

LCQ11: Establishing dedicated tax regime for maritime industry

Following is a question by the Hon Holden Chow and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (May 25):

Question:

The Government proposes to amend the Inland Revenue Ordinance (Cap. 112) to provide for a dedicated tax regime to attract shipping commercial principals (namely ship managers, ship agents and ship brokers) to set up presence in Hong Kong. In this connection, will the Government inform this Council:

(1) given that in order to ensure that only those entities which undertake the core income generating activities in Hong Kong would benefit from the dedicated tax regime, the Government proposes to stipulate that a qualifying shipping commercial principal must employ at least one full-time qualified employee in Hong Kong for meeting one of the minimum thresholds of the substantial activity requirement, of the difference between such a requirement and the relevant requirement in other jurisdictions (e.g. Singapore and the United Kingdom) (set out in a table);

(2) of (i) the number of enterprises engaged in ship management, ship agency and shipbroking businesses in Hong Kong (with a breakdown by class of employment size (i.e. 1 to 50 persons, 51 to 100 persons, and 101 persons or above)) and (ii) the total number of their employees, in each of the past five years;

(3) as the Task Force on Commercial Principals has estimated that the dedicated tax regime will, over 10 years, (i) create direct and indirect employment of around 27 000 and 50 000-odd jobs respectively in the relevant sectors, and (ii) generate cumulative incremental business of about \$32.5 billion, of the calculation method for the numbers of the relevant jobs, the types and natures of the jobs concerned, as well as the assumptions and data based on which the cumulative incremental business is arrived at; and

(4) whether it will consider regularly compiling statistics on an annual basis on the numbers of new enterprises established and jobs created in the relevant sectors after the introduction of the dedicated tax regime, so as to evaluate the effectiveness of such policy; if so, of the details; if not, the reasons for that?

Reply:

President,

â€œTo attract more maritime enterprises to establish presence in Hong Kong, the Hong Kong Maritime and Port Board (HKMPB) set up a dedicated Task

Force in 2020 to study the economic impact and details of providing tax concessions to specified shipping commercial principals, namely ship agents, ship managers and ship brokers. The Task Force has made reference to the work of introducing tax concessions for ship leasing and made recommendations on the tax concessions to the HKMPB. The recommendations include providing half-tax concessions (i.e. tax rate being 8.25 per cent, half of the profits tax rate for corporations at 16.5 per cent) for specified shipping commercial principals, with a view to facilitating the development of the maritime industry in Hong Kong and consolidating the overall capabilities of Hong Kong as a leading international maritime centre. With the HKMPB's endorsement of the relevant recommendations, the Government is working full-speed on the legislative amendment exercise, and has consulted the Legislative Council (LegCo) Panel on Economic Development on the legislative proposal, targeting to introduce the relevant legislative amendment proposal to the LegCo in June 2022.

Having consulted the Inland Revenue Department and the Census and Statistics Department (C&SD), our reply to various parts of the Hon Holden Chow's question is as follows:

(1) The tax concession proposal includes specifying the coverage of tax concessions and incorporating anti-abuse features so as to safeguard the integrity of the tax system and comply with international tax rules. In determining whether a preferential tax regime provided by a jurisdiction meets the international standards on countering base erosion and profit shifting, the Organisation for Economic Co-operation and Development (OECD) will take into account whether the regime has incorporated substantial activity requirements to ensure that only those entities which undertake the core income generating activities (CIGAs) in the jurisdiction would benefit from the regime. To satisfy the substantial activity requirements, one of the requirements is that an entity should employ an adequate number of full-time qualified employees for carrying out the CIGAs in the jurisdiction. It is understood that the OECD Forum on Harmful Tax Practices conducted reviews of the shipping supporting services-related tax regimes devised by two jurisdictions and the minimum threshold requirements on the number of employees prescribed under the tax regimes are as follows:

Jurisdiction	Year of review	Tax regime concerned	Threshold on the number of employees
Greece	2002	Ship Management Offices	Not less than four (specified in 2019)
Singapore	2017	Maritime Sector Incentive Scheme Shipping-related Support Services Award	Not less than five

To promote the development of shipping commercial principals in Hong Kong, we propose introducing the tax concessions to make our tax regime more competitive vis-à-vis our key competitors. Having consulted the trade and

taken into account the operational needs of some start-up companies, we propose that a shipping commercial principal must employ at least one full-time qualified employee in Hong Kong. However, this is only the minimum requirement that a shipping commercial principal must satisfy in order that the CIGAs are regarded as having been carried out in Hong Kong. In accordance with the OECD's requirement, we are also required to introduce the "adequacy test" for shipping commercial principals regime in the legislative proposal to ensure that the number of full-time qualified employees employed by a principal in Hong Kong must be adequate, compared with the principal's business scale and operation, types and level of business activities, amount of profits earned, etc.

(2) The number of business establishments engaging in ship agency and ship management, and ship broking by size and their total number of employees in the past five years are tabulated below:

Number of establishments	Size (number of employees)	2016	2017	2018	2019	2020
Ship agents and managers	0-50	232	249	245	251	254
	51-100	13	17	16	11	17
	>100	18	17	15	14	13
	Sub-total	264	283	276	276	284
Ship brokers	0-50	47	39	42	54	61
	51-100	0	0	0	0	0
	>100	0	0	0	0	0
	Sub-total	47	39	42	54	61
Sum of the above	0-50	279	287	286	305	315
	51-100	13	17	16	11	17
	>100	18	17	15	14	13
	Total	311	321	317	330	345

Total number of employees	2016	2017	2018	2019	2020
Ship agents and managers	7 590	7 506	7 325	6 751	6 318
Ship brokers	204	141	238	230	219
Sum of the above	7 793	7 646	7 563	6 981	6 537

Note: There may be a slight discrepancy between the sum of individual items and the total as shown in the tables due to rounding.

Source: The C&SD – Annual Survey of Economic Activities

The C&SD does not maintain separate statistics on ship agency and ship management businesses.

(3) The Task Force comprises tax, financial, legal and maritime experts. According to the economic assessment conducted by the Task Force, if the proposed new tax regime for qualifying ship agents, ship managers and ship brokers is put in place, comparing to the case with no introduction of tax measure, over 10 years it would bring about cumulative incremental ship agency, ship management and ship broking business receipts of approximately some \$32.5 billion, as well as direct employment of approximately some 27 600 jobs and indirect employment of some 50 000 to 55 000 jobs. The Task Force's assessment has made reference to the trends in global shipping commercial principal businesses and the current situation of Hong Kong amid the global maritime services scene. Assuming that the relevant tax measures would be introduced, the Task Force anticipated that over the next ten years, Hong Kong would be able to capture a larger global market share in these shipping commercial principal businesses, thus deriving the incremental amount of business receipts under normal economic conditions (e.g. barring protracted impediments to global business activities or unexpected economic impacts brought about by COVID-19). Making reference to the operating statistics of relevant maritime enterprises, the approximate incremental employment and value added were estimated. Based on the structure of shipping and maritime industries in Hong Kong, the incremental indirect employment was crudely estimated. The natures of the jobs created cover various maritime and other business services, including all ranks of staff working in relevant industries such as marine insurance, ship finance, equipment repairs and maintenance, etc.

(4) Every year, the C&SD conducts the Annual Survey of Economic Activities on major economic sectors. The survey aims to provide statistical information for gauging the business performance and operating characteristics of different economic sectors and for evaluating their contribution to Hong Kong's Gross Domestic Product. Amongst others, the survey on the transportation, storage and courier services sector compiles the statistics on the business establishments and number of employees etc. engaging in the ship agency and ship management, and ship broking sectors. The statistics may be used for monitoring the trends in operating performance of relevant sectors after the implementation of the new tax regime.

LCQ5: Promoting development of innovation and technology

Following is a question by the Hon Tang Fei and a reply by the Secretary for Innovation and Technology, Mr Alfred Sit, in the Legislative Council today (May 25):

Question:

The National 14th Five-Year Plan has expressed clear support for Hong Kong to develop into an international innovation and technology (I&T) hub. On promoting I&T development, will the Government inform this Council:

(1) of the latest plans and measures put in place by the Government to achieve the goal of developing Hong Kong into an international I&T hub, and whether clear performance indicators have been formulated for the relevant work;

(2) in respect of nurturing I&T talents, as there are views that currently STEM education (i.e. courses relating to science, technology, engineering and mathematics) is not an independent subject in local primary and secondary schools, which has resulted in problems of insufficient lesson time and difficulties in articulation into university programmes, whether the Government will improve the planning for STEM education in primary and secondary schools; if so, of the details and timetable; and

(3) of the measures put in place by the Government in the past two years to deepen the I&T co-operation between the Mainland and Hong Kong (including facilitating Hong Kong's young people to go to the Mainland for participating in I&T development), and the effectiveness of such measures?

Reply:

President:

Thank you very much for the Hon Tang's question. Our reply to the Hon Tang's question, having consulted the Education Bureau (EDB), is as follows:

(1) Promulgated last year, the 14th Five-Year Plan (the 14-5 Plan) supported Hong Kong to develop into an international innovation and technology (I&T) hub. The Government has been attaching great importance to the development of I&T, and set out eight major areas in the 2017 Policy Address to develop I&T, formulated clear policies and put forward respective measures. In the same year, the Government has also adopted the recommendations of the Advisory Committee on Innovation and Technology to establish well-defined key performance indicators (KPIs).

In the past five years, the current-term Government has unprecedentedly invested over \$150 billion to support I&T development. Various initiatives are gradually taking effect, and the overall I&T ecosystem is becoming more vibrant. For example, the gross domestic expenditure on research and development (R&D) has increased by more than 45 per cent in the past five years; the number of start-ups rose from around 1 500 in 2015 to around 4 000 in 2021; the venture capital investment substantially increased from \$3.4 billion to over \$40 billion during the period. We have also witnessed the birth of more than 10 unicorns in the same period. The flagship project, InnoHK research clusters, has successfully attracted over 30 world-renowned universities and research institutes to collaborate with local partners in setting up 28 research laboratories. Hong Kong also ranked first in Asia and second worldwide in the World Digital Competitiveness Ranking 2021.

In the 2021 Policy Address and 2022-23 Budget, the Government has put forward a number of forward-looking and ground breaking initiatives. In terms of land supply, having regard to the continuous increase in Hong Kong's demand for land dedicated to scientific research and advance industries, the Government is continuing to increase infrastructure, including consolidating the Hong Kong-Shenzhen Innovation and Technology Park (HSITP) in the Lok Ma Chau Loop and the areas around Lok Ma Chau/San Tin to form the San Tin Technopole, building landmark I&T facilities with a scale comparable to Cyberport in Lau Fau Shan, reviving the Ma Liu Shui reclamation project, planning for the construction of the second Advanced Manufacturing Centre, etc.

As for talent, the Government has been adopting a multi-pronged approach to enlarging the I&T talent pool through attracting, nurturing and retaining talents with a series of initiatives. For example, the Global STEM Professorship Scheme has supported over 60 outstanding scholars and their teams to conduct research and teaching activities in Hong Kong so far.

In terms of R&D, to complement the country's development of frontier scientific research fields such as life and health disciplines, the Government has earmarked \$10 billion to provide more comprehensive support in the longer run for the development of life and health scientific research, including setting up an InnoLife Healthtech Hub in the HSITP. The Government will also double the maximum annual funding support under the Innovation and Technology Fund for the 16 State Key Laboratories in Hong Kong and 6 Hong Kong Branches of Chinese National Engineering Research Centres, and set up a dedicated fund to finance local universities or research institutes to participate in national R&D projects.

The Government will update the KPIs timely, as well as review the policies, enhance and introduce more measures in line with the country's plan and society's development, so as to continue to promote I&T development.

(2) According to the information provided by the EDB, the Government has been committed to promoting STEM education in primary and secondary schools for all students (i.e. STEM for ALL) through ongoing renewal of curriculum, enhancement of teacher training, providing resource support and life-wide learning activities to cultivate students' creativity, scientific investigation and problem-solving skills from an early age, and enhance their interest and learning motivation in I&T. In addition to learning in the Science, Technology, Mathematics and primary General Studies curricula, students also participate in STEM-related cross-curricular hands-on and minds-on activities both inside and outside the classroom. These activities help them lay a solid foundation in learning, and strengthen their ability in integrating and applying STEM-related knowledge and skills. Schools are now implementing STEM education progressively and have achieved considerable results. In respect of senior secondary electives, STEM-related subjects have all along been popular among the students. More Applied Learning courses on applied science and technology have also been provided. The Government will continue to follow up on the recommendations put forward by the Standing Committee on STEM Education to enhance the strategies for promoting STEM

education and provide schools with various support measures.

Moreover, starting from the 2019/20 school year, the EDB has provided a recurrent Life-wide Learning Grant with an annual provision of \$900 million for public sector and Direct Subsidy Scheme schools to support them in taking forward more life-wide learning activities, including STEM education related activities. Furthermore, the Quality Education Fund has included STEM education as one of the priority themes and, from the 2018/19 to 2020/21 school years, approved over \$800 million for around 840 projects related to information technology in education and STEM education through the Priority Themes Funding Programme and the Dedicated Funding Programme for Publicly-funded Schools.

(3) Thanks to the country's staunch support for I&T in Hong Kong, the 14-5 Plan, for the first time, incorporated the Shenzhen-Hong Kong Innovation and Technology Co-operation Zone (Co-operation Zone), comprising the HSITP and Shenzhen Innovation and Technology Zone, as one of the four major platforms of co-operation in the Greater Bay Area (GBA). Hong Kong will continue to make good use of the GBA platform and seek to strengthen the co-operation with various provinces and municipalities. Last year, Hong Kong signed Memorandum of Co-operation with the governments of Sichuan Province, Hubei Province and Shanghai Municipality respectively to deepen the co-operation between Hong Kong and relevant provinces and municipalities in various fields including I&T, such as promoting the commercialisation of R&D results, exploring the establishment of mechanism for jointly nurturing I&T talents, etc.

To better leverage on the complementary advantages among different cities in the GBA, the Government is actively facilitating the effective flow of innovative elements with the Mainland. On talent front, the Government has encouraged young people in Hong Kong to seize the I&T opportunities in the GBA through the Greater Bay Area Youth Employment Scheme. So far, over 250 enterprises have provided I&T jobs, benefiting more than 300 graduates. The Government will also explore the extension of the Immigration Arrangement for Non-local Graduates to cover those Hong Kong universities' campuses in the GBA. As for funding, over \$760 million from Mainland were approved for local universities and R&D institutions so far. The Government has also implemented joint funding schemes with the Central Government and various provinces and municipalities. In terms of resources, so far, four Mainland branches established by Hong Kong's universities were approved by the Ministry of Science and Technology as pilot units which were able to lodge applications independently for exporting human genetic resources to Hong Kong for research purpose.

The delegation for introducing the 14-5 Plan suggested at a seminar last year to make good use of Hong Kong's unique advantages to jointly develop the international I&T hub, and subsequently announced a number of measures benefitting Hong Kong. For instance, regarding opening up more national-level science and technology programmes to Hong Kong, the National Key Research and Development Programme and the Sci-Tech Innovation 2030 –"Brain Science and Brain-like Research" Major Project were opened up to the designated R&D

institutions in Hong Kong for applications.

Besides, the government of Hong Kong and Shenzhen have signed a co-operation agreement on developing the Co-operation Zone and putting forward a joint policy package last year. The Hong Kong Science and Technology Parks Corporation will also launch the GBA InnoAcademy and GBA InnoExpress at its branch in Shenzhen in July this year, and work with the local universities which have campuses in the GBA to establish incubator networks in those campuses, so as to support start-ups to develop in the GBA.

President, once again I am grateful for the Hon Tang's question, and am looking forward to continuing co-operation with LegCo Members in promoting the I&T development of Hong Kong. Thank you, President.

Assessment Committee for the Funding Scheme to Support Transitional Housing Projects by Non-government Organisations convenes meeting

A meeting of the Assessment Committee for the Funding Scheme to Support Transitional Housing Projects by Non-government Organisations, chaired by the Under Secretary for Transport and Housing, Dr Raymond So Wai-man, was convened via video conferencing this morning (May 25).

The Assessment Committee agreed to subsidise the transitional housing development at Lau Fau Shan, Yuen Long, by Tung Wah Group of Hospitals. With a total funding of \$678.15 million, it is expected to provide 1 233 units.

"iAM Smart" temporary service suspensions during system upgrade

â€‹The Office of the Government Chief Information Officer announced today (May 25) that due to system upgrades, "iAM Smart" services will be temporarily suspended on May 29 and June 5 (both are Sundays). The suspensions will start at 1am and services are expected to resume in the morning of the same day upon the completion of the upgrade on both occasions. Please visit the "iAM Smart" website (www.iamsmart.gov.hk) for the latest

service arrangements.

During the service suspensions, users may use other methods to access government online services.

LCQ1: Strengthening information security

â€‹Following is a question by Dr the Hon Johnny Ng and a reply by the Secretary for Innovation and Technology, Mr Alfred Sit, in the Legislative Council today (May 25):

Question:

It has been reported that due to geopolitical changes, certain foreign governments often impose sanctions on the Chinese Government, including cutting off the export of certain technological products to China and banning China's use of such products. There are even hackers in western countries waiting for opportunities to launch cyber attacks on China in attempts to affect the operation of the Chinese Government and related organisations, and Hong Kong may also be affected. On strengthening information security in Hong Kong, will the Government inform this Council:

(1) whether it has assessed the impacts of the aforesaid restrictions imposed on technological products and cyber attacks on the information security (including computer systems and applications) of various government departments, and what plans are in place to strengthen the information system security and incident response capability of various government departments, so as to ensure that their operation and services are not affected;

(2) how it detects and blocks foreign hackers' intrusions and attacks targeting the computer systems of various government departments, and whether it will formulate relevant management, technical and security mechanisms; and

(3) given that cyber attacks may undermine the operation of critical information infrastructure, causing chaos to the daily lives of members of the public and bringing about economic impacts, whether the Government will regulate the cyber security standards for such infrastructure, and require infrastructure operators to assume greater cyber security responsibilities?

Reply:

President,

I am grateful to the question raised by Dr the Hon Johnny Ng. The

Government attaches great importance to information security, including cyber security. We have been tackling information security issues through a multi-pronged strategy to mitigate the risks brought by cyber threats. Bureaux and departments (B/Ds) actively implement multiple layers of security measures to monitor, detect and block potential malicious attacks on their information systems and networks, and take commensurate measures promptly to ensure the security of the Government's systems and data. We also closely collaborate with related organisations and departments to enhance the overall defence capability and resilience of Hong Kong against cyber attacks, and strive to build Hong Kong as a safe and secure smart city.

Having consulted the Security Bureau, my reply to the questions raised by Dr the Hon Johnny Ng is as follows:

(1) & (2) The Government has been closely monitoring the trends of cyber attacks and the associated security threats around the world to ensure the continuity of normal operation of the Government's systems and services.

In procuring information technology (IT) equipment products, Government departments place high importance to the relevant security standards and the support services offered by the suppliers in addition to functionality and compatibility. Moreover, we also remind departments to procure IT and communication products from diverse sources so as to manage the risks of potential restriction imposed on technology products.

In light of targeted and organised cyber attacks on a global scale, the Office of the Government Chief Information Officer (OGCIO) has formulated a comprehensive set of Government IT Security Policy and Guidelines (Policy and Guidelines), which are reviewed and updated regularly with reference to the latest international standards and industry best practices. All B/Ds must abide strictly by the Policy and Guidelines to ensure the security of government data and information systems. The OGCIO also regularly conducts compliance audits for B/Ds to ensure the compliance of their information systems with relevant security requirements.

On technical aspect, the Government commits itself to the overall information security measures to respond to all types of cyber security threats. Leveraging on modern cloud technologies, the Government launched the Next Generation Government Private Cloud Infrastructure Platform in September 2020 to provide a more secure, reliable and scalable infrastructure for the digital government services of different departments. The platform has so far supported over 350 digital government services. At present, the government websites and systems have adopted multiple layers of security measures including data encryption, firewalls, content delivery networks, scrubbing function, intrusion detection and prevention systems against distributed denial of service (DDoS), anti-malware software, endpoint protection solutions and real-time monitoring tools, to detect, block and tackle different types of security threats. In addition, the Government also implements spam filtering systems to tackle malicious email attacks.

On the other hand, in order to respond to emergency incidents

effectively, the OGCI0 has established the Government Computer Emergency Response Team Hong Kong to assist and co-ordinate departments in handling the work of computer emergency response and incidents. The OGCI0 also organises the Inter-departmental Cyber Security Drill annually to strengthen the capability of government departments in defending and responding to cyber security incidents.

Meanwhile, the Government attaches great importance to the co-operation and information sharing with the Mainland and other regions on cyber security in order to respond to the cyber security threats in a prompt and timely manner. The OGCI0 has also joined the Forum of Incident Response and Security Teams and the Asia Pacific Computer Emergency Response Team, etc, and is working closely with the National Computer Network Emergency Response Technical Team/Coordination Centre of China on exchanges, co-operation and notifications of cyber security intelligence. We also actively participate in related activities organised by these organisations.

(3) A safe business environment is crucial for fostering economic development, prosperity and stability. Critical infrastructures are of great significance to the normal operation of the society. If the information systems, information networks or computer systems of the critical infrastructures are being disrupted or sabotaged, the normal operation of their main facilities may be affected, and will seriously jeopardise the economy, people's livelihood, public safety and even national security.

â€‹The increase in cyber attacks in recent years has brought substantial challenges to the cyber security of critical infrastructures around the world. Currently, Hong Kong does not have specific legal requirements on the cyber security of critical infrastructure. Therefore, in addition to industry best practices as well as guidelines and requirements on cyber security imposed by individual regulatory authorities, the Government is currently making preparatory work to clearly define the cyber security obligations of operators of critical infrastructure through legislation, with a view to strengthening the cyber security of critical infrastructure in Hong Kong. In formulating relevant cyber security standards, reference will also be made to standards adopted by other jurisdictions and around the world. The Government intends to launch a public consultation exercise by the end of this year.

Thank you again for the question of Dr the Hon Johnny Ng. I am eagerly looking forward to more exchange and cooperation with LegCo Members in promoting and strengthening the information security of Hong Kong together. Thank you, President.