The British
Chamber of Commerce
in Hong Kong
香港英商會

Mr Paul MP Chan, GBM, GBS, MH, JP
Financial Secretary's Private Office
Tamar
Hong Kong

21 December 2023

Dear Financial Secretary,

**2024-25 Budget Submission by
The British Chamber of Commerce in Hong Kong**

I have pleasure in enclosing the British Chamber of Commerce in Hong Kong's 2024-25 Budget Submission for your and your team's consideration.

Following on from the well-regarded Policy Address in October, we hope that additional fiscal support can be made for our economy, where trading conditions are still difficult in a number of sectors. Whilst we recognise the pressures on recurrent government expenditure are significant, we do see the need for continuing investment in future growth in both existing sectors where we have strength, but also in new areas where we need to build up our performance to move ahead, such as green finance, biotechnology and attracting new talent. We support Government's issuance of retail green bond to encourage public involvement in the sustainable development of Hong Kong. Other changes suggested, such as in preventative healthcare and the digital economy will help to improve government finances over the longer term.

We hope that the early signs that key sectors of the National economy are stabilising and that the international rises in interest rates have peaked, offers the opportunity for stronger growth in 2024. We are sure that, if these signs of a hoped-for recovery do not materialise, Government will step in to announce further stimulus for economy when the budget is delivered next February.

We look forward to hearing from you and would welcome the opportunity to discuss the attached paper, or any particular aspects of it, with you directly or with your respective teams at your/ their convenience to see how we can supplement.

Yours sincerely,

Ir Dr Anne Kerr
Chair
The British Chamber of Commerce in Hong Kong
Cc: Mr Paul McComb, Executive Director, The British Chamber of Commerce in Hong Kong
Mr Jim Taylor, Chair of Business Policy Unit, The British Chamber of Commerce in Hong Kong
Ms Christy Ng, Business Policy and Corporate Relations Manager, The British Chamber of Commerce in Hong Kong

The British Chamber of Commerce in Hong Kong
香港英商會

2024 Budget Ideas

Land and Property

- We commend the Government's recent Stamp Duty amendments in the Policy Address. We recognise the delicate balance of the situation and encourage the Government to further implement measures to stimulate the housing market and improve affordability. We propose the following:

  i) Full removal of BSD (Buyer Stamp Duty), NRSD (New Residential Stamp Duty) and SSD (Special Stamp Duty). This will enable second home buyers to move up the property ladder, release stock for first home buyers and improve inventory in the private rental market. We acknowledge full removal may require a gradual approach subject to market conditions; and

  ii) Lower the AVD rates for first-time HK permanent residents to improve affordability, reduce housing transaction costs and partially offset the higher mortgage interest rate environment:

     a. Band: HKD 3,528,241 to HKD 4.5m @ 1%
     b. Band: HKD 4,935,481 to HKD 6m @ 1.5%
     c. Band: HKD 6,642,861 to HKD 9m @ 2.5%
     d. Band: HKD 10,080,001 to HKD 20m @ 3.25%
     e. Band: HKD 20,000,000+ @ 3.75%.

- On the extension of the arrangement for standardisation of land premiums, it is effective in offering investors further clarity. Considering the change in land supply, we recommend the Government to reduce the standard premium rate for industrial (and other) sites as it is noted that investors are still opting for the conventional route to minimise the premium payable. Land Premium rates can be indexed to adjust to market conditions.

- To address the problem of the substantial aged building stock and align with the city's 'low-carbon and sustainable economy' goals, we urge the Government to actively incentivise private capital participation in the sustainable revitalization and redevelopment of Hong Kong's older residential, commercial and industrial buildings. We propose the Government consider various 'buildings energy rating systems' to best reflect the specific issues for the HK building stock, which will provide a method of comparison and transparency and provide tax and financial incentives for the sustainable retrofit of older buildings. As an example, to defer or reduce stamp duty by 50% for en-bloc or multi-unit conversions, and/or issue stamp duty rebates earlier in the cycle. These incentives should apply not only to ground-up redevelopments but also to the adaptive re-use of existing older buildings and further encourage the provision of 'green loans' for such sustainable renovations.

- Continue to facilitate the CAP 545 mechanism and threshold reduction where relevant to stimulate redevelopment whilst balancing social impact. (e.g. to 60% where buildings are 50+ years old in line with the Governments objectives on adopting lower thresholds for older buildings in districts with more pressing needs).

- The Northern Metropolis project presents the Government and the private sector with an opportunity to create a truly world-leading, smart, integrated, sustainable showcase with a positive social impact. We encourage continued dialogue with business to drive the plans in a holistic way with a clear framework for private investment and participation for shovel-ready sites. Flexible lease conditions including site planning and zoning may be required to entice investors, developers and end-users. The Chamber has previously submitted a detailed paper on PPP (https://www.britcham.com/common/Uploaded%20files/News/ChamberNewsPolicyWork/2022/220420_%20PPP%20submission%20_%20Final.pdf) and would welcome further dialogue with the Government on these issues.

More Diversified Taxbase

- Hong Kong's tax base is heavily skewed towards revenues in one form or another from land. That means our housing is some of the most expensive in the world, which has social as well as economic consequences. Government will need to consider carefully what is needed in terms of housing affordability, and what changes in land supply and/or land tax might mean for Government revenues as these are based on high land premia and high land prices. Although land taxes are relatively cheap and easy to collect, the issue is not just the level of revenue collected but also how it is collected. Too much is tied to one-off land premia, rather than recurrent or more sustainable land-based taxes which could be used to collect revenue over time. The Chamber therefore calls for the Government to undertake a broad-based strategic review of the tax system, considering a wide range of options with reference to other tax-free or low-tax jurisdictions such as Singapore and Dubai and involving a wide range of stakeholders, not simply jumping to a VAT/GST approach as a solution. The Chamber would be very pleased to participate in such a review.
- The Chamber strongly recommends that in looking at new alternatives, the Government keeps the tax system simple. It is important to note how much business is helped by not having the massive overhead that comes with complex taxing systems.

Capital Markets, Banking & Fintech

- The Chamber suggests the further expansion of the ETF tax breaks to potentially allow market making in GEM/parts of the main board and their use as an incentive, as well as a holistic review of the GEM market dynamics to go further than the recent HKEX Consultation generally aiming towards a professional investors only solution for new businesses, small business (start ups, SMEs etc.), with low costs and regulation.
- A review of the taxation structure of REITS to allow them to be an effective domestic capital raising format and the study of a Beijing connect (and consider widening the scope of the existing connects) with a view to identifying what incentives if any would be needed to make it work.
- Promote public-private collaboration on infrastructure by removing the conservatism in the current Pillar 1 HK Risk Based Capital Framework (HKRBC) charge for infrastructure equity, permit the use of Internal Ratings for infrastructure debt investments, and recognise the diversification benefits from infrastructure debt and equity.
- Accelerate insolvency legal reforms to support cross border resolution and promote Hong Kong as a credit centre that delivers good outcomes, as this could be an opportunity for Hong Kong to help with the restructuring of the Mainland's Property sector.
- Put in place extra funding for enhanced police co-operation with the banking system to fight cyber-crime/scams/CNP fraud syndicates etc., mirrored by further funding to support the Banks in working together with the Police, deployment of physical resources and recruitment of specialists etc.
- Establish and seed fund an Innovation Fund for co-investing in FinTech as an accelerator for development. Further clarification of the DA/Crypto frameworks, accelerated plans to work on cross-border elements of this, especially in Digital wallets and consideration of the potential for fund raising in alternative currencies or funding public experiments to gain adoption are all important.

Green Finance

- Continue to promote and raise Hong Kong's profile as a regional Green, Sustainable, Transition Finance and Investment Centre to support Asia's transition to a low carbon economy through continued ecosystem collaboration between academia, financial institutions, listed and private companies, and regulators through the cross-agency steering group, with a concrete 2030 roadmap. Strengthen collaboration between CyberPort, Hong Kong Science & Technology Park and the new Hong Kong-Shenzhen Innovation & Technology Park, adding concrete incentives to attract global GreenTech firms and build an ecosystem for local GreenTech firms to create a sustainable business.

- Provide incentives under HK Risk Based Capital Framework (HKRBC) to invest in Green and Sustainable Finance ("GSF") instruments by introducing a further diversification benefit for GSF instruments (both debts and equities) against non-GSF instruments in quantification of capital risk charges (credit and equity) under HKRBC framework.

Insurance, Wealth Management & MPF Provision

- To encourage greater individual provision for the future, continue expansion of the Voluntary Health Insurance Scheme (VHIS) to broaden coverage and increase the eligible premium amount for tax deduction. Extend promotional campaigns to drive public awareness and take up amongst taxpayers.
- Consider increasing tax rebates for voluntary contributions in the MPF scheme for those taxpayers on below average to average incomes. Enable low cost product usage, such as the limited use of derivatives and securitized products in bond portfolios (e.g. US Agency Mortgage Backed Bonds), so that global low cost products can be used in our MPF scheme, and hence reduce overall costs.
- To support Mental Health, the Government should enhance current tax incentives for the VHIS and the Qualifying Deferred Annuity Policy (QDAP) to afford better protection to citizens and build a healthier, happier community in Hong Kong.
- The Chamber supports the proposals of the Hong Kong Federation of Insurers (HKFI) to introduce policy reforms and implement programmes to further develop Hong Kong as an international insurance centre, which requires budgetary support to increase enterprise capacity, including:

  i) An outline of financial assistance packages for insurance groups to set up regional headquarters in Hong Kong and/or establish new business lines in Hong Kong:

     a. Establishment of a one-stop supporting ecosystem for businesses to set up broking and underwriting units in Hong Kong including office rental/business consulting/talent recruitment;
     b. Creating a platform branded as "Insure-HK" on industry promotion and deliver one-stop information portal of helpful insurance solutions; and
     c. Provide subsidies and other grants to insurance groups to establish new capabilities and new insurance jobs in Hong Kong.

  ii) Building sustainable talent pools for the insurance industry:

     a. Introduce a pilot Industry-wide Management Trainee Programme aiming to build the local pool of talent via a series of professional local and overseas training; and
     b. Following the launch of this Management Trainee Programme, set up an accredited education institution of Insurance, which will provide local insurance qualifications to encourage the public to consider this industry as an attractive and sustainable career pathway.

  These could be delivered through a financial support mechanism devised and collaborating with HKFI, e.g. providing one-off additional double tax write-off of costs or matching funds.

- Initiate fast-track legal mechanisms and secure Bermuda concurrence for international insurers to re-domicile in Hong Kong as the initial implementation case for what is expected to be multi-sector, multi-jurisdictional legislation enabling Hong Kong redomiciliation.

Digital Economy

- Implement initiatives to further reduce the use of cash, thereby also increasing the visibility of revenues for the tax system. Particularly, mandate the use of electronic payment methods in all forms of public transport and taxis, for example with this option becoming essential when Taxi

Licences are renewed, supported by the subsidised installation of terminals. The previous rounds of rolling out consumption vouchers were successful initiatives to encourage migration to electronic payments through partnering with Octopus, Wechat Pay and Alipay.

- Digitalise Government procedures, for example retiring the use of hard copy Arrival Cards at immigration to facilitate the entry process and make this more efficient by requiring passengers to complete electronic cards ahead of arrival as with Singapore. During the COVID-19 pandemic, it only took one month for the Government to propose and implement e-Health Declaration forms. The same electronic forms should also be used for Arrival Cards. Another example would be to phase out the use of cheques for payments of Government-related bills, which have been long disused in many financial centres.

Talent Acquisition & Retention

- The sector welcomes the Government's previously announced labour importation scheme to handle our critical manpower shortages, specifically the sectors covering aviation, cargo and logistics. We understand that this is 2-year pilot scheme but with the ongoing post-Covid recovery in these sectors and the long-term declining trend in the local workforce, we request that the Government plan to continue for a few years after the initial 2-year period. This will ensure a steady supply of labour to ensure local economic growth opportunities in our sector are captured.
- Outside of the GBA, the Hong Kong Government is pushing ahead with stronger economic and trade ties with OBOR, GCCA and the "Global South" countries. For the labour force, it is imperative that we prepare for the specific needs of these markets through revamped training and curricula through local tertiary institutions and the Vocational Training Council. An example being knowledge and certification of "Halal" in food logistics.
- To specifically address the issue of high rental costs, the Government can consider a 3-5 year tax holiday or reducing income tax in salaries tax rates for specific types of workers in key sectors such as R&D, healthcare, tech and professional qualification trainees. Taking the Netherlands as an example, expatriates working in specific "in-demand" sectors such as medical and tech can have up to 30% of their gross employment income as a tax-free allowance. Hong Kong can adopt a similar sector-specific tax treatment to enable 'needed' talent to enjoy lower tax rates.
- Talent attraction should not be limited to the working population. University students hold great potential in contributing to Hong Kong's future workforce. The Government can consider providing defined scholarships to university students from overseas – they will receive partial to full scholarships on a merit basis, in exchange for working in Hong Kong for a specific number of years upon graduation. Singapore offers something similar to both local and international students, for example, under the Service Obligation Scheme, international students undertaking postgraduate programmes at Nanyang Technological University and National University of Singapore receive tuition grants with a contractual obligation to work in a Singaporean entity for 3 years upon graduation. The Government can take an industry-specific approach to such scholarships by limiting it to students studying subjects "in-high demand" such as nursing, caregiving services and technology. The Government can also consider introducing a rental-subsidy element in these bonded scholarships by providing housing subsidies to these overseas students when they work in Hong Kong upon graduation, in order to make the scheme more attractive to overseas applicants.
- Provide a 100% increase in funding to make it easier for Pets AVI (live animals) to come from the Mainland to HK. Currently there is an 18-month wait for quarantine (as the quarantine is too small and the stay there is 4 months long). Changing this will make recruitment of personnel from Mainland China easier, if they can bring their pets faster too. To aid recruitment and relocation of staff from Mainland China (and other "Group 3 category countries" where Rabies is present e.g. China, India, most of S.E. Asia, Africa, Latin America etc) a change to a system like Singapore where only one month's quarantine is necessary export countries with an undetermined risk of rabies, if there is a negative Rabies blood test before pets are allowed to travel.

A More Efficient Healthcare Provision Scheme

- We welcome the publication of the Primary Care Blueprint and the creation of the post of Primary Care Commissioner but there remains much implementation work to be undertaken to make this a real success.

- The Government should provide budget to expand the scope of District Health Centres (DHCs) to cover more disease areas, especially in preventable diseases which have high treatment cost; for example, ophthalmology, oncology and liver diseases. Specifically, the DHCs may conduct eye screening and monitoring to alleviate the treatment burden in the Hospital Authority (HA); Oncology screening should be expanded to cover lung and liver cancer, with the use of AI to improve the efficiency of early detection. More resources should be allocated to enhance communication between DHCs, network doctors and service providers by expanding or mandating the use of eHR. For example, the images of screening tests done in the community can be uploaded to eHR and vice versa for more efficient patient follow up. More resources should be allocated to increase attractiveness for patients to stay in the community for treatment. Currently, PPP focuses more on screening and diagnosis, yet it should be further expanded to treatment, so that treatment burden in HA can be alleviated.

- The Chamber notes the introduction of cancer screening programmes for breast cancer and colon cancer. While these are good, the measures do not go far enough; significant savings in recurrent expenditure are possible if screening can save costs for later stage treatment. The Government should urgently commence a subsidised Lung Cancer Screening Programme in Hong Kong deploying low-dose computed tomography (LDCT), as Lung cancer is the most common cause of cancer-related deaths in Hong Kong. This is because almost 60% of lung cancers are diagnosed at Stage IV and therefore miss the chance of cure. According to real world China data, the 5-year survival rate of Stage I & II lung cancer can be up to 77% and 56% vs only 20% for Stage IV. Many authoritative medical organizations overseas have already recommended lung cancer screening though LDCT. Examples below show two national recommendations for reference (sourced from Centre for Health Protection publications) from the UK and from Mainland China which are already implementing screening programmes using LDCT:

Organization	Screening population	Recommendation	Impact
UK National Screening Committee	People aged 55 to 74 identified as being at high risk of lung cancer	LDCT screening	Target 100% coverage by 2030
China Guideline for the Screening and Early Detection of Lung Cancer, National Health Commission	Individuals aged 50 to 74 years who qualify as high risk for lung cancer, including those with a smoking history or exposure to passive smoking or with a previous diagnosis of COPD; occupational exposure to carcinogens for at least one year or a family history of lung cancer	Annual LDCT screening	A pilot in Guangdong province screened 11757 ppl, identified 200 Lung Cancers with 172 (86%) in early stage 1

- The Government has stated that Biotechnology is a key industry pillar for Hong Kong, where a successful implementation will benefit the health of the people, our capital markets and the standing of Hong Kong in the international scientific and business community. However, the fact that the latest innovative treatments are not used or available in Hong Kong reduces the reputation of our healthcare system when seen in an international context and, it also disincentivises companies from allocating R&D resources here. The Chamber therefore recommends some specific budgetary initiatives in these areas to increase the probability of a successful outcome for this industry.

(a) Clinical Trials

- Enhance resources and budget for the HA to support clinical research, especially early phase studies, where Hong Kong has an advantage; and
- Provide financial and tax incentives for clinical trials to reduce the setup cost to companies engaged in R&D in this area.

(b) Drug Registration

- Allocate resources to the Department of Health to accelerate the existing secondary review process (e.g. new indication registration) which currently takes over 15 months now vs less than half this time in other jurisdictions; and
- Allocate additional resources to the Drug Office at the Department of Health for the establishment of a dedicated GBA unit for the GBA Connect measure.

(c) Biotechnology Adoption

- Allocate specific funding for early adoption of innovative drugs in Hospital Authority Formulary; and
- Provide resources to the HA to review the drug and medical device enlistment/reimbursement mechanism to keep the Hong Kong healthcare system in an advanced position to attract further R&D.

Sustainable Aviation Fuel (SAF)

- We welcome the announcement in the Policy Address that with the increasing use of SAF by airlines around the world, the AAHK will formulate an action plan to drive the use of SAF in Hong Kong.
- We recommend that this be established as a cross-sectoral working group with industry representation to develop a SAF roadmap and strategic development plan for Hong Kong along the lines of the Jet Zero Councils in Australia and the UK and the International Advisory Panel led by the Civil Aviation Authority of Singapore.
- We suggest the Government confirm that SAF will not be subject to any import tax and to simplify all paperwork for importing neat or blended SAF for blending and/or uplift from the HKIA. We also recommend the Hong Kong Government to request the Central Government to remove any export tax or export quota related to neat and blended SAF originating from the Mainland for use in flights departing from HKIA.
- We also recommend the Government to provide direct incentives to the SAF end-users (i.e. airlines) and consider sponsoring collective procurement through a buyers' group to enable the best possible prices and a joint offtake mechanism from flights departing from HKIA to encourage early adoption. It is also suggested that Government take the lead in including SAF in public procurement, e.g. to recommend using SAF for government officials' duty travel and air-freight services.

Electric Goods Vehicles

- We welcome the initiative to test out more new zero-carbon energy vehicles mentioned in the Policy Address, we recommend that the Government consider waiving of Goods Vehicles license fee and first registration tax in 2024, and ongoing to 2030 to reduce the cost of entry.