

Submission of 2013 Budgetary Policies for the Financial Secretary by the British Chamber of Commerce in Hong Kong

Enhancing Hong Kong as the Best City in Asia to Live and Work in Asia

We summarise the views of members of the British Chamber of Commerce in Hong Kong for consideration by the Financial Secretary in the Budget for 2013.

Our underlying theme is that Hong Kong is a region:

- I. In which international business thrives;
- II. To which international business people are attracted to live and work; and
- III. Enjoying efficient government and a prosperous community

I. A Region where International Business Thrives

RMB

- Further develop Hong Kong as the premier RMB offshore financial centre by clear direction to extend RMB financial services and incentives to fund managers and international equity IPOs with Hong Kong as their centre of activity.

SMEs

- Reinstatement of the government-funded SME Training Fund, the elimination of compulsory annual financial audits and guidelines on collateral to assist the growth of SMEs. We also suggest government make micro-finance applications that meet specific short-term needs of SMEs and service companies rather than current Loan Scheme, which is trade/manufacturing oriented.
- Consider suspending provisional tax payments for SMEs and lowering the tax rate for SMEs with turnover/profits under a reasonable ceiling in the 2013-2014 Budget.
- SMEs face the challenge of learning about market opportunities (especially overseas) and being able to access these opportunities. In this connection, clear new opportunities are being facilitated by the development of internet-based platforms. Such platforms need to be examined carefully, and exploited for the benefit of SMEs where possible, and Government should encourage the development of such platforms, where possible, in collaboration with the private sector.

Bond Market

Despite having one of the most liquid equity, foreign exchange and swaps market in the world, Hong Kong's bond market is characterised by primary issues and a lack of a secondary market. To develop a domestic bond market Hong Kong needs to:

- Establish an active government bond market providing yield curve and liquidity– HKMA has proposed liquidity measures, but which have not been introduced.
- Expand debt issuer base to widen investment choice– Hong Kong needs to attract overseas corporations or lower-credit companies to issue debts. The Government could relax requirements such that there will be market demand for debts with varying level of credit grades.
- Remove uncertainty on tax– which might be a barrier to the development of commercial debt market targeted at professional investors. Under certain circumstances, tax exemptions may not apply to interest generated from Hong Kong listed debt. The IRD should clarify the issue.
- Issue an Environmental Bond– see below.

Capital Works Reserve Fund and Reallocation

- The Chamber urges the Administration to reform its accounting systems. In particular, to consider an objective review of the Capital Works Reserve Fund and in the potential of using the fund towards recurrent expenditure.

Tax

- Objectively review the consequences, to the economy and community, of broadening Hong Kong's tax base through implementation of a goods and services/sales tax. This should include consideration of implications to the logistics sector.
- Objectively review the consequences of reduction of Profits Tax to compensate for the costs of the adoption of minimum wage, and to provide business incentives and assist in Hong Kong's regional competitiveness.
- The Chamber recognises the difficulty in accurately budgeting income, as the major sources of revenue are not recurrent and predictable, and suggests a more strategic review on government income to enhance effective financial management.

II. A City to which International Business People are Attracted to Live and Work

MPF

- Improve and enhance MPF by introducing full portability at the employee's discretion, to restore peoples' trust in Government and provide better retirement benefits.

Air Quality and Environment

- Issuance of an Environmental Bond as a mechanism to assist in development of essential environmental infrastructure including waste management systems helping to develop the bond market. Such a long-term bond could comprise an appropriate mechanism to pay one-off environmental costs, as the benefits will be enjoyed over the term of the bond.
- Objectively review the consequences of implementing electronic road pricing and congestion charging to internalise the social costs of private transport – including its associated costs – while encouraging greater use of public transport.
- Encourage the use of clean maritime fuel, introduction of electricity supplies for vessels alongside quays and introduction of a Pearl River Delta Emission Control Area (ECA) standards.
- Introduce higher fees for water, based on the principle of cost recovery – with rebates for the poor and lower cost/free for small quantity users.
- Introduce sewage and waste disposal fees based on the polluter pays principle– these initiatives need to be carefully considered and should reflect the level of services provided, and be considered in concert with the, above recommended, “Environmental Bond”.
- Introduce greater first registration tax waivers for environmentally- friendly and electronic vehicles and extension of the waivers for zero emission vehicles.

Education

- Consideration of an education voucher system (for primary onwards to be spent anywhere – not just Hong Kong) – for kindergarten, primary, secondary and tertiary levels.

- Provide tax incentives for private schools and universities to encourage the development of a more diversified and international education market.
- Provide educational financial assistance, at all education levels, for children in needy families to facilitate social mobility.

Property and Land

- Introduce an annual tax on unimproved, dilapidated buildings being held by developers for land banking
- Similarly, the introduction of an annual property tax on flats that are left unoccupied to discourage property speculation.
- Implement policies requiring developers to contribute to the development of low-cost housing as part of planning conditions on sites being tendered
- A stamp duty for foreign purchasers is harmful for Hong Kong's reputation as a region, which encourages international people to come to settle and to work. This tax should be eliminated.
- There continues to be a distinct lack of office space with floor plates of suitable size available for international business, which threatens Hong Kong's competitiveness as a location of choice for large corporations. More supply should be made available for the market and revitalisation restrictions further relaxed to permit more office development.
- Support international property funds to set up in Hong Kong.

Population

- A population policy should be mooted and agreed.

III. A City Enjoying Efficient Government and a Prosperous Community

Law and Order

- Provide realistic financial support for Hong Kong's legal system – including Law Reform Commission, Judiciary, Department of Justice and Legal Aid.
- Increase fines to realistic/deterrent levels – establish mechanisms for automatic annual increases in line with inflation.

Healthcare

- Allocate more resources to community healthcare – with an ageing population, the proportion of GDP spending on healthcare will increase. It is not appropriate to try to limit cost increases, but to afford them by investing in education.

- Broaden healthcare coverage by spreading the cost of healthcare so that the poor are not spending proportionally more of their income than the rich, by either a fully governmental paid system or mandatory health insurance.
- Provide tax incentives for private health insurance purchase.
- Ensure medical and paramedical professions to bear full cost of self-regulation – there is no special reason for taxation to support professions.

Wealth and Poverty Gap

- Define ‘poverty line’– to assist the government to help economically disadvantaged groups.
- Redefine ‘retirement age’– to be the average life expectancy (either at birth or retirement age) minus an agreed number of years to automatically adjust with increasing or decreasing life expectancy.
- Withdrawal of stamp duty for Home Ownership Scheme and low-income housing.

Social Enterprises

- Review the role and performance of social enterprises in Hong Kong– the Chamber retains a keen interest in the development of Social Enterprises. However, up to now, the Chamber has faced some difficulty in identifying the criteria that distinguish social enterprises from charities, not-for-profits, enterprises that use – or benefit – disabled or disadvantaged groups in the community, or simply small start-ups that are helping to tackle the grave problems of youth unemployment. The Chamber calls on the Government to use the review currently being undertaken to clarify these criteria, in order that funding support (where appropriate) is targeted as effectively as possible.

The Chamber recognises your work in maintaining Hong Kong’s fiscal ability and promoting better business platforms for international businesses in Hong Kong and looks forward to it continuing.