A response paper to the 2000-01 Budget: Scaling New Heights

Our Association supports the Financial Secretary's view that 2000-2001 is "a year for consolidation rather than dramatic steps" (section 211 p32) and "the interests of the community are best served at this time by a gentle hand on the tiller. We also need to have a clearer idea of our future revenue position" (section 229 p31).

The economy of Hong Kong is only beginning to pick up and "the prudent management of our public finances remains crucial" (section 15, p3). We endorse and applaud the Government for their effort in introducing the Enhanced Productivity Programme. Managing a saving programme affecting over $100 billion of government expenditure is certainly no easy task (section 111, p17) and we hope the Government will continue to monitor the progress of EPP. Since the Government is still the largest employer in Hong Kong, to give the community better value for money, it is vital that the size and the terms and conditions of the Civil Service be contained and kept in line with market trends. As it is, the Government labour force cost adjustments are not responding fast enough to commercial labour market trends and community demands. We watch with interest to see if the voluntary retirement scheme for the Public Service will serve its purpose as intended or will it pose another huge financial burden for the Government.

We appreciate the Government's determination to "achieve cost-effectiveness in welfare expenditure and a sustainable social welfare programme in the medium and longer term." (section 143, p23). Promoting employment must be one of the Government's top priorities, and investment in retraining is very important. We are pleased to see that funds have been earmarked for implementing training packages and employment-related initiatives (section 148, p23) and we would like to see those funds managed effectively.

Hong Kong's narrow tax base has long been a concern. The revelation that only "17 per cent of our taxpayers contribute almost 80 per cent of the salaries tax income. And only 0.3 per cent of the entire working population pay the tax at the very low standard rate of 15 per cent" (section 185, p28) clearly indicated cause for alarm. As the income gap widens between the so-called haves and have-nots, social problems will arise. It is therefore of paramount importance that the Government invest in retraining the unemployed and bring people up to the salary levels when more people will have to pay tax.

The world is changing and it is time the Government conducted a comprehensive review of our tax system to make sure that it keeps pace with the development of our economy. For example, E-commerce is going to transform the business structure and it will have an immense impact on the revenue yield. To tap into this revenue source, the Government needs to introduce e-commerce specific tax provisions. Therefore, the Secretary's decision to adopt "a two-pronged approach…to study the extent and nature of the problem as well as find the solutions" (section 206 p31) is well grounded. Instead of jumping into premature conclusions, there is a need for a Government Task Force to critically examine the viability of our existing tax regime. The establishment of an independent committee comprising tax experts, professionals and academics to look into the suitability of introducing new types of broad-based taxes, including the much talked about sales tax., hopefully will provide us with "a clearer idea of our future revenue position" (section 209 p31).

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. Although we are geographically well placed to benefit from China's entry into the World Trade Organisation, we cannot afford to be complacent because Hong Kong will face mounting competition from other cities. As suggested in the Budget paper, "the Government's primary role is to provide the most business-friendly conditions possible" (section 20, p3).

On the whole, we believe that the budget has come as a relief for Hong Kong and met the needs of the community while ensuring sustained economic growth with no tax increases. To ensure that Hong Kong will continue to remain attractive to foreign companies and to benefit from China's economic growth, the Government's priorities should be on ensuring the quality of human capital, particularly in retraining the unemployed and in providing quality education at different levels of education; and on using our tax system to promote Hong Kong's future and competitive edge in the Asia Pacific region.