

21 January 2011

The Hon John Tsang Chun-wah, GBM, JP
Financial Secretary
5/F, Main Wing, Central Government Office
Lower Albert Road
Central
Hong Kong

To prepare this year's submission on the HKSAR Government's Budget for the fiscal year of 2011-2012, the Hong Kong General Chamber of Commerce has conducted wide consultation among its members, including discussions at various committees of the Chamber. The attached submission reflects our members' main concerns and how they see the way forward for Hong Kong.

In the submission we have highlighted three key priorities for your consideration, as follows:

- * Re-establishing our role as the pre-eminent regional operating centre for Asia-Pacific and our role in supporting reforms and development in the Mainland;
- * Reaffirming Hong Kong's international competitive advantage through direct, game-changing investments in the ability to our SMEs to remain profitable employers; and
- * Restoring our physical and human environment to health so as to increase our attractiveness as a sustainable community to live and work.

I hope you will find our recommendations useful, and we look forward to discussing with you in detail.

Thank you very much.

Anthony Wu
Chairman

Encl.

THE HONG KONG GENERAL CHAMBER OF COMMERCE

PROPOSALS FOR THE 2011-12 BUDGET

*A SUBMISSION TO THE HONG KONG SAR FINANCIAL SECRETARY,
THE HON JOHN TSANG CHUN-WAH, ON THE GOVERNMENT'S
BUDGET*

FOR THE FISCAL YEAR 2011-12

(1 APRIL 2011 TO 31 MARCH 2012).

The Hong Kong General Chamber of Commerce wishes to raise three key priorities for consideration in the Financial Secretary's 2011-12 budget, matters which have been raised before and which we will continue to raise as being in the best interests of Hong Kong and the business community we represent. Our members' priorities this year are,

- re-establishing our role as the pre-eminent regional operating centre for Asia-Pacific and our role in supporting reforms and development in the Mainland;
- reaffirming Hong Kong's international competitive advantage through direct, game-changing investments in the ability to our SMEs to remain profitable employers; and
- restoring our physical and human environment to health so as to increase our attractiveness as a sustainable community to live and work.

Restructuring of fiscal policy organisational arrangement

Achieving such a fundamental restructuring of our competitive landscape requires vision and will. We believe there are deep-rooted structural factors affecting our fiscal policy foundation and preventing some steps that would rapidly enhance our ability to attract and keep good companies and good people, and that these must be overcome as part of a comprehensive up-grading of our competitive offering.

While we respect the professionalism of IRD officials, we feel that **it is time to establish an independent commission to undertake a long-term, strategic review of the needs and objectives of our taxation system**, and to examine specific issues related to the IRO. Such a commission should focus on recommending specific changes to the Ordinance that will improve its fairness, certainty and consistency.

Many of the measures we recommend below will be passed over to fiscal experts in the IRD for analysis, and as usual we expect an authoritative but revenue-oriented response. This is not good enough, as it only considers a narrow, public-revenue-focused set of criteria while ignoring the more important macro economic policy implications. Just as a lack of clarity is detrimental to the planning of business investments, so, too, is the inability to see the bigger picture. The Chamber believes that **the establishment of an Office of Tax Policy outside of the IRD would help improve our understanding of the strategic imperatives inhibiting our competitiveness.**

The theme permeating in our recommendations in support of these priorities is "Renewing Hong Kong", our key recommendations are as follows:

Key Recommendation 1: Use of fiscal initiatives to invest in our regional competitiveness

The last three years have proven, conclusively, that we can fully utilise our economic capacity through a constructive and creative use of our fiscal revenues, regardless of the narrowness of our tax base. Our competitors have moved aggressively over the past decade to close the gap with our headline tax rates. They have done so by lowering their own rates, by introducing group loss relief and loss carry-back and by broadening their sources of revenue with value-added or goods and services taxes.

Today, the World Bank rates our effective 18.7% profits tax rate as no better than 6th among 15 East Asian economies. We need to do better. We believe it is now time to fulfil the CE's campaign pledge to reduce the profits tax rate to 15%.

Key Recommendation 2: Use of fiscal initiatives to invest in our SMEs

The time has come to set aside the old notion that tax simplicity trumps tax sensibility. Today, we need a simple, low and *competitive* tax regime, and so we believe it is time to adopt a two-tiered structure. By lowering and simplifying compliance for smaller companies (say, those below \$2 million gross income), we would be investing in companies that employ the vast majority of our workforce and comprise the heart of our economy.

SMEs will be facing many new challenges in the next few years, as the statutory minimum wage begins to take effect, to be followed by a competition law. While many of the recommendations we outline in Sections 1.3 to 1.8 below will benefit both SMEs and larger companies in their struggle to remain competitive, it is the smaller ones that cannot afford the managerial time and cost of complying with the many government regulations. Reducing their tax burden will go some way toward helping SMEs cope with the rising regulatory cost.

Key Recommendation 3: Use of fiscal initiatives to create a sustainable community

The single issue that unites Hong Kong is the environment and concerns about the impact of pollution on health. We know the challenges are onerous, and the solutions not wholly within our jurisdiction. Still, there are useful and effective things we can be doing, now. As the economy recovers and our combined fiscal and exchange fund reserves top \$1.1 trillion, it is time to think about putting the existing, surplus funds to good use, and cleaning up the environment must be a priority task. We should also create a dynamic human environment which addresses key concerns in the area of education and health, to ensure that our community can grow in a sustainable manner, through appropriate fiscal initiatives.

Our detailed recommendations follow.

‘Renewing Hong Kong’

Our experience during the global trade and financial crisis shows both the strengths and weaknesses of our economy and our fiscal management. Despite soaring bankruptcies, we have seen unemployment fall steadily over the past year, and the economy is regaining strength. Yet, many of the most positive economic indicators – which look good on the face of it – still just reflect the underlying currents of how bad it was a year ago. In comparison to pre-crisis levels, we are still in a lot of pain.

In the two years to end-October 2010, bankruptcy petitions increased 21.8% over the previous 24 months, and compulsory winding-up orders by 24.1%. Our latest labour figures show that we have 7,300 fewer full-time jobs, and 15,100 more people looking for work than two years ago. Compared with January-September 2008, our real GDP grew just 2.2% in the first nine months of the year. Inflation has been more of a worry than a year ago and there will be pressure on wages, coupled with the introduction of the statutory minimum wage in 2011. The figures coming out over the last three quarters show that the growth in nominal wage is beginning to lag behind inflation. This gives the dangerous signal that real wages have embarked on a declining trend, which can be a cause of social restlessness.

In the first half of this fiscal year (April-September 2010), we took \$56.6 billion more out of the economy than a year earlier, \$49.1 billion more than two years earlier and nearly \$22 billion more than in the same 2007 period. The very rapid growth in the fiscal reserves over the course of the global crisis indicates that we have no need to be overly concerned – at least not for the time being – about our future finances, and instead should be investing these surplus funds to increase the earning capacity of our economy.

1. Invest in our competitiveness

Once again, in our role as the voice of business, it is our duty to remind the administration of the Chief Executive’s promise to reduce the profits tax rate to 15%. As we have pointed out before, we no longer enjoy a 10 percentage point advantage over Singapore, as we did a decade ago. Instead, we are well above their level in effective tax rates and just one-half percentage point ahead on the headline figures. Their decision to broaden the tax base allowed them to catch up, quickly, with our own formerly competitive position and we are now left to play catch-up. In a year in which the cost of labour will rise for many firms, and before we begin to count the cost of implementing the statutory minimum wage, and the compliance and litigation associated with a competition law, it is time to act.

Singapore, Korea, Taiwan and other places in this region offer substantial incentives not available here. As we are unable to remain competitive solely on the basis of headline tax rates, it is time to reconsider our historic aversion to targeted incentives. As you know, the Chamber has long opposed such a move, but we find ourselves struggling to justify to our own members why our effective tax rate remains so high despite our massive fiscal reserves. Something has got to give, and we suggest that the least painful step would be to fulfil the CE’s campaign promise to return the profits tax rate to 15%.

1.1 Group loss relief and loss carry-back

Companies new to the region may give greater weight to headline tax rates when selecting a regional operating centre, but those already here know that it is the effective tax rate that matters. For Hong Kong, the lack of group loss relief and loss carry-back raise our effective rate, thereby undermining our competitive position.

Having proven over the past three years that our revenues are enormously resilient, and in light of the well-recognized fact that introducing group loss relief results in little foregone revenue, there seems no reason not to modernize our tax regime. If there are still concerns, a cap on losses might be temporarily imposed. A simple, back-of-the-envelope calculation illustrates: if half of our 80,000 taxpaying companies fully utilise the maximum allowable (say) \$1 million group loss relief, the loss of revenue could not be more than \$6.6 billion, and probably much less.

The second concern is that companies might evade taxes, but we believe that Article 61A is more than adequate to ensure that tax evasion is identified and punished. If there is any question about that, then it should be dealt with directly by amending the IRO. We believe worrying about some small, theoretical loss of revenue misses the forest for the trees, as was shown to be the case in the elimination of the estate tax and the reduction in the wine duty. If we recognise that group loss relief and loss carry back are about competitiveness, rather than revenue, the choice is clear.

To alleviate the immediate financial burden of companies, especially those suffering under ‘fair value’ accounting rules, the loss carry-back measures should be introduced as soon as possible. Under ‘fair value’ accounting rule, the IRD taxes unrealized gains or losses but these gains may turn out to be losses when the underlying assets are disposed of. Without the loss-carry back provisions, an unfair situation arises when taxpayers must pay tax on profits they did not make.

We believe a three-year loss carry back would be appropriate. We are familiar with the IRD’s objections, but those concerns have been convincingly refuted, not only by tax professionals here in Hong Kong but also through the experience of other jurisdictions which have this measure.

1.2 Simplify compliance to attract global trading operations

There have been an increasing number of Global Trading Operations set up in different industries, especially financial services. A typical Global Trading Operations set-up is made up of an international business’s presence in different targeted markets playing their respective roles. Trading transactions will typically be booked at one location, e.g., London. Hong Kong, equipped with excellent telecommunication networks and international business experience, is in a good position to attract more of these operations, but our tax regime has to be simplified for us to do so.

At present, if a Global Trading Operation has a presence in Hong Kong, the entity to which profits are booked will be deemed as carrying on a business in Hong Kong. Profits attributable to the business and carried on in Hong Kong may not be subject to Profits Tax, as the ‘booked’ income was derived from transactions effected outside the SAR. The said entity will have to file a Hong Kong profits tax return and keep a separate set of books for its operations in Hong Kong with sufficient details to enable it to support claims that the booked profits were sourced outside of

Hong Kong. We believe that this creates an unnecessary compliance burden for these businesses and will discourage them from using Hong Kong in their operations.

We suggest that such operations should be given an option to pay Hong Kong tax via a transfer pricing mechanism, under which the Hong Kong operations can charge the profit-booking centre an arms length management fee and report such fee income for Hong Kong tax purposes. By simplifying the compliance burden and providing an easily calculable tax for the Hong Kong operation, we believe that it will encourage businesses to use Hong Kong.

1.3 Exempt tax on income from local bond market

At present, if a Hong Kong corporation invests its funds in bonds issued by another Hong Kong corporation, the interest income is subject to Profits Tax. Effectively, Hong Kong corporations are encouraged to park surplus funds offshore, if they wish to earn non-taxable interest income from corporate bonds. Interest income from bonds issued in Hong Kong should be exempted from profits tax by extending the Exemption Order made in June 1998 to include such interest. This will encourage the development of Hong Kong's financial services and level the playing field for companies that raise finance locally.

1.4 Relax interest deductibility on loans from overseas associates

Current legislation on interest deduction discriminates against genuine borrowing from overseas shareholders and associates. The rules on deductibility of interest paid to foreign affiliates should be relaxed to encourage establishment of regional headquarters in Hong Kong.

To avoid possible abuse, it may be useful to restrict the deduction to cases where there are strong commercial grounds for this type of financing structure. We also suggest that interest paid to foreign affiliates should only be deductible if the amount is calculated at a commercial rate of interest.

1.5 Tax depreciation for capital equipment used outside Hong Kong

Many Hong Kong companies purchase plant and machinery (P&M) and make them available to manufacturers in Mainland China at no charge to the latter. Under the IRO, the P&M involved in such an arrangement is regarded as 'leased'. Companies are not entitled to claim any tax depreciation because the equipment is used wholly or principally outside Hong Kong (Section 39E). IRD's Departmental Interpretation and Practice Note (DIPN) No. 15 issued in January 2006 provides a concession for contract processing cases, but not for subcontracted manufacturing.

When P&M are regarded as being contributed *in specie* to the Mainland manufacturers, companies are also denied any tax depreciation claim in Hong Kong as they no longer own and have in use the equipment (Section 37). It is not reasonable that where a Hong Kong company buys goods from a separate factory in the Mainland, and makes P&M available at no charge to the Mainland factory as a condition of the purchase, or in return for a lower purchase price, the Hong Kong company cannot claim depreciation allowances on the P&M, even though the IRD taxes the profits from the sale of the goods manufactured with that P&M.

The Government has refused to relax the restriction on the ground that it is a complicated matter involving various issues, including: whether the machinery or plant used in the Mainland is producing profits chargeable to tax in Hong Kong; whether it is used for the manufacturing of goods sold solely to the Hong Kong enterprise; whether the P&M has been sold; whether depreciation allowances of the same P&M have been claimed by other enterprises; etc.

We believe the IRD's concerns can be resolved as they relate to factual matters, and supporting proof can be provided by the taxpayer. Moreover, under the Double Taxation Arrangement with the Mainland, Hong Kong authorities may seek information from their Mainland counterparts for verification. We are convinced such an unfair situation created by Section 39E – clearly not intended by lawmakers when the legislation was passed – should be corrected.

The Chamber advocates either one of the following solutions:

- extension of the same concession for contract processing cases to subcontracted manufacturing arrangement, or
- special deduction on the loss incurred on contributing the equipment at no charge to the Mainland Chinese factories.

1.6 **Tourism**

Capital expenditure incurred by hotels and restaurants on decoration and refurbishment has a direct impact on the quality of tourism services. At present, expenditure incurred on renovation and refurbishment is allowed for deduction in five consecutive years in equal instalments. But five years is too long considering the wear and tear. We recommend either of the following changes:

- The number of years allowed for deduction be reduced to three years, or
- 100% immediate write-off of refurbishment costs be allowed.

1.7 **Arts and Culture**

The potential for private sponsorship of both sports and the arts is largely untapped. Policy change such as a matching grant system would be a positive step toward tapping in the potential. Another would be to enhance the tax deductions available to corporations for contributions relating to sports, arts and cultural sponsorships. A new approach to corporate sponsorship is likely to yield a multiplication of benefits without much additional pressure on the public purse.

The Chamber believes that the best way of achieving the Culture and Heritage Commission's vision of 'Diversity with Identity' is to entrust the operation of our cultural and art resources to the community, and corporatize functions such as management of performance venues, museums and libraries where appropriate. The Government should reduce its managerial involvement in culture and art, while maintaining its financial backing. This is the best means of promoting a vibrant cultural scene and a wealth of heritage that befits a world-class city.

1.8 Taxes on employment

1.8.1 Base sourcing rule on services rendered in Hong Kong

When bidding for employee services, cross-border businesses face the cost of taxes on employee incomes, either directly through contract agreements or indirectly. In keeping with international norms, the IRO should be amended to adopt a sourcing rule based on services rendered in Hong Kong, replacing the existing rule of taxing an employee based on whether he has a Hong Kong employment (which may have little correlation with the place of performance of his services).

The ‘three factors’, as clarified in the revised DIPN 10, are the main considerations in determining the source of employment income. The IRD has acknowledged that the three factors cannot be the sole factors taken into account and in accordance with current case law, the IRD has to consider the overall ‘totality of facts.’ In essence, the revised DIPN 10 has put into writing the ‘totality of facts’ approach adopted by individual assessors, but it appears to be inconsistent with the emphasis on the three factors only in the old DIPN 10.

The totality approach inevitably results in disputes between IRD and the taxpayers on the weights to be attached to each factor in determining whether a Hong Kong employment exists. The lack of clarity and consistency is damaging. It creates uncertainty in forecasting the tax liabilities of individuals and can impede and complicate their transfer to Hong Kong.

In addition, where an employer will bear the salaries tax cost, there are doubts as to what that ultimate cost will be. This again complicates planning. Given the needs of Hong Kong's service economy and the importance of facilitating movement of individuals, unnecessary restrictions should be removed. As the IRD is handicapped by case law, the only remedy is to amend the IRO.

1.8.2 Pro rate salaries taxes automatically

The IRD should automatically pro rate salaries tax for employees working outside Hong Kong for long periods.

1.8.3 Clarify tax-deductibility of share-based compensation

Hong Kong Financial Reporting Standard 2 requires, as of 2005, the cost inherent in share-based compensation be measured and recognized in the profit and loss account when share options and awards are granted. We understand the IRD has formed a panel to discuss the issue further, and we would hope they would issue official guidelines to clarify when and whether such expenses would be deductible (in addition to the frequently asked Q&A published on its web site).

1.8.4 Reform taxation of share-based compensation

Some jurisdictions have relaxed the timing of taxing income from share-based compensation. Singapore, for example, allows employees to defer payment of tax on employee stock option plans or stock awards income for up to five years, subject to interest, and tax exemption in certain cases. The Government should consider similar measures to assist corporations in attracting and retaining high calibre employees.

2. Invest in our SMEs

Today, it takes 35% more real economic activity to employ a single worker than it did a decade ago. Our SMEs provide that economic activity, and that employment. Because of their size, they are forced to spend disproportionate amounts of senior managerial time on complying with government regulations and paying taxes. While we need to better define exactly what we mean by “SMEs,” elsewhere the contribution these companies make and the burden they carry are recognised, and compensation is available. It is time we did the same.

2.1 Lower SME tax rates

Simple tax administration is as important as easily understood tax rates, but, it is no longer sufficient. We live in a highly mobile, extremely competitive world and our members tell us Hong Kong has become too expensive for many kinds of business. They want to stay here, but cannot afford to do so. That needs to change.

We have the money necessary to forego a small portion of our profits tax revenue. Lowering the effective tax rate by introducing a 10% rate on the first \$500,000 of assessable income is an easy win. It adds no unfathomable complexity, benefits smaller companies more than medium sized ones and SMEs better than larger corporations. There is ample precedence as to how to define and administer this pro-active step toward rebuilding our international competitiveness, including in Singapore and the Mainland of China.

Lower taxes help companies grow out of the need for such concessions, driving both employment and fiscal revenues over the longer period. But, if we make it too difficult, these vibrant businesses will either wither or leave. In addition to establishing a modest tax on the first dollars earned, we need to reduce the non-tax cost of compliance. Most SMEs face additional red tape due to the pending imposition of a statutory minimum wage. Now, as that burden is imposed, it is time to lift some of the other weights bearing down on their shoulders. Top of the list is to devise a very simple profits tax return document to be filed by SMEs. At present, the only tax concession afforded to a ‘small corporation’ (defined as one whose gross income does not exceed \$2 million) is that it is not required to attach certain documentation to its annual tax return; but it is still required to prepare and retain such documents. If there is no need for such documents, there is no reason why companies should have to waste time on unnecessary paperwork. We are better than that, and this kind of useless red tape is an embarrassment.

2.2 Extend the time for paying final profits taxes

Business seeks profit, but it needs cash flow. If the Government were scratching together revenue month by month, we would understand the need for a rapid collection of all available tax revenue. But, as we have an embarrassment of riches in the form of fiscal and other reserves, affording our SMEs a few extra months in which to pay what they owe just makes sense. We do not accept the argument that a company can ask for relief if it believes it has been over-assessed as the very steep penalties for erring in this calculation prohibit most businesses from taking such risks. Extending the time companies may pay the taxes they owe, without penalty or interest, is a no-cost way to encourage our SMEs to grow.

2.3 Allow depreciation of restoration expenses

Every company that does not own its own premises (which includes most SMEs) periodically bears the cost of refurbishment. Unlike other legitimate business expenses, in this case there is no deduction for investment made to generate taxable profits. Moreover, tenants are frequently required to restore the premises back to the original position when the lease expires. For tax purposes, the restoration expenses are capital in nature, not deductible under Section 17(1)(c) of the IRO.

As the taxpayer is not entitled to any interest in the structure restored, no tax depreciation allowance is granted. As restoration requirement is a standard term in lease agreements and the expenses are sometimes quite substantial, it should be considered a deductible expense.

2.4 Tax depreciation allowances of buildings and structure

At present, no Industrial Building Allowance (IBA) or Commercial Building Allowance (CBA) is granted to a new owner if the allowances for that building have already been granted for 25 years. This is unfair to the new owners who incur substantial cost in the acquisition of the buildings.

IBA and CBA are granted based on the original cost of construction. With inflation, the cost of construction of an old building is much less than that for a new one. Thus for the same price paid, a taxpayer will get less tax allowances on an old building. To rectify the unfair situations, the allowances should be based on the capital cost incurred without any age limit of the property as in the case of plant and machinery, instead of the original construction cost with a limit of 25 years.

2.5 Enhance clarity in source-based tax system

We have long argued for better certainty and transparency in taxation, with a view to improving Hong Kong's competitiveness in attracting international businesses to set up headquarters or global operations here, and to convince those which are already here that Hong Kong is keen to keep them. Our members tell us that only the largest companies can afford to hire the expertise needed to fully understand even the simplest tax regimes, and any progress in tightly defining what should, and should not be subject to taxation would help reduce their cost of doing business.

The courts appear to agree with our view that there is unhelpful ambiguity in some of our tax legislation, but even court rulings are not accepted as evidence that the IRD is over-stepping its boundaries. We are convinced that legislative amendment to enhance certainty as to the factors to be taken into account in determining the source of different types of income is urgently needed.

2.6 Review tax reassessment period

The IRO currently grants the IRD six years during which it may revisit tax assessments (where a taxpayer has tax losses, this period is unlimited). This means that taxpayers have to keep records indefinitely in order to discharge their burden of proof, even though under the Companies Ordinance and the IRO a business is only required to keep records for seven years. Smaller companies find the cost of such regulatory compliance an unnecessary burden.

The extraordinarily long period during which the IRD may revisit a case means that taxpayers who fail to retain their records may be falsely assessed over issues considered resolved many years earlier. This does not assist taxpayers in reaching a certain or final result on their Hong Kong tax affairs. The Government should consider reducing the reassessment period (or assessment of a loss making company) to three years from the date of lodging the relevant tax return.

2.7 Right to object to decisions in loss cases

Companies should be allowed the right to object to decisions in loss cases. At present, taxpayers have no objection rights to the Statement of Loss issued by the Assessor. If a taxpayer is in dispute with the Assessor on the amount of loss for the current year, he cannot object to the Assessor's Statement of Loss until he has assessable profits to set off against the loss in a future year. This creates uncertainty for the taxpayer. SMEs, with limited legal budgets, are particularly hard hit.

In addition, as stated above, it puts a heavy burden on the taxpayer to keep record for periods beyond that required under Section 51C of the IRO. If the staff or director involved have left employment or (particularly in the case of family-owned enterprises) passed away, the company would find it difficult, if not impossible to defend its claim. It is fair and practical to treat a 'Statement of Loss' the same as an Assessment with the same objection right and revisiting period.

2.8 Deductions for capital investments in intangibles

Countries such as Singapore have recently introduced changes to provide for tax deduction or tax depreciation of certain capital expenditure which would otherwise be non-deductible and non-depreciable, including:

- Permitting a five-year write down allowance (equivalent to a five-year straight line tax depreciation) for expenditure incurred on the acquisition of the Indefeasible Rights of Use (IRUs) of international submarine cable systems
- Acquisition of a broad range of intellectual property rights including trade marks (Hong Kong restricts the deduction to patents and know-how)

The Government is urged to consider similar measures for Hong Kong.

2.9 Introduction of new stamp duty rates on sale of residential properties

We are particularly disturbed by the sudden introduction of punitive stamp duty rates on the sale of residential property. While we understand that government may rightly be concerned about the prospects of an asset bubble in the mass market, such measures would have a serious unintended consequence of punishing most severely the middle class trying to improve their living conditions, and possibly affecting the lower income group as well. The sharp hike in stamp duty is a glaring interference in the free market, and even if such a measure could be couched as an extraordinary measure, as it was presented by the government, it must be tightly restricted to a specific period of time.

3. Using fiscal measures to support the development of a sustainable community

In recent years, our submissions have focused on assisting SMEs and, in the process, shoring up Hong Kong's international competitiveness. However, as the economy recovers and our combined fiscal and exchange fund reserves top \$1.1 trillion, it is time to think about putting the existing, surplus funds to use.

The one issue uniting the community is the urgent need to get serious about our environment. Game-changing investments should be made to support the development of low emissions buses, mini-buses and taxis, perhaps with their electric equivalents when they become available. A comprehensive transport network which reduces unnecessary duplication should be developed and implemented.

To further promote responsible transportation, the Government should acquire emissions-free vehicle models from the makers, set aggressive targets or policy for use of electric vehicles in the Government's fleet and perhaps even in the rest of the Hong Kong fleet in order to encourage volume production. Financial incentives and preferential tax write-offs for early and high-impact adaptation is justified as well.

In the construction sector, we believe it would be appropriate to provide extra allowance for developers who install vehicle charging facilities in their new buildings. It would also be necessary to harmonize the electric vehicle infrastructure (e.g. repairing and battery charging facilities) with Guangdong, to encourage greater use of such vehicles in cross boundary transport.

3.1 Polluter Pays Taxes

We would urge the Government to consider to what extent environmental problems can be dealt with through taxes. A task force should be appointed to study policies in jurisdictions like Europe, where green taxes amount to about 8% of total taxes and social contributions collected by Government. Specific measures should be proposed based on the 'polluter pays' principle.

By the same principle, we should also avoid discouraging positive behaviour. Lowering or eliminating the tax on ultra low sulphur diesel fuel would not only encourage drivers to switch away from dirtier fuels, but also contribute to reducing air pollution. In principle, measures taken to change unsustainable behaviour through taxation should be revenue neutral. By that, we mean that any income should be spent specifically on addressing environmental concerns.

3.2 Reduce road-side emissions

Poor air quality continues to be of major concern to the business community, and there are increasing calls for the decisive Government actions to tackle the problem. While we need to work Guangdong to address the regional dimension of the issue, we expect the Government to step up efforts locally, such as reducing road-side emissions. The Government should consider measures to support the transport industry in switching to environmentally friendly vehicles, covering both

buses and commercial vehicles. Incentives such as funding support for switching should be considered to accelerate the switching process.

3.3 Comprehensive Waste Management Measures

The Chamber has long been a strong advocate of a comprehensive package of waste management measures, such as landfill charging, incentives for waste reduction at source, recycling, producer responsibilities, alternatives to demolition, and incentives for life-cycle costing, a vigorous community education campaign, etc. As the three existing landfills are approaching full capacity soon, we must urgently look into possible sustainable solutions to the waste problem. This can be achieved by providing incentives to the public and businesses to encourage waste reduction, through which new business opportunities would emerge for the waste management, recovery and recycling industries. The Government should also invest in large scale waste management facilities for the treatment and disposal of residual waste.

3.4 Tax Incentives for Health Insurance

The Government has been consulting the public on the introduction of a government-regulated voluntary healthcare insurance scheme as a supplementary source of healthcare financing.

The discussion of supplementary healthcare financing has entered a new phase as the focus is now on the feasibility of a government-regulated voluntary insurance scheme. As we move forward on tackling the healthcare cost, which will take up a larger chunk of public spending, we must consider ways to encourage a sizeable take-up in order to make the voluntary scheme viable. One of the effective means is to offer tax allowances for premiums paid into the government's healthcare protection scheme.

We have always highlighted that adequate take-up is important to the success of a voluntary scheme, and as such it will be necessary to offer incentives. We have submitted to the Health and Welfare Bureau that tax incentives should be considered for premiums paid into the HPS's standardized insurance packages. It will help entice some tax-paying individuals who otherwise might not consider insuring themselves, and encourage those who have been insuring themselves to continue doing so. As a matter of principle, taxpayers who are willing to insure their own health should be properly rewarded, as they are helping to fund the public healthcare system through their tax payments but choosing not to burden on the system.

3.5 Education

And then there is education. We believe that a government as well-heeled as ours should face no difficulty in eliminating many of the fees associated with education, not only to ease the burden imposed on those seeking to better themselves but also as an investment in the future. Associate degrees, vocational training and various kinds of skills upgrading should be available to those who wish to better themselves, without charge. A society – and public sector – as wealthy as ours should be able to provide the wherewithal our people need to succeed.

21 January 2011
Hong Kong