

15 June 2001

Mr Antony Leung
Financial Secretary
Hong Kong Special Administrative Region Government
12/F Central Government Office, West Wing
Lower Albert Road
Hong Kong

Dear Mr Leung,

Response Paper of the Hong Kong Women Professional And Entrepreneurs Association on the 2001-02 Budget: Honing Our Strengths Striving to Excel

The Hong Kong Women Professionals & Entrepreneurs Association (HKWPEA) values the opportunity to respond to the 2001-02 Budget. A panel of HKWPEA members representing a broad spectrum of professionals and business owners from both public and private organizations, discussed and prepared this response. This document contains our assessment and recommendations.

We agree with the general strategies for development outlined in the Budget. The Government has made a positive move to acknowledge concerns over the present tax system and that it is ready to face and deal with the next 3 years of deficit while taking a steady approach to work on improving the tax structure. To ensure Hong Kong's competitiveness, we offer the following recommendations for new taxes. We further believe that there should be specific measures aimed to attract more foreign investors and corporations to come to Hong Kong.

Broaden Tax Base

1. It is reassuring to note that the Task Force headed by the Secretary for the Treasury is studying the problem of whether successive operating deficits is cyclical or structural in nature. If the findings show that the problems are structural, the Advisory Committee on New Broad-based Taxes should look into new taxes deemed suitable for Hong Kong. We look forward to their findings and hope they can do so expeditiously.

E-commerce taxes

2. In particular, we hope to see in-depth studies on the viability, the pros and cons, and the methods of introducing e-commerce specific tax provisions in Hong Kong. With the advancement of technology and active involvement of the Government to encourage IT developments, e-commerce should grow in scale and significance. In addition, as Hong Kong's tax structure is

territorial-based, e-commerce is likely to have more impact on revenue here than other countries which adopt a resident-based tax structure. Whilst the Government should compare and consider positions in other countries, it may also have to be more innovative in designing possible e-commerce taxes if it is to tap into this revenue source.

“Green” carrots and sticks

3. We support the view that “Hong Kong cannot hope to maintain and improve on its position as a leading financial and commercial center in the region if it does not clean up its air. Improving the environment ought to be a goal shared by us all and not solely the domain of a few pressure groups” and that “it is high time that the community, as a whole, faced squarely up to the reality of our deteriorating environment” (sections 134 and 135, p22). The Financial Secretary mentioned that he has received “a good number of proposals for “green” taxes. But, with respect, [he considers] these merely scratch the surface of the problem and do not address the fundamental issues” . We do not know what proposals the Financial Secretary received but we urge the Government to take a comprehensive and in-depth study. We further believe that it is essential to consider introducing “green” taxes, whether or not the Task Force concludes that there is a structural deficit problem. The introduction of ‘green’ tax is an act to demonstrate the Government’ s commitment to build a caring, clean and more sustainable environment for its citizens. The Government must take the lead.
4. The “green” taxes should be designed in such a way that they will not cause undue burden on any particular sector, but will be able to “kill two birds with one stone” in that not only can they improve revenue, they also have social value in improving our environment. One example we can think of is a special tax on products or services that are not environmentally friendly, such as use of plastic bags at supermarkets and shops. Consumers will not need to pay this tax if they use their own bags or non-plastic bags, so that hopefully not only will more tax be collected, but consumers will be encouraged to change their bad habits and use all goods and services which are more environmentally friendly.
5. In addition to “sticks” , the Government should introduce more “carrots” too. We understand that the property sector has incentives in terms of calculation of areas if they adopt environmentally friendly measures. We hope the Government will study other sectors and extend similar incentives to other industries that have made efforts to improve the quality of our environment.

Land and sea departure tax

6. We believe that “a land and sea departure tax is equitable and would provide a major boost to our recurrent revenue” (section 128, p21). Similar to the increase of Air Passenger Departure Tax, if

the amount of the land and sea departure tax is low, it should not affect tourism, nor should it deter local residents from travelling. Some people have objected to this as they need to cross border to work. To help such people, the Government may introduce “frequent traveller” pass, which is in effect a reduction in tax rate for frequent users. Last year, the Financial Secretary decided not to introduce such a tax in view of “our nascent economic recovery” and “in order not to put an additional burden on the community” . We trust it is now time for such a tax to be implemented.

Attract Multinational Investors

1. Last year in our reply to the Financial Secretary, we stated that “In order to take advantage of globalisation and to prosper in the light of China’ s entry into the World Trade Organisation, Hong Kong must consider means and incentives to attract multinational investors to Hong Kong.” We should act swiftly within this year as several countries and even provinces and municipals have been introducing incentives and policies to attract and lure multinational investors. Hong Kong is facing fierce competition from these neighbouring places and must not lag behind them in introducing such incentives and policies.
2. A more obvious policy should see to the building up of tax treaties network and we hope the Government will implement this expeditiously and set a time-table to achieve the goals and objectives.
3. The introduction of group loss relief is another policy. This is quite common in other countries, whereby a company can, instead of carrying forward its loss, and set it off against the gains of other group companies.
4. Places like Singapore, Beijing and Shanghai have introduced specific tax and other incentives for sectors and corporations that they wish to target. Hong Kong seems to lag behind and does not really offer much incentives for sectors that Hong Kong is targeting, such as IT and technology. This must be done if Hong Kong is to remain attractive to multinational IT corporations.
5. The admission of Mainland professionals may help to meet the more immediate needs of the business sector. However it should not replace more long-term plans to train up local people and strive for a more balanced allocation of resources to local tertiary education. We regret that the Government has decided to reduce the funding to universities. This policy is inconsistent with the policy of enhancing training of Hong Kong’ s own local talents and human capital. We advise the Government to best utilise our fiscal reserves by helping the society to invest in human capital, retrain the unemployed and to provide quality education at different levels of education, all these are fundamental in maintaining Hong Kong’ s competitiveness.

6. Additionally, the detailed measures of the policy on admission of Mainland professionals should be addressed, and that the implementation process should be monitored to avoid any abuse.

Summary

To summarise, we propose the Government to

1. seriously consider introducing e-commerce taxes;
2. introduce “green” taxes and incentives;
3. introduce a land and sea departure tax;
4. expedite building up of tax treaties network;
5. introduce group loss relief;
6. introduce tax incentives and policies to attract IT multinational companies to invest here; and
7. invest more in human capital and education.

Taking this opportunity, I enclose herewith a copy of our 4th anniversary brochure for your information.

Kind regards.

Yours sincerely,

Marina Wong
President