



Financial Secretary Budget Address: Policy Matching Exercise 26th February 2020

Contents:

Policy Matching Exercise

Matching policy proposals from the British Chamber (19th July 2019 [Policy Address Submission](#), and other recent consultation responses and submissions) with relevant announcements in the Financial Secretary's Budget Address.

Other Points of Interest

Highlighting other announcements from the Budget Address which may be of relevance and interest to Chamber Members.

Policy Matching Exercise

N.B. the numbers at the beginning of each paragraph relate to the paragraph number in the Budget Address Document (https://www.budget.gov.hk/2020/eng/pdf/e_budget_speech_2020-21.pdf)

Cover Letter	
British Chamber Ask / Proposal	Corresponding Proposal in the Budget Address
<ul style="list-style-type: none"> Recommend that the administration draws on the best of private sector expertise to help develop and then communicate a compelling strategic vision for Hong Kong internationally. 	<p>81) I will allocate an additional funding of \$150 million to the Trade Development Council (TDC) for organising various initiatives to promote Hong Kong; setting up Hong Kong Pavilion, Hong Kong Design Gallery and pop-up shops in major overseas cities; and organising trade delegations.</p>
Business Confidence; and Hong Kong's International Business Reputation	
British Chamber Ask / Proposal	Corresponding Proposal in the Budget Address
<ul style="list-style-type: none"> Steps should be taken to reinforce the attractiveness of HK as a location to start, grow or relocate businesses. New initiatives and incentives in finance, labour, innovation/tech or taxation, could be introduced. 	<p>27) <u>Support Enterprises and Safeguard Jobs</u> b) Reducing profits tax for the year of assessment 2019/20 by 100%, subject to a ceiling of \$20,000. d) Waiving the business registration fees for 2020-21.</p> <p><u>Healthcare Manpower</u> 46) An additional funding of about \$600 million will also be provided to the HA for increasing manpower to implement new measures and enhance existing services.</p> <p><u>Securities Market</u> 53) To strengthen the competitiveness of Hong Kong as an ETF listing platform, I propose to waive the stamp duty on stock transfers paid by ETF market makers in the course of creating and redeeming ETF units listed in Hong Kong.</p> <p><u>Asset and Wealth Management</u> 62) With a view to attracting more private equity funds to domicile and operate in Hong Kong, we plan to provide tax concession for carried interest issued by private equity</p>

	<p>funds operating in Hong Kong subject to the fulfilment of certain conditions. We will consult the industry on the proposal, and the relevant arrangement will be applicable starting from 2020-21 upon completion of the legislative exercise.</p> <p><u>Maritime Sector</u> 78) The Government will also explore other tax measures to attract more global shipping business operators and commercial principals to set up business in Hong Kong.</p>
Developing and Growing our People as a Priority	
British Chamber Ask / Proposal	Corresponding Proposal in the Budget Address
<p>Resolving Labour Shortages</p> <ul style="list-style-type: none"> Limited and targeted labour importation schemes on an appropriate scale to address the specific needs of the logistics, health and construction sectors. A streamlined approval processes to enable foreign trained practitioners in the medical, nursing and allied health sectors to practice in the private sector. 	<p><u>Healthcare Manpower</u> 46) An additional funding of about \$600 million will also be provided to the HA for increasing manpower to implement new measures and enhance existing services.</p>
<p>STEM</p> <ul style="list-style-type: none"> The focus on STEM needs to start at primary school. Increase the participation and attainment levels of women and girls in STEM subjects – targeted campaigns to encourage female teachers to take up teaching positions in STEM subjects, as role models. Performance indicators in both of these areas should be published regularly. 	<p><u>Innovation and Technology</u> 95) The Government has been striving to promote STEM education, with the aim of bringing new blood into the I&T industry. In the 2018/19 academic year, total student enrolments in STEM-related programmes funded by the University Grants Committee exceeded 35,000, representing an increase of 16 % over five years. I will set aside \$40 million to subsidise short-term internships for undergraduates and postgraduates taking STEM programmes in local universities.</p>
Developing a Healthier City	
British Chamber Ask / Proposal	Corresponding Proposal in the Budget Address
<p>Disease Prevention and Early Access to Innovative Care</p> <ul style="list-style-type: none"> Raising awareness and adoption of preventive care, especially for mental health and key chronic diseases and cancers, with better promotion encouraging the public to take action in a targeted and action-oriented campaign. Health-screening programmes should be significantly stepped up, using a public-private partnership approach, with subsidies for enhanced accessibility by all sections of the community. 	<p><u>Development of Healthcare Facilities</u> 43) Around \$180 million has been allocated to the University of Hong Kong, the Chinese University of Hong Kong and the Hong Kong Polytechnic University in 2018-19 for carrying out short-term renovation works, enhancing facilities and strengthening professional healthcare training. Furthermore, the DH will renovate its clinics in phases.</p> <p><u>Primary Healthcare</u> 47) For the remaining 11 districts where DHCs have yet to be set up, I will allocate about \$600 million to subsidise the setting up of smaller interim "DHC Express" by non-governmental organisations (NGOs).</p>



A Built Environment Fit for the 21st Century	
British Chamber Ask / Proposal	Corresponding Proposal in the Budget Address
Grow an Innovative, Digital and More Sustainable Smart City	
British Chamber Ask / Proposal	Corresponding Proposal in the Budget Address
<p>Lower Carbon City</p> <ul style="list-style-type: none"> • Government should: <ul style="list-style-type: none"> ○ Review its policy to support the introduction of electric private vehicles. ○ Set a timetable for the transition to a zero-emission public bus network and revise the Pilot Green Transport Fund to support bus companies financially to undertake this transition. ○ Provide a long-term roadmap and predictable pathway to allow businesses and the wider community time to support to support decarbonisation in a practical and responsible way. 	<p><u>Setting Up the Green Tech Fund</u> 126) To promote the development of decarbonisation and green technologies, expedite low-carbon transformation and enhance environmental protection, I propose setting up a \$200 million Green Tech Fund to support R&D and application of decarbonisation and green technologies, and the sharing of R&D findings.</p> <p><u>Promoting the Use of Electric Vehicles</u> 127) The Government will update the Clean Air Plan to, among other things, examine the policy of further promoting the use of EVs. We will also formulate Hong Kong's first roadmap on the popularisation of EVs.</p> <p>128) As regards charging facilities, we will launch a \$2 billion pilot scheme this year. The scheme aims to subsidise the installation of charging-enabling infrastructure in eligible car parks of private residential buildings, with a view to facilitating the installation of chargers by owners of individual parking spaces.</p> <p>129) We are researching into electric public light buses that are suitable for local use and the basic specifications and requirements of the associated charging facilities. Relevant guidelines will be formulated. The Government will earmark \$80 million for a pilot scheme under which green PLBs running on fixed routes will pioneer the switch to EVs.</p> <p><u>Phasing Out Euro IV Diesel Commercial Vehicles</u> 130) The Government is preparing for the launch of a scheme in the second half of this year to phase out about 40 000 Euro IV diesel commercial vehicles. I have set aside \$7.1 billion for ex-gratia payment to the vehicle owners concerned.</p>

Additional Points of Interest

This list does not fully capture all proposals from the Budget Address, rather it is a snapshot of business policy related announcements which may be of relevance and interest to Chamber members and its Committees.

N.B. the numbers at the beginning of each paragraph relate to the paragraph number in the Budget Address Document (https://www.budget.gov.hk/2020/eng/pdf/e_budget_speech_2020-21.pdf)



Economic Situation in 2019

- 7) Total exports of goods fell by 4.7% in real terms for the year as a whole.
- 8) Private consumption expenditure declined 1.1% in real terms for the year 2019. Investment expenditure fell by 12.3% in real terms.
- 9) The economy entered recession in the third quarter and contracted by 1.2% for the year as a whole.
- 10) The seasonally adjusted unemployment rate went up from 2.8% in the second quarter of 2019 to the latest quarter 3.4%, the highest in more than three years.

The unemployment rate of the retail, accommodation and food services sectors as a whole rose to a three-year high of 5.2%. The unemployment rate of the food and beverage services sector even rose sharply to 6.1%

- 11) The underlying inflation rate was 3% for 2019, up 0.4 percentage point from 2018.

Revised Estimates for 2019-20

152) The 2019-20 revised estimates on government revenue is \$567.3 billion, lower than the original estimate by 9.4% or \$58.8 billion.

153) Revenues from profits tax and salaries tax dropped substantially by \$40.4 billion due to economic condition, enhanced tax concessions and a deferred tax assessment cycle as compared with previous years.

Stamp duty revenue is \$63 billion, \$13 billion less than the original estimate, attributed to smaller-than-expected trading volumes brought about by adjustments in the property and stock markets over the year.

154) For government expenditure, the revised estimate is 611.4 billion, 0.6% or \$3.6 billion higher than the original estimate. This is mainly because of the establishment of the Anti-epidemic Fund, and that expenditures on public works projects were lower than the original estimates.

155) Forecast a deficit of \$37.8 billion for 2019-20. Fiscal reserves are expected to be \$1,133.1 billion by 31 March 2020.

Economic Outlook for 2020 and Medium-term Outlook

18) Forecast economy will grow by -1.5% to 0.5% in real terms in 2020.

19) Forecast headline inflation rate and underlying inflation rate will ease to 1.7% and 2.5% respectively in 2020.

22) Forecast Hong Kong's economy will grow by an average of 2.8% per annum in real terms from 2021 to 2024, slightly lower than the trend growth of 2.9% over the past decade. The underlying inflation rate is forecast to average 2.5%.

Estimates for 2020-21

158) Total government revenue for 2020-21 is estimated to be \$572.5 billion. Earnings and profits tax are estimated to be \$202 billion. Having regard to the Land Sale Programme and the land supply target of the coming year, land revenue is estimated to be \$118 billion which decreased by 16.6% compared with the revised estimate for 2019-20. Revenue from stamp duties is estimated to be \$75 billion which increased by 19% compared with the revised estimate for 2019-20.

Medium Range Forecast

163) During the period 2021-22 to 2024-25, the average annual capital works expenditure will exceed \$100 billion, while the growth of recurrent government expenditure ranges between 4.3% and 8.6% per annum.



167) Fiscal reserves are estimated at \$937.1 billion by the end of March 2025, representing 26.5% of GDP, equivalent to 15 months of government expenditure.

Public Finance

Deficit Budget

168) The HKSAR Government runs a fiscal deficit in 2019-20, the first time for Hong Kong over the past 15 years. I forecast a deficit for the next five years as well.

171) I expect that the fiscal deficit for next year will be \$139.1 billion, accounting for 4.8% of GDP.

Support for Businesses

Support Enterprises and Safeguard Jobs

27) For enterprises, new relief measures include:

- a) A concessionary low-interest loan under the SME Financing Guarantee Scheme, under which 100% guarantee will be provided by the Government.
 - The application period will last for six months.
 - The maximum amount of loan for eligible enterprises is based on their salary and rental expenditures for six months, subject to a ceiling of \$2 million.
 - The repayment period is up to three years and, on an opt-in basis, a principal moratorium is available for the first six months during which only interest payments have to be made.
 - The Government will provide guarantee of up to \$20 billion under this concessionary loan scheme.
- b) Reducing profits tax for the year of assessment 2019/20 by 100%, subject to a ceiling of \$20,000.
- c) Waiving rates for non-domestic properties for four quarters of 2020-21, subject to a ceiling of \$5,000 per quarter in the first two quarters and a ceiling of \$1,500 per quarter in the remaining two quarters.
- d) Waiving the business registration fees for 2020-21.
- e) Waiving the registration fees for all annual returns (except for late delivery) charged by the Companies Registry for two years.
- f) Providing a subsidy to each eligible non-domestic household accounts for four extra months to cover 75% of their monthly billed electricity charges, subject to a monthly cap of \$5,000 per account.
- g) Waiving 75% of water and sewage charges payable by non-domestic households for four extra months, subject to a monthly cap of \$20,000 and \$12,500 respectively.
- h) Providing a new round of rental subsidy for six months to local recycling enterprises.
- i) Reducing rental by 50% for another six months for eligible tenants of government properties, government land and EcoPark.

28) The above initiatives will cost a total of \$18.3 billion.

Support for Individuals

Relieve People's Burden

33) I will also introduce the following measures to ease the financial burden of the public:

- a) Reducing salaries tax and tax under personal assessment for the year of assessment 2019/20 by 100%, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for the year of assessment 2019/20.
- b) Waiving rates in respect of residential properties for four quarters of 2020-21, subject to a ceiling of \$1,500 per quarter for each rateable property.

Cash Payout

36) \$10,000 to Hong Kong permanent residents aged 18 or above. The Government will announce the details of the scheme as soon as possible after obtaining funding approval from the Legislative Council (LegCo).

Financial Services

Green Finance

54) We plan to issue green bonds totalling \$66 billion within the next five years.



Retail Bond Market

55) Given that past issuances of inflation-linked retail bonds (iBond) were generally well-received, we plan to launch a further issuance of iBond this year to promote the further development of the retail bond market.

Comprehensive Regulation

63) The Government will further enhance Hong Kong's AML/CTF regime having regard to the recommendations of the FATF evaluation report, and consider incorporating virtual asset service providers and dealers in precious metals, stones and jewellery into the AML/CTF regulatory framework. We plan to consult the public on detailed proposals this year.

Innovation and Technology

Developing I&T Infrastructure

73) We are now going through the statutory town planning procedures for the Cyberport 5 development site and plan to submit a funding proposal to LegCo in the first half of 2021. Construction is expected to complete in 2024 at the earliest.

Tourism

80) I will allocate an additional amount of over \$700 million for the Hong Kong Tourism Board to step up promotion and revive the tourism industry when the epidemic is over.

Professional Services

82) We will continue to support the sector in expanding into overseas and Mainland markets. We will also seek to promote the development of our professional services sector in the Greater Bay Area under the "early and pilot implementation" approach.

83) Respect for the rule of law and independence of the judiciary are among the cornerstones underpinning Hong Kong's success. I will earmark about \$450 million for the Department of Justice to implement the "Vision 2030 for Rule of Law" project.

Guangdong-Hong Kong-Macao Greater Bay Area (GBA)

Financial Services Industry

106) Regarding the establishment of a two-way wealth management connect scheme, good progress has been made in the discussions between Hong Kong and the Mainland. On the premise of ensuring prudent management of risks and protection of investors, the scheme aims to enable residents of Hong Kong and Mainland cities in the Greater Bay Area to invest in wealth management products in each other's market. This will create more business opportunities for the financial industries of the two places, and provide more choices for residents therein, thereby facilitating the cross-boundary flow and use of RMB, and in turn further reinforcing Hong Kong's position as the hub for offshore RMB business as well as the intermediary for capital flowing into and out of the Mainland. We will strive to implement the scheme as early as possible.

Land Resources

Housing Land

117) The Planning Department will commence technical studies on the first batch of shortlisted brownfield clusters suitable for public housing development as soon as possible. It is estimated to provide over 20,000 public housing units, with the details to be announced by the Development Bureau (DEVB) in due course.

Land Supply

123) To meet the needs of economic development, the Government will include six commercial sites in the Land Sale Programme, estimated to provide about 830 000 square metres of floor area. The Secretary for Development will shortly announce the details of the Land Sale Programme for the next financial year.



Environment

Waste Paper Recycling

132) To support the waste paper recycling industry, I propose to set aside a sum of not less than \$300 million each year starting from 2020-21 for implementing a scheme to recycle waste paper. The Environmental Protection Department (EPD) will engage service contractors to collect waste paper across the territory for screening, sorting and baling before exporting to other places for recycling. This will help stabilise the quantity and price of local waste paper and support the waste paper. The EPD plans to commence the scheme in the second half of this year.

Smart City

134) The Innovation and Technology Bureau (ITB) will announce the Smart City Blueprint for Hong Kong 2.0 this year to further promote smart city development.

"iAM Smart"

136) ITB will launch the "iAM Smart" one-stop personalised digital service platform in the fourth quarter of 2020. By the middle of next year, members of the public can gain access to more than 100 online government services through "iAM Smart".

Infrastructure Projects

142) The Government will continue to invest in infrastructure projects. In the next few years, the annual capital works expenditure is expected to reach \$100 billion on average, and the annual total construction output will increase to around \$300 billion.

Railway Development

146) We will progressively implement the new railway projects recommended under the Railway Development Strategy 2014, and invite the MTRCL to commence detailed planning and design for the Tung Chung Line Extension, the Tuen Mun South Extension and the Northern Link in the coming year. We will consult the public on these new railway schemes after they are finalised.

Possible Changes to Global Tax Rules

180) The Organisation for Economic Co-operation and Development (OECD) is actively exploring the proposal of setting rules for imposing a global minimum tax rate. Under this proposal, if the tax paid by a multinational corporation in Hong Kong is lower than the new global minimum tax rate, its parent company will be subject to additional taxes or defensive measures imposed by the jurisdictions where they are located. As an international financial and business centre, Hong Kong will inevitably be affected.

181. The imposition of a global minimum tax rate may undermine the attractiveness of Hong Kong's low tax policy to multinational corporations, thus posing challenges to our territorial-source-based tax regime. The proposal will also bring additional tax burden and compliance costs to multinational corporations, and affect their incentives for investing and operating in Hong Kong.

182. The Government will continue to keep a close watch on the developments of the OECD's work, make assessments and devise corresponding measures. I will invite scholars, experts and members of the business community who are experienced in the fields of international taxation and economic development to tender advice on the matter. This is to ensure that Hong Kong's tax regime is not only in line with new developments in the international tax scene, but also helps us maintain our premier business environment and competitiveness.