香港董事學會
The Hong Kong Institute of Directors
FOUNDED 1997

Issued on: 18 February 2023

HKIoD's Statement
ahead of
the Financial Secretary's Budget Speech
<u>scheduled to be delivered on 22 February 2023</u>

Hong Kong was quick reacting to the outbreak, but slower than many in lifting Covid-related measures. The new Administration took slow steps out of caution, but firm ones nonetheless towards normalcy. As we are putting the pandemic behind us, the road to recovery is bumpy. A larger than expected budget deficit for 2022-23. Fiscal reserves going down. The next Budget has the challenge of spending dwindling resources wisely to set Hong Kong back on course to long-term growth.

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How to spend it?
Many have called for further rounds of consumption vouchers to boost the economy in the near term. We are more for spending to regain long term competitiveness.

Spend other people's money!
With the relaxation of travel restrictions in late 2022 Hong Kong people went on trips with a vengeance, taking high spending with them to help other economies ahead of our own. If we are to spend more fiscal dollars to stimulate consumer spending, we should rather seek to attract more visitors to bring their spending over here.

Exhibitions, conventions, sports events, bring them back. Vacationers (and staycationers) will savour the city more if there is a better cityscape for them to savour. The new museums are a good start. For visitors and locals alike, 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 and want to come back time and again. Having been through a pandemic we suspect more visitors will put cleanliness and hygiene high on their rating sheets. Improve public toilets, clean the streets and back alleys. Win the war against rodents. In the longer run, we should need to upgrade our offerings to foster higher-end tourism.

One-off Relief
The Budget should again have relief measures to help people and businesses. These could include:
- profits and salaries tax reduction
- fee waivers or concessions (e.g., business registration, rates, etc.)
- electricity charge subsidy to help defray energy costs

Healthcare and elderly care
To relief pressure on the public healthcare system, we suggest increasing the annual cap on Voluntary Health Insurance Scheme deductions, and extend its scope of coverage, to entice more people to choose private healthcare services. Meanwhile, with an aging population living longer, there will be demand for hospital beds and elderly care facilities, and the medical and nursing staff to go with it.

Got enough money to retire?
To entice more people to save for their retirement, we suggest a higher cap on tax deduction for voluntary contributions made to MPF, for both employers and employees. The utility and adequacy of MPF as a meaningful source of retirement income must be sorted out. Where MPF falls short, future welfare expenditures will have to make up for it.

Low birth rate
A low birth rate will over time translate first into a smaller workforce and then a heavier burden on that work force in carrying the weight of society. To encourage childbirth, we suggest increasing the child allowance or to provide subsidies to working mothers. To foster a childcare industry can provide meaningful jobs and offer credible options in addition to hiring domestic helpers.

Refresh our tax system to keep us competitive
Hong Kong will see the implementation of a global minimum tax under BEPS 2.0 in soon enough time. A revised foreign-sourced income exemption regime has already been put into place. Developments in the international tax landscape has and will continue to make the Hong Kong tax system more complex than it was before. The changes would also require Hong Kong to review the effectiveness of existing tax incentives in attracting businesses to Hong Kong. It will mean a rethink of the investment promotion strategies, requiring astute combinations of tax and non-tax incentives to be successful.

To go along with our investment promotion and economic development, we suggest:
- specific incentives for regional headquarters
- incentives/concessions to attract companies and people who left Hong Kong to return

IP tax regime
We also need to improve the current IP tax regime in light of the new revised foreign-sourced income exemption regime, to keep it attractive for companies to establish IP-related businesses in Hong Kong. Where super deductions for R&D expenditures are allowed, they may need to be replaced with qualified refundable tax credits to have less of a drag-down effect on the effective tax rates calculations under BEPS 2.0. To the extent we are integrating with the Greater Bay Area, tax deductions for R&D undertaken in the GBA should be allowed.

Enhance tax treaty network
The Government must continue the good effort at building out the network of double taxation treaties, or DTAs, with more urgency on major trading partners and those jurisdictions that are members of RCEP.

Loss-carry back; Group loss relief
Introducing loss carry-back and group loss relief should also make the tax system more in line with other jurisdictions and be competitive.

Budget and Tax policy Unit
To refresh Hong Kong's tax system to stay competitive requires the resulting tax policies to work in tandem with investment promotion strategies to support Hong Kong's economic development. Hong Kong' economic development hinges on its ability to play that super-connector role, participating in the domestic circulation while facilitating international circulation. The framework should need to be modernized to bolster Hong Kong's strength and to accommodate the newer business models needed to compete.

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

Rescue the businesses that are going under, and save jobs
When a business fails, the jobs go away. People's livelihood becomes an issue. Social stability is threatened. To save businesses from going under is to save jobs.

Corporate rescue legislation has dragged on for two decades. Time and again, we say "it would be nice to have a corporate rescue regime, but we have not yet made it into law!" Had the regime been in place, some of the companies that have shut their doors during the pandemic may have been able to choose a different course of action.

It is therefore important for the Government to devise a flexible regime that gives sitting company directors real leeway to explore restructuring options. The Government would seem to take the view against debtor-in-possession. But the original team may be the ones best familiar with the business, the ones best suited to rescue the business.

The Government would also be harsh on directors when it comes to "insolvent trading". In the face of personal liability, company directors may well choose to kill the company rather than to seek a rescue.

The Government may be looking to UK and Australia as model. Once the toughest regime on insolvent trading liability, Australia has since 2017 been on a u turn, promulgating safe harbours as relief and has during the pandemic taken a lighter touch enforcement approach.

All in all, a meaningful corporate rescue regime must be one that facilitates restructuring to save a business. If the rules are too tough, the companies will just fold up (太過嚴苛，結束的多!)

Land and housing
The housing situation remains a top policy issue to tackle.

Subdivided flats; low-income housing
We need to see a sustained effort to boost land supply and for the provision of low-income housing to be able to wave goodbye to subdivided flats. The October 2022 Policy Address revealed the Light Public House concept. Now there are plans to build them. The seemingly high price tag for LPHs already drew some queries. The choice of a Kai Tak site for one of the projects also seems to run counter to the professed land use for the area. The Government may need to give further explications and assurances in those aspects.

Urban renewal and redevelopment
The redevelopment of older buildings in older parts of town is still slow. The October 2022 Policy Address announced plans to lower the threshold for compulsory sale applications made on aging buildings. We look forward to the legislative proposals.

Make some old buildings greener and more sustainable
Some commercial and industrial buildings are not so old that retrofitting and refurbishing may still make sense. Commercial and industrial building allowances can be augmented to

reward owners who retrofit to make them more sustainable, energy saving features for example.

The multistory building dilemma
With multistorey buildings being the main staple in Hong Kong, noise and water seepage have been two main sources of disputes among neighbors.

Design thinking, and code changes if helpful, can go to make seepage less likely to happen or when it happens, easier to fix and repair. With the advancement in materials and technique, sound insulation should be more possible than before.

The talent war
With a low birth rate, the ability to attract and retain talent from outside becomes important. In some industries there is just a plain shortage to hamper growth and development. Lack of talent in specific areas like IT will affect the pace of digital transformation in our economy.

Hong Kong was once the no-brainer choice destination among expatriates. Now there is a general difficulty to attract talent to Hong Kong. Many left over the past several years; quarantine restrictions being one factor. The lifting of restrictions now will not necessarily bring them back.

Some solutions we can consider:

- allowances or subsidies in targeted industries, so employers can offer competitive remuneration packages to attract and retain talent
- allowances or subsidies, so employers can provide housing packages and education support for talents coming to Hong Kong with their families

Everyone can keep improving their skills and abilities. We suggest:

- allowances or subsidies so employers can upskill their workers
- allowances or subsidies, to entice workers to improve skills (e.g., to close the gap in English ability)

The financial market
In recent years, the Exchange has taken many commendable steps to strengthen the position of the Hong Kong capital market. Rule changes have permitted BioTechs, companies with WVRs, SPACs and (expected soon) Specialist Technology Companies to list on the Hong Kong Stock Exchange. Overseas issuers would also find a clear route to go on the Exchange. But smaller companies continue to find it difficult to get listed. The utility of GEM board going forward will be of interest to many.

Crypto Assets
The FTX collapse can prompt regulators to react. The collapse, nonetheless, has a lot to do with mismanagement, lack of control and plain old fraud rather than the underlying technologies. The aim should be to prevent the bad but not stifling the utility and good that crypto assets can bring to the market.

Not another Theranos
As Hong Kong seeks to develop an innovation and high-tech industry, tech companies will startup or otherwise seek capital here. No one should want to see a Hong Kong version of Theranos. That failed company had high-profile figures investing or sitting on its board, but

they lost millions and maybe their reputation. One can have a dream about an idea, but one should not be carried away by a hype.

Directors on tech (or any) company boards should need to have a good understanding of the business model and the drivers behind it. While they steer and promote the business they should be mindful how they project the prospect and promises of the venture. Theranos also shows the importance of companies whether big or small, old or new, to have the right tone at the top and the right culture. A platform for employees to raise concerns without fear of reprimand can help companies detect issues sooner and address them.

Like corporate failures before, FTX and Theranos again remind us the need for company directors to do the right things, and do things right.

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