircuts to their rental. We will also support relief for landlords who had offered substantial rent deductions to tenants; we surmise this relief would mostly benefit landlords of commercial premises.

We will support measures for renters to take a tax deduction for rental payments made on their primary residence.

Tackle the Coronavirus, and more

To fight the Coronavirus, we wash our hands and sanitise objects we touch. To help Hong Kong fight this pandemic or the next, we have work to do in public hygiene.

Street markets can be a Hong Kong attraction. It would also be a joy, at least for some, to buy from street market stalls or hawker pitches rather than chain stores. Where we get our food should not become a source of health threat. The pictures of street markets becoming the Disney Land for rats are shocking.

Since 2019, Hong Kong recorded an alarming number of rat Hepatitis E cases. That must be a concern. Deeper cleaning in the community will be necessary, to keep rodent infestation from spreading.

Reprise

Hong Kong by and large did reasonably well in stopping the Coronavirus spread and holding down the number of cases. But surely there were lapses, with “zero infection” remaining a target not yet reached. The community would want to see the lessons being learned in order to better fend off the next wave or the next health crisis.

The Government will need to assure us that there will be a stockpile of test kits and protective gears, and a good plan for procurement of reliable vaccines when they become available.

The Government will also do well to coordinate hospital wards and staff to meet the need. The majority of medical staff show they are professionals, standing fast and remain at their posts. Hong Kong people will remember their dedication and sacrifice. Those others who sought to go on strike were the few. Our plea to them: don't play politics with people's lives.

Likewise, we would hope the local medical profession will put aside sectoral interests and work out an agreeable scheme for doctors from overseas to be able to practice in Hong Kong.

Job creation and job re-training

We will support measures to incentivize the job market to offer more internships or short-term employment for the newly graduates.

We think there is merit to the calls for extending the Love Upgrading Special Scheme that is set to end in March 2021. Many who lost their jobs during the past year may well need re-training to re-enter the workforce.

Rule of law must mean justice is served

Hong Kong prides itself for its rule of law. To make true the claim, justice needs to be served. The prosecution must no longer drag its feet where there is clear evidence to proceed. The larger public will also be watching the outcome of court cases when offenders are put through their trials.

Issues are getting more complex and caseloads are getting heavier. We are for allocating more resources and recruiting more judges so the judiciary can do its job. The public, however, will be ever more eager to see if judges on the bench are ones who seek to achieve a proper balance between punishing wrong-doings and preserving liberty.

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