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Helping Business since 1861

19 January 2023

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

Dear Financial Secretary,

Recent developments with the gradual lifting of Covid-related restrictions locally and, more recently, the restoration of a freer flow of movement across the border, have helped infused a much-needed sense of hope and optimism in Hong Kong.

That being the case, it will likely take some time for economic activity to fully rebound to pre-pandemic levels amidst such risks as the looming threat of global recession. Despite such challenges, the outlook for Hong Kong looks bright especially in the context of the Great Bay Area, a burgeoning common market offering ample and varied opportunities.

The attached sets out our recommendations on rehabilitating and rebuilding Hong Kong's economy in the wake of Covid, as well as those on strengthening our capabilities and competencies over different time horizons to reassert and secure our standing as a premier business destination.

We hope you will find our suggestions useful in formulating the forthcoming Budget.

Yours sincerely,

Betty Yuen
Chairman

Encl.

HKGCC Submission to the 2023-24 Budget

A. Restoring Normalcy

1. We welcome the gradual relaxation of social and travel restrictions since the current term administration came into office. This has helped cultivate a greater sense of confidence both locally and abroad. As we ready ourselves for a return to normalcy, the path to economic recovery is likely to be shaky as the Mainland will necessarily take time to recover its footing and amidst a slowing global economy. In the near term, efforts should be made to ensure that we are prepared for a smooth and uneventful reopening. Over the longer term, investments should be made to beef up our competencies and resilience as set out in the following recommendations.

B. Short-term relief

2. To stimulate market demand and fast-track recovery, we suggest that another round of consumption vouchers of no less than HK$5,000 per eligible recipient be made available.

3. At the same time, tax and rent/rate rebates should continue to be provided, although such measures should be more targeted to assist homeowners instead of landlords.

4. Likewise, the Principal Payment Holiday Scheme and the SME Financing Guarantee Scheme should also be extended to help businesses with cashflow issues.

5. The 100% rebate on profits and salaries tax should be reintroduced although we suggest that the cap be adjusted to somewhere between HK$20,000 and HK$25,000, to provide meaningful relief given the challenging economic environment.

6. As the cost of fuel has risen significantly around the world, the effects are also being felt in Hong Kong. Given the anticipated increase in energy prices in the New Year, government subsidies should be provided to defray higher energy costs.

7. With the prospect of continued weakness in the economy and amidst a high interest rate environment, housing prices in Hong Kong are expected to further decline. Given such a gloomy outlook, existing property cooling measures, which include the Special and Double Stamp Duties, should be phased out gradually as they no longer serve their intended purpose of being a countercyclical instrument.

8. Similarly, the Government should consider reversing or issuing a timeline on rescinding the decision to raise the stamp duty on stock transactions due to recent market doldrums and expectations of continued market weakness.

C. <u>Retaining and attracting talent and business</u>

- ***Talent***

9. We welcome the policy initiatives as outlined in the 2022 Policy Address aimed at attracting overseas professionals, but respectfully suggest that attention should also be given to address the loss of local talent, especially among middle managers, not to mention frontline workers. Although there are efforts to ensure that the next generation of workers are equipped with the appropriate skills, this will necessarily take time. A multi-pronged approach is therefore needed over the immediate term to stem and reverse the exodus of local talent. To better address the core needs of middle managers, we suggest providing tax relief for such a work demographic, who are often key breadwinners in a household. These could include raising child/dependent allowances and granting subsidies to working mothers. We would also recommend that the SAR Government provide further financial support to employers on reimbursing costs for upskilling the workforce. In this connection, an in-depth investigation could be carried out to determine market gaps for in-demand skills, for which re-training subsidies could be provided to address specific talent shortfalls. In addition to placing greater emphasis on vocational training, we also suggest introducing a special labour importation scheme for elderly care, healthcare, construction, technology, retail and other industries suffering from acute labour shortages. As well, there should be efforts to improve working conditions and/or the (re-)training of women and older workers to promote labour participation and sustainable employment through flexible working arrangements such as part-time work, job sharing, working from home, seasonal employment and flexible retirement.

- ***Single Family Office ("SFO")***

10. We welcome and support the introduction of a tax concession regime for family-owned investment holding vehicles ("FIHVs") in Hong Kong to further enhance Hong Kong's competitiveness as an asset and wealth management hub. However, we note that qualifying assets under the regime are limited to those as listed under Schedule 16C of the Inland Revenue Ordinance. To attract more family offices to set up and operate in Hong Kong, consideration should be given to expanding the scope of qualifying assets to include those such as overseas immovable assets, collectible assets including art pieces, antiques, classic cars, wine and crypto assets.

11. In addition, eligible SFOs under the proposed regime would still be subject to Hong Kong profits tax rules. We hope that consideration could be given to replicating Singapore's approach of granting a concessionary tax rate of 10% to eligible SFOs on qualifying income, subject to the fulfilment of certain criteria.

12. Currently, the granting of income tax incentives is subject to review and approval by the Inland Revenue Department ("IRD"). Under prevailing practice, it can take years before taxpayers are notified on whether they are entitled to such incentives as in the case of Corporate Treasury Centre tax incentive. The resultant uncertainty is effectively negating the benefits of such programmes. In the interest of shoring up Hong Kong's standing as an international financial hub, and to encourage investors to manage their assets (across as wide a range of classes as possible) through Hong Kong, we suggest that a pre-approval arrangement be instituted. Alternatively, there should be an undertaking by the IRD to complete its review process within two years after the year of assessment in which the SFO and related FIHVs have filed their returns to claim FIHV tax exemption. Further and related comments on promoting tax certainty are set out in paragraphs 43 and 44.

- ***Regional Headquarters ("RHQs")***

13. The upcoming Budget will be critical in determining whether talent and enterprises that had left Hong Kong during the height of government restrictions over the past 2-3 years would return following the gradual and recent roll-back of such measures. To encourage such an outcome, we suggest that the Government provide finite concessions such as a 3-year tax holiday to RHQs that were previously based in Hong Kong. These companies would already be quite familiar with conditions in Hong Kong and the benefits of doing so, and would therefore entail less effort to market the SAR.

14. As part of the exercise to revive international interest in Hong Kong, attention should also be given to highlighting the wealth of opportunities offered on the Mainland, such as the Greater Bay Area ("GBA") Initiative, in which Hong Kong plays a strategic role as a key conduit and facilitator. Priority should be given to attracting major enterprises to set up in Hong Kong, as this would have the positive knock-on effect of compelling other companies in the formers' supply chain to follow suit. Top-tiered firms from the Mainland should also be targeted as part of the GBA blueprint and the National 14th Five-Year Plan.

15. We support plans to earmark HK$30 billion for the establishment of a Co-Investment Fund to attract enterprises in strategic industries to set up operations in Hong Kong and look forward to details (such as whether reimbursement on qualified expenditures, tax waivers, or other concession modes would be offered) on taking forward such an initiative. In the meantime, we hope that consideration

would be given to replicating Singapore's approach of providing preferential tax rates to RHQs subject to their fulfilling certain criteria including the number of local employees and/or attaining a pre-defined expenditure threshold. To facilitate the monitoring, assessment and fine-tuning of prevailing policies catering to RHQs, we suggest publishing statistics on the contributions made by such entities in the areas as mentioned in the foregoing, namely, total operational expenditure and number of jobs created.

16. We note that the proposed Office for Attracting Strategic Enterprises ("OASES") will be tasked with attracting enterprises across four strategic sectors, namely, life and health technology, artificial intelligence and data science, financial technology, and advanced manufacturing and new energy technology industries, to ultimately promote re-industrialization in Hong Kong. We suggest that consideration be given to broadening OASES' mandate to include attracting leading enterprises from other sectors that are committed to establishing a substantial presence and conducting core income generating activities in Hong Kong.

D. <u>GBA Tax Incentives</u>

- ***R&D Super Deduction***

17. Currently, businesses in Hong Kong can claim 300% in tax deduction for the first HK$2 million for eligible R&D expenses and 200% for the balance, which is quite attractive. However, access to such a concession can be onerous, as qualifying R&D activities must be carried out in Hong Kong. For most businesses, the requirement to conduct R&D locally is inherently difficult because of the lack of requisite talent and facilities, relative to places in South China such as Shenzhen. We suggest that the geographical conditions for granting super deduction be broadened beyond Hong Kong to also include R&D activities carried out in the GBA, which is consistent with the overall strategy of integrating with the region while also rendering such an incentive more useful and relevant.

- ***1 + 1 year tax holiday***

18. Consistent with the policy objective of closer integration with the GBA, the SAR Government should engage with the relevant Mainland authorities to explore the possibility of instituting a "1+1 year tax holiday" (i.e. 1 year of exemption from corporate income tax ("CIT") followed by another year of 50% reduction in CIT) for Hong Kong-domiciled companies with investments or considering investing in the GBA.

- ***Withholding Tax***

19. Currently, dividends paid by a Mainland entity to a Hong Kong corporate shareholder is subject to a 5% withholding tax rate under the existing CDTA if the relevant substance requirements are met. This compares to the 10% withholding tax to which a Hong Kong-based individual shareholder is subjected. In addition to the notion of a "1+1 year tax holiday" and to further encourage Hong Kong investments in the GBA, the Government should liaise with its Mainland counterparts on the possibility of eliminating withholding tax on dividends paid by GBA-based businesses to Hong Kong investors by way of an administrative concession, whether corporates or individuals.

E. Business-friendly environment

20. The Government has committed to streamlining administrative processes by setting up various task forces to review existing statutory practices relating to buildings, reclamations and planning with a view to removing bottlenecks and reducing bureaucracy. This is a welcome undertaking, as it will help lower the cost of doing business in Hong Kong. As Hong Kong emerges from the ravages of Covid, attention should be given to promoting the advantages that the SAR offers to businesses looking for a base to tap into the immense and growing opportunities across the GBA and ASEAN economies. We submit that other than subsidies and concessions, this would necessarily include taking stock of existing legislation to ensure that it continues to be relevant and not overly intrusive. To that end, we suggest emulating good regulatory practices elsewhere on getting rid of red tape through regulatory impact assessments so that Hong Kong can reclaim the mantle of the best place to do business.

F. Intellectual Property ("IP") Trading Hub

21. Although the Government has made it a key objective to develop Hong Kong into an international IP trading hub, an aspiration that is shared by the business community, the current tax regime on IP does not support such an outcome. Notably, a stringent approach is adopted on claims for deduction on capital expenditures incurred in securing intangible assets. If Hong Kong is to fulfil its stated objective of becoming a leading IP trading centre, and because of intangible assets' increasingly important role in generating value for a business, the Government should review the existing tax regime, with a view to allowing the amortization of capital expenditures incurred on intangible assets such as spectrum utilization fees, indefeasible rights of use, license rights and franchise rights, that have a finite useful life and are used in running a business, by deeming these as deductibles.

22. In addition, although profits tax deductions are provided for capital outlays for the acquisition of IP rights, claims by affiliates are often denied or in instances where the IP is already in use under a license outside Hong Kong at the time of purchase. Given that there are already transfer pricing ("TP") rules in place, such transactions would, by definition, take place at arm's length and therefore have a lower probability of abuse. It is therefore imperative that a review be conducted as a matter of urgency for existing tax deduction rules on capital expenditure incurred for intangible assets, especially in the case of restrictions on deductibility for the eight types of intellectual property rights acquired from associates under Section 16EC of the IRO, which we recommend be repealed.

23. For Hong Kong to realize its objective of becoming a premier centre for the development and trade of IP, we submit that this should be premised on credible and robust institutional arrangements specifically a registry system. We note that the HKTDC has introduced the Asia IP Exchange ("AsiaIPEX") although it currently functions more as a listing platform than a registry. To enhance AsiaIPEX's scope and capabilities, compelling value could be added by (1) encouraging IP holders to provide as much information as possible, including that on "asking price", (2) incorporating technology such as AI to enhance platform listings and identify IP buyer needs thereby facilitating matching. We also suggest deploying blockchain technology to authenticate transactions, and (3) compiling and publishing statistics on IP-related transactions to facilitate monitoring and provide market reference.

24. We suggest relaxing conditions under the Innovation and Technology Fund's Patent Application Grant so that it can play a more useful role. We refer specifically to the provision limiting such support on a one-off basis to first time patent holders. Such an approach is inconsistent with the Government's policy objective of developing Hong Kong into IP trading hub. We recommend that such a provision be reviewed with a view to encouraging further investments in the development of patents by Hong Kong companies, regardless of their size and background.

25. Consideration could also be given to introducing an IP box regime, an incentive under which IP income is taxed at a lower or zero rate, provided that the relevant IP activities (development, enhancement, maintenance, protection and exploitation) are conducted in Hong Kong. Jurisdictional coverage of qualifying IP activities can be expanded to the GBA as appropriate.

G. <u>Global Minimum Tax</u>

26. Under Pillar 2 of BEPS 2.0 (also referred to as the "Global Anti-Base Erosion" or "GloBE" proposal), multinational enterprises ("MNEs") with revenues exceeding EUR 750 million will be required to pay a 15% minimum tax in each jurisdiction in which they operate. A top-up tax is imposed on the profits arising in a jurisdiction

if the effective tax rate ("ETR"), calculated for each jurisdiction where business operations are carried out, is below the minimum rate.

27. As the Government considers its approach to implementing the GloBE rules, we suggest that a review be conducted of existing subsidy schemes to assess whether adjustments should be made to fulfil the meaning of a Qualified Refundable Tax Credit ("QRTC") so that such monies can be treated as GloBE income by the recipient entity. This could have an appreciable impact on the calculation of jurisdictional ETR because by allowing a subsidy to be included as a denominator rather than the numerator, this would help moderate a decrease in the ETR, which would in turn reduce the probability of having to pay a top-up tax.

H. Freight and logistics

28. The 2022 Policy Address has put forward a number of transport-related incentives, namely, (1) tax concessions to attract high value-added maritime enterprises to establish a presence in Hong Kong; and (2) further enhancements to the aircraft leasing preferential tax regime. To augment Hong Kong's standing as a transport and logistics hub, we suggest that consideration be also be given to the following:

29. **Comprehensive tax treaty network** – Continued efforts should be made to expand Hong Kong's tax treaty network to allow locally-based shipping groups and aircraft lessors to better manage their tax exposure elsewhere. A larger treaty network offers tremendous benefits to international shipping groups and aircraft lessors, who are more likely to establish a presence in Hong Kong.

30. **Coordinated policy formulation** – There should be closer collaboration between the SAR Government and its local counterparts in the GBA to collectively promote maritime and aircraft leasing businesses in the region. Measures to take forward such objectives could include a reduction in withholding tax on aircraft leases entered into between Mainland and Hong Kong entities, and to encourage the use of Hong Kong/Free Trade Zones to lease aircraft into the Mainland, a mutually beneficial arrangement for both jurisdictions.

31. **Concession effectiveness** – To ensure the relevance of prevailing fiscal policies, these should be reviewed from time to time. To that end, a specialised government taskforce could be established to monitor the effectiveness of the various tax concessions provided to the transport and logistics sector.

32. **Green measures** – Appropriate fiscal measures should be considered to support green shipping and aviation, which would be conducive to sustaining Hong Kong's standing and competitiveness as a first mover in the region. This includes such support as tax credits to help offset the cost of substituting traditional aviation fuels

with sustainable jet fuel. In addition to benefits to the environment, the transition to sustainable aviation fuel would contribute immensely to strengthening Hong Kong's competitiveness as an international aviation hub, as well as in creating new job opportunities.

I. Electric Vehicles ("EVs")

33. Thanks to recent advancements in electric battery technology and EV system design, mass adoption of EVs including that for public transport such as taxis would be a logical next step in helping Hong Kong achieve the objective of net zero emissions by 2050. However, existing fiscal policies, namely, the first registration tax ("FRT") rate of 3.7% for taxis is too low in motivating taxi owners to switch their fleets to EVs especially in view of an immature charging network.

34. To encourage the electrification of mass market transportation, we recommend that a subsidy be introduced for each conventional taxi that is replaced by an electric one. The subsidy can be administered via the New Energy Transport Fund based on the following revised terms:

    i. Placing all type-approved electric taxi models under the "Applications for Use" ("AU") funded product list;
    ii. Subsidizing the purchase of AU funded products at a level equivalent to 50% of the cost of the said products;
    iii. Allowing each applicant (e.g. a taxi company) to apply for up to 80 EVs of the same AU funded product model for EV transition to an operational scale subject to a cap of HK$12 million in total AU subsidy for each applicant, a condition that is provided under the existing scheme.

35. We also recommend that the Government extend the current FRT concession for EVs until 30 June 2027, as well as the special tax arrangement for enterprises to claim 100% deduction on capital expenditure for EVs made in the first year of procurement.

J. Financial Markets

36. To add breadth and depth to Hong Kong's standing as an international financial centre, consideration should be given to enhancing our REITs regime to render it more attractive for the listing and trading of such an asset class. Last year, the Financial Secretary unveiled a Grant Scheme for REITs in his Budget Speech. Under this three-year subsidy scheme, SFC-authorized REITs listed on the HKEX with a minimum market capitalization of HK$1.5 billion are eligible for a grant amount of up to 70% of the professional fees paid to local Hong Kong service providers, capped at HK$8 million, per REIT. Although this is a positive development and a welcome measure, the cap on the grant amount is considered to be too low to be

attractive. To further incentivize REITs to list in Hong Kong, tax concessions, more or less, similar to those in Singapore should be introduced.

37. The HKEX has introduced a variety of new listing regimes since the beginning of the year such as that for Special Purpose Acquisition Companies ("SPACs") and Specialist Technology Companies ("STCs"). Such initiatives notwithstanding, these are often less competitive relative to other markets in the United States and Singapore due to onerous listing requirements. As a result, only 3 companies to date have listed through the SPAC regime since its launch in January 2022. For such regimes to serve their intended purpose, refinements should be made to existing listing requirements to promote user-friendliness without compromising the integrity and quality of issuers. In this regard, we suggest conducting a thorough and comprehensive review of these listing regimes to better understand where we stand vis-à-vis other markets and to make appropriate enhancements with a view to honing our competitive edge.

38. The rise of green finance has provided Hong Kong with considerable opportunities to further consolidate its standing as a leading international financial centre. At the moment, the Government is the leading issuer of green bonds in Hong Kong. It is equally important that there be private sector participation, especially from SMEs, in sustainable investments. The three-year Green and Sustainable Finance Grant Scheme ("GSF Grant Scheme"), which was launched in May 2021 by the Hong Kong Monetary Authority ("HKMA"), offers financial support of up to HK$2.5 million to eligible bond issuers and loan borrowers for expenses incurred for bond issuance and external review services. Although the GSF Grant Scheme is a positive development, the grant ceiling is regarded as too conservative to be useful, given that the cost of issuing green bonds is very high. The subsidy cap should therefore be raised to provide substantive and meaningful support for SMEs.

K. <u>Tax System</u>

39. The global operating landscape has undergone major changes in recent years and, as a small and open economy Hong Kong will be affected significantly in many ways. Although there are a number of taxation-related matters that we would like to see addressed, the following are some of the key issues that should take priority on the Government's policy agenda.

- ***Tax Competitiveness***

40. Hong Kong has hitherto lacked a dedicated government agency to oversee and formulate tax policy. Although a Tax Policy Unit was established in 2017 (and since retitled as the Budget and Tax Policy Unit ("BTPU")), it continues to be under-resourced and lacks a mandate. To promote Hong Kong's tax competitiveness and

provide clear policy direction, investments in the BTPU should be made to enable it to discharge its responsibilities effectively and properly. In that connection, the BTPU should be staffed with interdisciplinary expertise that includes but is not limited to economists, statisticians, lawyers, accountants and tax administrators.

41. The BTPU should also be vested with the authority to formulate robust tax policies to help Hong Kong enhance and sustain its competitiveness. This includes supporting measures recently announced in the Chief Executive's maiden Policy Address to attract and retain talent and businesses.

- ***Tax Certainty***

42. Hong Kong operates on a "pay first, assess later" regime and applies a 6-year statutory assessment period. However, the statute of limitation does not apply to taxpayers with tax losses and tax exempted positions. Furthermore, the prevailing practice of self-assessment has the effect of deterring investors from applying for tax concessions due to the lack of certainty. We also note that this has given rise to numerous cases of tax disputes and appeals, which could sometimes take 10-20 years to resolve. Compared to the statutory period of 3-4 years in other Asian jurisdictions and the UK's 1 year enquiry period, consideration should be given to (1) establishing a pre-approval arrangement for tax concession regimes, especially in the case of the impending FIHV tax exemption regime, which are important to maintaining Hong Kong's status as an international financial centre, and (2) shortening the statutory assessment period and/or review period to better align with practices elsewhere to enhance Hong Kong's tax competitiveness.

- ***Decentralised oversight***

43. The responsibility for formulating and administering tax incentives should not rest solely with the IRD and/or Financial Services and Treasury Bureau ("FSTB"). Rather, this should be a shared obligation similar to that in Singapore where the FIHV/Family Office Tax regime is overseen by the Monetary Authority of Singapore ("MAS") rather than the Inland Revenue Authority of Singapore. Under such an arrangement, MAS is empowered to introduce, amend and administer tax and incentive policies governing family offices, while ensuring their relevance and timeliness. For the proposed FIHV tax exemption regime to function as intended, the HKMA should play a leading and proactive role in coordinating and possibly administering the regime in the interest of promoting certainty through the implementation of a pre-approval process. The reduction in workload would also allow the IRD to redirect its resources to expediting the review and assessment process for long outstanding tax disputes.

- ***Compliance Burden***

44. As noted in paragraph 20, it is imperative that Hong Kong take active and concrete actions to refashion itself as a place in which it is easy to do business. In that regard, we suggest that the Government adopt a flexible approach to providing relief to businesses as in the case of the foreign-sourced income exemption (“FSIE”) regime, which will come into force on 1 January 2023. Notwithstanding such a development, the Government has stated that the new regime would have minimal impact on Hong Kong’s tax competitiveness.

45. It remains to be seen whether that would be the case. Under the IRD’s guidelines, taxpayers will be required to provide proof of economic substance in Hong Kong for intra-group outsourcing arrangements whereby the provider of outsourced services is required to charge the Hong Kong taxpayer a fee in accordance with TP rules. This means that the Hong Kong taxpayer will have to bear an additional tax cost, because it is not eligible to claim a deduction on expenses incurred in the production of exempted income, while the group service provider is liable to tax on the service fee income received. Furthermore, the transaction cannot be regarded as an exempted domestic transaction for TP purposes because of the tax difference.

46. For MNE groups, it is quite common for employees in a group entity to perform services for other entities in the same location without a formal agreement. Given the level of activity engaged in by locally headquartered groups in Hong Kong, the need to demonstrate substance should therefore be regarded as superfluous and unnecessary. In this regard, a flexible application of the economic substance requirement should be adopted to alleviate the compliance burden on Hong Kong-based MNE groups, by looking at their overall organization structure instead of the current focus on contractual relationship.

- ***Government support schemes***

47. There should be a fundamental rethink of the current approach to implementing tax incentives, so that these can be fully optimized and accessed by intended recipients. Currently, oversight of non-tax grants and incentives is dispersed across various government agencies resulting in longer than necessary vetting processes that effectively negate the attractiveness of such measures. We suggest emulating the practice in Singapore where the Economic Development Board assumes the key responsibilities of connecting investors with respective government agencies and in disbursing investment incentives. A similar entity could be established in Hong Kong, with the KPI of attracting certain investments types based on a number of quantifiable parameters (such as annual fixed asset investment, annual OPEX,

number of jobs created and expected value-added). This would provide clarity while also promoting efficiency. The proposed entity would also be tasked with monitoring developments with scheme participants to ensure that commitments are met, and take appropriate action to retain such businesses and/or encourage further investment. Over the longer term, consideration could be given to merging OASES with InvestHK to fill the role of the dedicated agency.

- ***Tax Treaties***

48. Other than the recent tax treaty with Mauritius, Hong Kong has not entered into any new tax treaties over the past 2 years. This is in contrast with Singapore, which has expanded its tax treaty network by 8 economies over the past year to a total of 103. Notably, the Mainland boasts a tax treaty network of over 100 jurisdictions. Unless efforts are made to grow our thin treaty network, it will be difficult to spark international interest in Hong Kong and therefore undermine the Government's stated objective of attracting more businesses to set up in the SAR. We reiterate our call over the last few years for setting a specific goal on the number of additional treaties to be entered into over a defined period, and to invest the necessary resources including increasing headcount (through such means as recruiting professionals from the private sector) in the respective agencies to achieve such an objective.

L. <u>Retirement Protection</u>

49. Our recommendations on improving Hong Kong's retirement protection framework are as follows.

- ***Raise financial literacy***

50. Taking ownership of one's financial well-being often boils down to the ability to navigate the complexities of financial investment, which is in turn dependent on the possession of adequate knowledge to make informed decisions in managing personal finances. Such an approach also applies to the decumulation stage of retirement planning. It is therefore important that the working population be equipped with the appropriate knowledge to make sound financial decisions when doing so. To that end, the Government should raise the level of financial literacy in Hong Kong by providing the requisite resources to schools, universities and other relevant institutions, and promote public education through information campaigns to raise awareness on the importance of having adequate retirement savings.

- ***Make MPF meaningful and relevant***

51. The ability to cover the cost of retirement is crucial not only to individuals but is also an issue of significance to policymakers and society as a whole. As such, the 10% mandatory contributory ceiling currently applicable to both employers and employees falls short when benchmarked against the OECD's average of 18%[1]. Such a low contribution rate also has the knock-on effect of limiting investment returns. Although additional contributions of a voluntary nature are allowed and are, in fact, encouraged, the MPF's one-size-fits-all design fails to take into account the ability or willingness to contribute across different population segments.

52. For employees and self-employed persons, such as those in the "gig" economy, who fall outside the income tax bracket and are not required to make MPF contributions, the Government's stated intent to make such contributions on their behalf, subject to no more than 5% of their pay upon the implementation of the e-MPF platform is a welcome measure[2]. The Chamber believes that this is a step in the right direction but would suggest that the Government double the threshold to 10% subject to eligibility under a means-tested mechanism to ensure that limited public resources are directed to those in need, including those who are categorised as non-employed and unemployed. It is important that public monies are set aside to fund such expenditure, which should be disbursed as early as possible subject to the Government's ability to do so. Delaying this further would only result in higher future social welfare expenditure, as wages will continue to increase with inflation.

53. To take into account of income disparities and ensure that "no one is left behind", we suggest adopting a tripartite approach to the MPF contribution mechanism as outlined in the following table:

Employee Monthly Income*	Government Contribution	Employer Contribution	Employee Contribution
< HK$7.1k	Salary x 10%	Salary x 5%	Nil
HK$7.1k-HK$30k	Salary x 5%	Salary x 5%	Salary x 5%
>HK$30k	HK$0	HK$1,500*	HK$1,500*

**Figures for the employee monthly income, and employer and employee contributions in the above table are based on the monthly relevant income figures published by the MPFA as of March 2022. The Chamber recommends that these figures to be adjusted from time to time to take into account factors that include but are not limited to inflation, minimum wage and the cost of living.*

[1] OECD iLibrary. (2019). Mandatory pension contributions. Retrieved March 3, 2022, from https://www.oecd-ilibrary.org/sites/aadaadc3-en/index.html?itemId=%2Fcontent%2Fcomponent%2Faadaadc3-en

[2] Hong Kong's Information Services Department. (2020, January 14). *More help for low-income earners*. news.gov.hk. Retrieved March 3, 2022, from https://www.news.gov.hk/eng/2020/01/20200114/20200114_163132_501.html

54. To further incentivise those with the financial wherewithal to increase their contributions, we suggest that consideration be given to broadening the range of investment vehicles currently on offer. In addition, the Chamber believes that the ability to utilize MPF savings for major lifetime events would also have the virtuous effect of encouraging employees to increase their contributions. These include the partial withdrawal of MPF contributions for making a property purchase deposit by first time homeowners, and expenditure on long-term care or payment for medical insurance.

- ***Create meaningful and sustainable MPF investment returns***

55. Another key aspect to increasing retirement savings is to ensure that meaningful MPF investment returns can be achieved by the time of retirement. To that end, the Chamber believes that employers should be incentivized to increase their contributions through tax incentives equivalent to 200% of the amount that they contribute. A similar tax concession should also be provided to employees to encourage additional MPF contributions.

56. To achieve the goal of universal retirement protection, a similar tax concession could be provided to employees who contribute to retirement accounts of family members who are non-employed persons (such as homemakers) and are therefore not covered by the employment-based MPF system.

57. Due to the long lock-in period of MPF funds, one major concern regarding the usefulness of such funds over the longer run is the corrosive effect inflation has on the purchasing power of retirement savings. To provide protection against inflation, the Chamber suggests that the Government consider introducing an indexing mechanism that is pegged to the cost of living, to serve as a guide in determining whether adjustments are needed to the relevant income cap for mandatory contributions, which is set at $30,000 as of March 2022.

58. The Chamber believes that cost-cutting measures are also essential to increasing MPF investment returns. As such, we applaud the Government’s plan to launch the e-MPF platform with a view to simplifying the administrative process and lower associated costs. The Government should continue to look into ways of further reducing costs so as to improve investment returns for MPF accounts.

59. Ensuring a steady stream of income after retirement is crucial to keeping retirees financially afloat, providing peace of mind in terms of financial sustainability, and security during retirement. To that end, the Chamber suggests that consideration be given to raising awareness on the merits of annuitizing MPF savings as a more sustainable alternative to lump sum withdrawals. We therefore suggest emulating Singapore's gradual approach of first adopting an opt-in, then opt-out and finally compulsory annuitisation to promote wider buy-in and support.

60. In order for meaningful and concrete reforms to take place, we suggest setting up a dedicated commission responsible for leading the formulation and implementation of a coherent retirement protection policy. We believe centralising such responsibilities offers benefits over the existing arrangement whereby oversight is shared amongst the FSTB, Labour and Welfare Bureau, and Mandatory Provident Fund Authority.

HKGCC Secretariat
January 2023