

HONG KONG PRE-POLICY ADDRESS SUBMISSION 2020

12 October 2020

Policy Innovation and Co-ordination Office
26/F, West Wing, Central Government Offices
2 Tim Mei Avenue, Tamar
Hong Kong

By email: policyaddress@pico.gov.hk

Dear Sir / Madam,

Submission to the Hong Kong 2020 Policy Address Public Consultation

CPA Australia represents the diverse interests of over 166,000 members working in 100 jurisdictions and regions around the world, including over 13,000 members in Hong Kong. We make this submission on behalf of our members and in the broader public interest.

We are supportive of the stimulus measures the Hong Kong Special Administrative Region (SAR) Government has implemented to date to support business and households impacted by COVID-19, as well as to stimulate the economy. However, given that the economic impact of the pandemic has been severe, and the short-term outlook remains highly uncertain, we believe that additional support may be necessary.

CPA Australia therefore suggests that the SAR Government considers announcing further short-term policy measures in the upcoming policy address that stimulate the economy, support business and improve the livelihoods of Hong Kong residents.

We also suggest that the Chief Executive's policy address includes announcements on longer term reform including increasing Hong Kong's competitiveness, developing the innovation and technology sector, enhancing cooperation in the Greater Bay Area, improving the public healthcare system and strengthening the management of Hong Kong's public finances.

These views have been shaped by input from our members in Hong Kong and our experiences in other jurisdictions.

As an organisation that has had a presence in Hong Kong since the 1950s, CPA Australia remains confident in Hong Kong's future.

If you have any queries, please do not hesitate to contact Mr Jonathan Ng, Policy Adviser at CPA Australia on jonathan.ng@cpaustralia.com.au or +852 2202 2717.

Yours sincerely



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Short-term measures to stimulate the economy

Extend and optimise the Employment Support Scheme¹

CPA Australia suggests the extension and optimisation of the “Employment Support Scheme” (ESS) to provide further time-limited financial support to employers to retain employees. During this extension period, the level of the subsidy should be steadily reduced to limit the risk of a potential economic shocks when it is finally withdrawn. We note that recently both Singapore ([Jobs Support Scheme](#)) and Australia ([JobKeeper Payment](#)) have extended their wage subsidy schemes into 2021.

If the ESS is extended, the Government should consider allowing employers more flexibility in nominating the ‘specified month’ to calculate the amount of wage subsidies by choosing any month from April 2020 to the month immediately preceding the date when application for the ESS commences.

Offer additional support to individuals, small and medium-sized enterprises (SMEs) and businesses in specific sectors

In addition to the stimulus measures already introduced by the SAR Government, further support measures suggested by our members include:

- expanding the current exemption from compulsory quarantine of eligible travellers from Mainland China to Hong Kong to include more business travellers. Depending on how the pandemic unfolds, the SAR Government should also consider speeding up negotiations with Mainland authorities to relax cross-border travel restrictions when appropriate
- allowing individuals experiencing hardship due to COVID-19 to make an early withdrawal of the employee contribution component of their Mandatory Provident Fund account. We note that the Australian government has allowed individuals experiencing financial hardship to make limited [early withdrawals from their superannuation account](#) during COVID-19
- limit any increase in minimum wage levels to those increases that can be readily explained by improvements in productivity or economic activity
- introducing incentives for small residential and commercial landlords to encourage them to reduce or waive at least a portion of the rent payable by their tenants, especially small business tenants. Policy examples of this from other jurisdictions include Singapore’s [cash grant to commercial property owners](#), where the grant must be used to offset the rental costs of their SME tenants, and Singapore’s [property tax relief](#), where owners of qualifying non-residential properties can access rebates of up to 100 per cent on their property tax payable on the condition that they fully pass on the value of that rebate to their tenant. The Victorian State Government, in Australia, also offers a mix of direct financial support and property tax relief to small private commercial landlords who have reduced or waived rent for their tenant – primarily being the [Commercial Landlord’s Hardship Fund](#), which provides grants to small private landlords experiencing hardship after reducing rent for their tenants, and the [partial waiver of the land tax liability](#) where landlords provide a 50 per cent or more rent waiver to tenants
- introducing financial incentives for SMEs to encourage them to seek business advice from their existing professional adviser, especially for those experiencing or anticipating financial distress. Increasing access to such advice is an essential element in hastening business recovery and the reinvention of Hong Kong’s SMEs so they are better placed to succeed post pandemic. The state of Tasmania, in Australia, has the [business continuity grant scheme](#) to encourage business to access advice from their existing adviser, and Ireland has a similar [Lean Business Continuity Voucher](#)

¹ CPA Australia is receiving wage subsidies from the Employment Support Scheme.

- offering more funding and assistance to help local firms expand their online presence to assist them to better access markets outside of Hong Kong, especially in Mainland China and ASEAN countries
- introducing tax loss carry back for SMEs or businesses in hard-hit sectors for a period of two years. We note that Singapore has [tax loss carry back relief](#) and New Zealand has a [similar scheme](#). Australia has recently announced that it will introduce [tax loss carry back](#)
- on a temporary basis, waive the requirement for contributions to the Mandatory Provident Fund, at both the employer and employee level
- provide a super-deduction, without a cap, for donations of cash or Personal Protective Equipment (e.g. face masks, medical supplies) to public hospitals for preventing / fighting against the COVID-19 pandemic
- offering a limited-life coupon to residents that can be redeemed in selected sectors such as transport, food, retail, and tourism and hospitality.

Medium-to-longer term policies

Large-scale bond issue targeting international investors

Leveraging Hong Kong's high credit ratings and a favourable interest rate environment, the SAR Government should consider launching a large-scale international bond issue in the coming year. Such a bond issue should include, but not be limited to, an issuance of perpetual bonds and / or bonds with long-term maturity. We believe such a bond issue will not only increase fiscal liquidity, but also draw interest from investors around the world and help further promote Hong Kong as an international financial centre.

Allocating a portion of the Exchange Fund for strategic investments

To help reduce the government's long-term expenditure, the SAR Government should consider allocating a portion of its Exchange Fund to invest in strategic and high potential projects, as well as infrastructure spending. Such investment should meet a required return on investment set by the Government.

Commissioning a comprehensive "root and branch" review of the tax system

According to CPA Australia's [Hong Kong Tax Survey 2020](#), 44 per cent of survey respondents believe that Hong Kong needs to increase its tax revenue. Given the city faces a range of long-term economic and social challenges including an ageing population, a narrow and volatile tax base and shrinking fiscal reserves, we suggest that the SAR Government consider commissioning a comprehensive "root and branch" review of the tax system. Such a review should evaluate and model the economic, revenue and household impacts of options for broadening the tax base, as well as maintaining the status quo, and if appropriate make recommendations for reform.

Further support to develop Hong Kong's innovation and technology sector

Innovation and technology are key drivers of Hong Kong's economic growth. We suggest the SAR Government considers the following policy actions to further encourage the development of its innovation and technology sector:

- increasing funding to continue developing cross-disciplinary training to upskill local talent in strategic areas such as FinTech and digital transformation
- increasing resources to promote the usage of mobile payment technology, such as online payment and e-payment, amongst SMEs and individuals
- developing new programs and increasing funding for existing programs, such as the Distance Business Program, that assist businesses improve their capability and capacity to digitally transform
- providing additional funding support to raise cybersecurity awareness amongst the business sector
- allocating additional funding to improve the digitalisation of public services.

Enhance cooperation in the Greater Bay Area

CPA Australia supports policy actions that facilitate financial cooperation across the region, as announced in the 'Financial Support Guideline for the development of the Greater Bay Area (GBA)'. This will provide significant opportunities for businesses and individuals in the GBA. Policy suggestions from our members to further enhance cooperation include:

- expedite the release of detailed information of the Wealth Management Connect scheme and the Insurance Connect scheme

- continue exploring ways to simplify cross-border capital, data and people flow. To improve talent movement, the SAR Government can consider establishing a visa system for eligible GBA residents to travel around the area
- expand the scope of mutual recognition of qualifications and examinations within the GBA.

Improve the public healthcare system

CPA Australia believes that Hong Kong should possess an affordable and comprehensive healthcare system that is 'fit-for-purpose' and addresses the needs of a range of different people. Policy suggestions by members include that the SAR Government establish a review into options to improve Hong Kong's public healthcare system, including addressing the shortage of medical workers.

Improving the management of Hong Kong's public finances

CPA Australia suggests the SAR Government considers the following possible improvements to public sector financial management and reporting:

- **Transition to full accrual-based financial reporting** - as accrual-based accounting and financial reporting are tools that can increase public trust and confidence, the SAR Government should consider transitioning from a modified version of accrual-based financial reporting to full accrual-based financial reporting, with such reporting being done in accordance with either International Public Sector Accounting Standards or International Financial Reporting Standards.
- **Publish full accrual-based, audited financial statements annually** - the application of accrual-based accounting by the public sector helps to provide an accurate picture of government finances and ensure that liabilities are recognised and future obligations are planned for properly. Additionally, by recognising and valuing its assets, the SAR Government may be in a better position to manage its resources and returns on assets. Hence, it should consider publishing full accrual-based, audited financial statements annually.
- **Enhance the Audit Commission's Value for Money audit activity** - improving public accountability and engagement with the community is crucial for any government. To do this, the SAR Government should enhance the role and processes of the Audit Commission by elaborating on the kind of public sector organisations / entities that are included in the Audit Commission's Value for Money audit mandate, establishing a channel for the public to suggest potential Value for Money topics, and establishing guidelines on how and to what extent auditees must respond to Value for Money audit recommendations.

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- Janssen Chan FCPA (Aust.), 2020 Divisional Deputy President – Greater China & Chairperson of Small and Medium Enterprises Committee – Greater China
- Eden Wong FCPA (Aust.), 2020 Divisional Deputy President – Greater China & Chairperson of Financial Services Committee – Greater China

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