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Hong Kong General Chamber of Commerce
香港總商會 1861

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Helping Business since 1861

22 January 2020

The Honourable Paul Chan Mo-po, GBS, MH, JP
Financial Secretary
25/F, Central Government Offices
2 Tim Mei Avenue, Tamar
Hong Kong

Dear Financial Secretary

I am pleased to submit for your consideration the Hong Kong General Chamber of Commerce's proposals for the Government's forthcoming Budget.

The welcome message on your Bureau's home website page states that "*Financial stability is the key to a stable and growing economy that brings about improvements to people's livelihood.*" We could not agree more. This message is all the more valid, against the background of the recent tumultuous and disruptive events in Hong Kong.

The social unrest has created considerable damage to Hong Kong businesses, with many having suffered severe financial losses, and even closed down. As it is business that has always been an important driver of Hong Kong citizens' welfare, by creating job opportunities, and enhancing economic growth for the benefit of all, there are therefore justifiable concerns about the scope and scale of such challenges and their implications to the SAR.

With this in mind, we believe that this Budget provides a timely, and indeed crucial, opportunity to introduce a carefully-crafted set of measures to help set Hong Kong businesses on the path to recovery, thereby promoting the welfare of Hong Kong society generally.

Our recommendations as to what these initiatives should be, as well as other recommendations designed to enhance the welfare of Hong Kong citizens are set out in the attached submission.

We hope that you will find these helpful.

Yours sincerely

Aron Harilela
Chairman

Att.

HKGCC Budget Proposals for 2020-2021

Hong Kong is fighting for its socio-economic survival as it contends with unprecedented external and internal challenges. Ongoing domestic unrest, along with geopolitical uncertainties, which include volatile US-China trade relations, are taking a heavy toll on the SAR.

In addition to the policy initiatives put forward by the Chief Executive in October, the Government has responded by rolling out a number of interim fiscal measures to help businesses, especially those affected by the social upheaval. These are welcome, but as matters have deteriorated further since, we believe that additional support is necessary to help businesses struggling to stay afloat.

Ultimately, calm and order must be restored through the introduction of effective and concrete solutions that are supported by the general community. There must be efforts to de-escalate conflicts through an inclusive dialogue with all stakeholders. These are important and fundamental to undoing some of the damage and paving the way for a lasting recovery.

Our recommendations on near-term measures are set out below. We also offer suggestions on instituting a tax environment that is conducive to and supportive of a quick rehabilitation of Hong Kong's standing as a business-friendly city, assuming that the tumultuous events of recent months come to an end soon.

A. Immediate measures to ease cashflow

Reduced cashflow is a common malady faced by companies trying to cope with the challenging conditions in Hong Kong. To that end, we suggest that serious consideration be given to the following recommendations to provide businesses with much needed short-term relief as a matter of urgency.

1. **Pay employers' MPF contributions for three months.** This could either be applicable to all businesses or limited to loss-making companies.

2. **Raise the ceiling for the Continuing Education Fund from HK$20,000 to HK$30,000.** Currently, every Hong Kong resident aged between 18 and 70 is eligible to receive a maximum subsidy of HK$20,000. This is to enable furloughed workers in businesses most affected by the unrest, such as those in the retail and hospitality sectors, to upgrade their competencies and skills.

3. **Streamline the disbursement of government funds.** A focus group should be set up under the Commerce and Economic Development Bureau to look into ways to improve and expedite accessibility to the various government funding schemes by rationalizing existing application and screening processes.

4. **Waive the provisional tax for the 2019/20 assessable period, expedite tax refunds and allow loss carryback.** These would all help reduce tax liability, which would, by extension, alleviate cashflow difficulties. To facilitate tax refunds, a "refund first, assess later" approach should be adopted. As the first two are purely administrative measures, these can be implemented quickly without the need for legislative changes. As regards the proposal of a loss carryback, we suggest that the Government introduce the relevant legislative amendments into the Legislative Council in the second quarter of 2020 with a view to bringing into force such a legislative arrangement for the 2020/21 year of assessment.

B. Other short-term supportive measures

1. Waive businesses registration fees.

2. Defer interest payment and principal repayment of government loans.

3. Waive rate collection for property owners (for households and businesses) over four quarters in 2020/21, subject to a ceiling of HK$1,500 per quarter.

4. Eliminate the ceiling (currently $100,000) on the maximum amount deductible for interest paid on a mortgage loan and waive the period of entitlement (currently ten (although not necessarily consecutive) years of assessment).

5. Provide vouchers to all companies to pay audit fees.

6. Reduce profits and salaries tax by 1% for a finite duration. We would suggest 2 years, with a possible extension of an additional year for a total of 3 years.

7. Raise the percentage guaranteed under the SME Loan Guarantee Scheme to 100% to encourage banks to make loans.

C. Forward-looking measures

1. Implement Good Regulatory Practice

As mentioned in our previous recommendations both to the Chief Executive's Policy Address and your Budget Address, **the Government should give serious consideration to improving its policymaking process by making it more transparent and inclusive. There should be a systematic approach to conducting a cost-benefit analysis of any new regulatory intervention (in the form of legislation or otherwise), as well as regular reviews of existing regulations to ensure that these are fit for purpose. Also integral to good regulatory practices is enabling public participation in the policymaking process. An evidence-based regulatory impact assessment approach to policymaking should therefore be a priority on the Government's work agenda.**

2. Create a livable city

For Hong Kong to sustain its reputation and standing as a preferred destination for businesses and talent, continuous investments have to be made in the city's infrastructure to support its development and competitiveness over the longer term. Fundamentally, this involves putting the interests and welfare of citizens first by providing a high quality of life through improving the environment that they live in. The following measures should be adopted to achieve the objective of creating a livable Hong Kong:

a. **Government facilities should strive to become carbon neutral by adopting energy saving technologies and designs. Beyond the public sector, incentives should be provided to retrofit ageing buildings, many of which have poor energy performance. Such incentives can come in the form of direct subsidies or low-interest loans.**

b. **The Government should allocate more funds to fully electrify commercial fleets particularly public transportation.**

c. **Hong Kong should encourage healthy, low-carbon transport modes such as walking and cycling. More resources should also be devoted to promoting pedestrianisation and building cycling-friendly infrastructures.**

d. The Government should support the local recycling industry, which is crucial to Hong Kong's waste management policy, by addressing the issues of the high operations cost especially in the context of the Mainland's restriction on the importation of foreign waste and expected roll-out of the waste charging scheme in Hong Kong later this year. **Tax incentives and zero- or low-interest loans should be provided to upgrade our recycling industry.**

e. The Government should take advantage of the GBA initiative to position Hong Kong as the regional leader in green finance. As such, **the $100 billion green bond issuance programme should be reviewed regularly and the borrowing ceiling should be increased to facilitate and support green measures in Hong Kong. At the same time, Hong Kong should further bolster and support local green businesses using financial instruments and setting incubation hubs.**

f. Climate change is one of the greatest environmental threats to humanity. The Government should **allocate more resources to relevant departments to take pre-emptive and preventative measures to facilitate Hong Kong's climate preparedness and beef up its coastal defence infrastructure.**

3. **Strengthen the Tax Policy Unit (TPU)**

We continue to call for an upgrade of the TPU as a matter of urgency so that it is better able to achieve its mission of enhancing Hong Kong's tax competitiveness. As mentioned in our previous submissions, **a well-resourced and well-staffed TPU should assume the primary responsibility for reviewing and making recommendations on policies of a fiscal nature**. Such an approach to the division of labour would allow the Inland Revenue Department to concentrate its efforts on fulfilling its mandate of policy administration.

4. **Incentivise the establishment of Regional Headquarters (RHQs)**

According to a 2017 report by KPMG, tax represents the most important factor for MNCs when considering where to locate their RHQs. Given that corporate treasury functions are typically operated through RHQs and **there is already a corporate treasury centre regime under which pre-defined activities enjoy a concessionary tax rate of 8.25%, the logical next step would be to extend such a concession to RHQs for the purpose of enhancing Hong Kong's appeal as a business operations centre**.

This should be a matter of high priority for TPU, which would be tasked with consulting the Government and other stakeholders including the business community in formulating a useful and attractive incentive scheme. We believe that such a directional policy would be useful in persuading companies to set up their operations in Hong Kong especially those considering a regional presence.

5. **Reform the Tax on Spirits**

Since 1994, liquor with an alcoholic strength above 30% has been taxed at 100% based on its declared import value. This is in contrast with other developed economies, where taxation calculated on the basis of alcoholic content is increasingly favoured. This has placed Hong Kong at an economic disadvantage whether as an international tourism hub or auction centre for premium spirits. According to the findings of a benchmarking exercise in January 2019, a reformed spirits tax could generate as much as HK$1 billion in additional benefits for Hong Kong's economy in the first year of implementation.

We therefore call for a **change in the manner that liquor is taxed. Instead of the existing approach as described above, products with an alcoholic strength of 30% or above should be taxed based on the alcoholic content regardless of their import price**. This provides a more equitable, responsible and competitive tax framework for spirits and would also benefit a wide cross section of the local economy that include such activities as auctions, premium tourism, gastronomy and entertainment, luxury retail, conventions and education, and logistics. Such a change would also provide timely and much-needed relief to the retail and tourism sectors that are subject to extremely challenging operating conditions due to the China-US trade war and local unrest.

6. Enhance R&D Tax Concession

Although the super deduction introduced last year is welcome as a much-needed measure in bolstering R&D activities in Hong Kong, there are still a number of perceived shortcomings that should be addressed to make the enhanced arrangement more attractive and accessible to qualifying undertakings. Our recommendations are set out as follows:

a. Clarify Section 15F

i. Presently, **it is unclear if royalty-deemed income received by Hong Kong taxpayers for R&D developments made before the introduction of the new legislation falls within the scope of the new enhanced deduction**. In the interest of certainty, **clarification should be given to the IRD's implementation of the new law, including whether enforcement actions would only be taken if serious anti-avoidance was involved**.

b. Widen the scope of qualifying activities

i. The existing standards on qualifying activities are excessively stringent. As such, these have the effect of disincentivising R&D investments. **The narrow interpretation currently adopted should be reviewed to render the concession more useful and accessible across a wider range of activities.**

ii. As the vetting of concession applications is a shared responsibility between IRD and the Innovation and Technology Commission, this could sometimes give rise to an impasse on decision-making thereby resulting in delays. **An agreed mechanism such as an appointment of an arbitrator or mediator should be introduced to resolve deadlock situations, if and when a decision cannot be reached on an application**.

c. Enhance transparency in approving claims

i. The legal provisions in the new law as it currently stands do not offer enough clarity and certainty for companies wishing to apply for such a deduction.

ii. We suggest that IRD emulate its Singaporean counterpart by **publishing statistics on applications for super deduction, including information on successful and unsuccessful cases according to the type of activities. This would provide a useful benchmark and guidance for companies that are considering applying for the deduction.**

d. Extend eligibility to Hong Kong companies in the GBA

i. We continue to call for the **extension of the super deduction to include GBA-based subsidiaries engaged in qualifying R&D activities that are wholly-owned by Hong Kong companies.**

ii. Such an arrangement would be consistent with the Government's policy goal of extending and deepening Hong Kong's involvement in the GBA initiative.

HKGCC Secretariat
22 January 2020