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

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HKIoD's Statement
ahead of
the Financial Secretary's Budget Speech
scheduled to be delivered on 23 February 2022

The pandemic is still with us. In a matter of weeks, Hong Kong People fell from the high of almost able to resume traveller clearance to the low of re-tightening due to an Omicron spread. Arresting the spread must be the top priority now, though we need to have game plans for a recovery.

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Targeted relief, save ammunitions for later
Writing a year ago, the Institute had advised that, with or without a fifth wave, there will be the pressure for more relief measures still. We are now battling the fifth wave. Another round of relief measures will be required. Yet we need to watch our spending, to save ammunitions for later.

Anti-Epidemic Fund to the rescue
We generally agree with the Government's approach when formulating the sixth-round of Anti-Epidemic Fund measures, targeting those sectors worst affected by the abrupt tightening of social-distancing measures. Providing allowance to frontline staff working jobs with high exposure risk is appropriate. To expand the scope to cover individuals, including the self-employed or freelancers would be a welcome move. The introduction of unemployment relief, though temporary, should plug one hole in the general scheme of relief measures. The task now is to streamline the procedures to get money into people's hand fast.

More relief measures
We think the Budget should include again some of the often-used relief measures, like profits and salaries tax reduction, relief for provisional tax in future assessment periods and tax rebate for past years. Waiver or reduction of government fees and levies should help businesses or families alike. Extra disbursements of subsidies and assistance monies will put more cash in people's pockets.

On rates concession, such is usually done across the board. We are aware of calls to cap or limit the eligibility, so not to favour too much the better offs who may be paying rates on multiple properties. There will be devilish details to tackle, but the Government can show it can devise relief plans that are more targeted and equitable, not just resorting to administrative convenience.

Consumption vouchers
We will support another round of consumption vouchers, at a scope and scale similar to the last.

Support the SMEs
We ask the Government to implement enhancements to the various loan assistance and funding schemes, by relaxing the requirements and by broadening the coverage.

A game plan to promote Hong Kong under BEPS 2.0

The October 2021 BEPS agreement will have significant impact on international tax rules and will bring eventual changes to the Hong Kong corporate tax system. As we have advised before, domestic implementation of the new regime could make Hong Kong less attractive for multinational companies to locate in Hong Kong if we don't have a proper response plan ready.

The EU has also placed Hong Kong into its "grey list" for some tax practices they see as harmful, prompting the Government to commit to amend certain rules within the year 2022.

Refresh our tax system to keep us competitive

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. And now, there will be the implementation of BEPS 2.0 and the needed effort to get us off the grey list.

Loss-carry back; Group loss relief

We believe there is now an even stronger case for introducing loss carry-back to help businesses. We also ask the Government to introduce Group Loss Relief.

Enhance tax treaty network

We urge the Government to continue the good effort at building out the network of double taxation treaties, or DTAs, with more urgency on those jurisdictions that are members of RCEP. With the National Government's blessing and support, Hong Kong could join RCEP within the year. An expanded network of DTAs should help Hong Kong promote itself as the super-connector amidst Mainland's Dual Circulation Strategy, and to attract more businesses to choose Hong Kong as the base for their headquarter operations.

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 in recent years 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 cross-border trade and distribution need not be affected.

Betting duty

We are aware of some calls in recent times 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.

Budget and Tax policy Unit
To refresh Hong Kong's tax system to stay competitive requires the resulting tax policies to be ones that 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 tax framework should need to be modernized to bolster Hong Kong's strength and to accommodate the newer business models needed to compete.

We share the same view with that of a large segment of the business community, that in the race for economic development Hong Kong will increasingly have to compete in non-tax incentives and advantages. Where talent is an important ingredient in the recipe for success, judicious tax and fiscal policies can in turn make the City an affordable, pleasant place to live, so to keep and attract talent.

Fiscal and tax policy has that much more of a strategic importance. 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.

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.

Better than expected revenue from land sale and transaction stamp duties could do wonder in reducing the deficit once projected for this fiscal year. But with disruption to our economy still anticipated for some time to come, and with recurring expenditures having been rising at a faster rate than revenue, we may be looking at budget deficits to recur. Some measures to control (recurrent) spending would be advisable.

We will advise the Government to have further plans to compress government spending through efficiency improvements.

Spend wisely, invest in infrastructure
The Financial Secretary in his recent blog vouches for counter-cyclical measures to steady the economy. Government money spent wisely also has the potential to buy a better future. Improving infrastructure will mean jobs.

It is about time for another comprehensive transport study, to learn how to round out the rail and road network to make different parts of the territory more accessible. Transit oriented development, or TOD, has proved useful and should benefit a fast-track development of the Northern Metropolis.

We also believe there is strong potential for leveraging the public dollar spent by judicious public-private partnerships in infrastructure and development projects.

Spend wisely, on public hygiene

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

With buildings locked down across town, TV news showed pictures of household waste piling up in the corridors. Rats are the fear. Since 2019, Hong Kong recorded an alarming number of rat Hepatitis E cases. That must be a concern. Regrettably, even before the pandemic, Hong Kong streets especially the back alleys are not particularly clean. The Government acted quickly on hamsters when they are seen as health risks. The Government must be equally swift in dealing with rats.

Governing to protect vulnerable people

Over the years there had been stories about abuse at elderly facilities. The more recent Children's Residential Home scandal should send more shivers down the spine.

The Law Reform Commission recently released a report, recommending the introduction of a new offence of "failure to protect" resulting in harm to a vulnerable person (e.g., a child or an adult needing care). The proposed offence highlights the focus on protection of children and vulnerable persons by prevention and deterrence, rather than mere punishment of the perpetrator, by way of imposing criminal liability on those who fail to take reasonable steps to protect.

HKIoD believes members of governing bodies of care facilities should, if they have not already, make themselves fully aware of their responsibilities, legal or moral, in the governance of institutions that care for vulnerable people. The point is about safeguarding the interests of those under the institution's care. Such would entail in general a thorough understanding of the area and nature of risks and to have workable policies to reduce the likelihood of harm. Corporate governance is not just for profit-seeking companies. Board members of institutions and care facilities still have director duties to fulfill.

Better quality director for better governance

As the Review Report on Enhancement of Lump Sum Grant Subvention System would indicate, the lump sum grant subvention scheme should by and large be retained but there ought to be steps taken to enhance quality of service, resource utilization and accountability. In short, the Review Report is pointing to the need for better governance among NGOs.

To have better quality directors and governors is a key aspect in the quest for better corporate governance, at NGOs as much as in profit-seeking entities. The Budget can have measures to help directors and governors of organisations of various kinds, whether those who now are or those whose aspire to be, to obtain quality training so to raise the level of their corporate governance practices.

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