

# Budget Speech by the Financial Secretary (9)

## Public Finances

99. During the Budget consultation, many people told me that they are concerned about whether the Government will tighten its spending or launch stimulus measures amid the economic slowdown and uncertain outlook. I believe the Government should continue to allocate resources to improve and enhance public services. Hence, in formulating this year's Budget, I have adhered to the new fiscal philosophy of the current-term Government of adopting forward-looking and strategic financial management principles to invest for Hong Kong and relieve people's burden on the premise of ensuring healthy public finances.

100. Since taking office, the current-term Government has launched a series of measures to improve people's livelihood. Operating expenditure for 2018-19 increased by 17.2 per cent, with an increase in total government expenditure by 14.2 per cent. The operating expenditure for the new financial year will further increase by 15.4 per cent, demonstrating the Government's determination to optimise the use of resources, develop our economy and improve people's livelihood. Public expenditure will account for about 22 per cent of our GDP during the five-year period up to 2023-24 in the Medium Range Forecast.

## Optimal Use of Fiscal Reserves

101. As I mentioned just now, our fiscal reserves are expected to reach \$1,161.6 billion at the end of this financial year.

## Housing Reserve

102. The Government established the Housing Reserve in 2014 with the investment income from the fiscal reserves to support the development of public housing and related infrastructure. The current accumulated balance of the Housing Reserve, which is kept separately from the fiscal reserves, is \$82.4 billion. On the other hand, the balance of the Hong Kong Housing Authority in the coming few years is expected to exceed \$40 billion. There will be no need to draw on the Housing Reserve in the foreseeable future. I also appreciate views in the community that keeping the Housing Reserve outside of the fiscal reserve may not fully reflect the Government's financial position. Hence, I will bring back the Housing Reserve to the fiscal reserves. At the same time, I will earmark the same amount in the fiscal reserves for public housing development to demonstrate the Government's firm commitment. To avoid distorting the Government's financial position in a particular year, the money to be brought back will be spread over the current term of Government until 2022-23, that is, over four financial years.

## Future Fund

103. The Government set up the Future Fund in 2016. In its first two years of operation, the Fund achieved a composite rate of return of 4.5 per cent and 9.6 per cent respectively. To further optimise the use of the Fund, I will invite several experienced persons in the financial services sector to advise me on the Fund's investment strategies and portfolios to achieve more diversified investments. The objective is to enhance return, while also consolidating Hong Kong's status as a financial, commercial and innovation centre, and raising Hong Kong's productivity and competitiveness in the long run.

## Tax Policy

104. In the light of Hong Kong's robust economic performance and healthy public finances over the past few years, we have the capacity to introduce various tax measures to enhance our competitiveness and ease the tax burden, in particular for small and medium enterprises (SMEs) and the middle class.

105. In the face of a diversifying economy, the Government will continue to introduce tax measures strategically to enhance our competitiveness and stabilise our revenue.

106. I will transfer the Tax Policy Unit, currently under the Financial Services and the Treasury Bureau, to come directly under the Financial Secretary's Office, and provide additional resources as and when necessary.

## Relieving People's Burden

107. I am very concerned about the tax burden on salary earners. On salaries tax, apart from the one-off tax concessions proposed in my previous two Budgets, I have also raised various allowances and deduction ceilings, widened and increased the number of tax bands, and adjusted the marginal tax rates. These measures aim to relieve the long-term tax burden of citizens through a structural approach and increase taxpayers' disposable income, so that they can take better care of their personal as well as family needs. I have also proposed tax deductions for eligible voluntary health insurance products, deferred annuity premiums and Mandatory Provident Fund voluntary contributions as incentives for the public to get financially prepared for healthcare and retirement needs.

108. Having regard to the economic outlook in the coming year and the Government's fiscal position, I will introduce a series of relief measures, including:

(a) reducing salaries tax and tax under personal assessment for 2018-19 by 75 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for 2018-19. This will benefit 1.91 million taxpayers and reduce government revenue by \$17 billion;

(b) reducing profits tax for 2018-19 by 75 per cent, subject to a ceiling of \$20,000. The reduction will be reflected in the final tax payable for 2018-19. This will benefit 145 000 taxpayers and reduce government revenue by \$1.9 billion;

(c) waiving rates for four quarters of 2019-20, subject to a ceiling of \$1,500 per quarter for each rateable property. This proposal is estimated to benefit 3.29 million properties and reduce government revenue by \$15 billion;

(d) providing an extra allowance to social security recipients, equal to one month of the standard rate Comprehensive Social Security Assistance payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance. This will involve an additional expenditure of about \$3.84 billion. Similar arrangements will apply to recipients of the Working Family Allowance and Work Incentive Transport Subsidy, involving an additional expenditure of about \$149 million;

(e) providing to each student in need a one-off grant of \$2,500 to support learning, involving an expenditure of about \$890 million;

(f) paying the examination fees for school candidates sitting for the 2020 Hong Kong Diploma of Secondary Education Examination, involving an expenditure of about \$160 million; and

(g) providing, on a one-off basis, an additional \$1,000 worth of vouchers to the elderly eligible for the Elderly Health Care Voucher Scheme, involving an expenditure of about \$1.02 billion. The accumulation limit of vouchers will also be raised from \$5,000 to \$8,000 to allow users greater flexibility. The Food and Health Bureau is reviewing the Scheme to ensure that it can better serve the needs of the elderly. The findings will be announced upon completion of the review.

#### Support for Enterprises

109. Recent changes in the global economic and trade environment have affected Hong Kong enterprises, especially those engaging in external trade and SMEs. I will introduce measures to support local enterprises in tiding over uncertainties in the present environment, with a view to achieving our goal of “supporting enterprises, safeguarding jobs and stabilising the economy”. They include:

(a) waiving the business registration fees for 2019-20, benefiting 1.4 million business operators. This will reduce government revenue by \$2.9 billion;

(b) regularising the Technology Voucher Programme and rolling out enhancement measures, including doubling the funding ceiling for each enterprise from \$200,000 to \$400,000 to encourage the wider adoption of technology by local enterprises to improve their efficiency and services;

(c) injecting another \$1 billion into the Dedicated Fund on Branding,

Upgrading and Domestic Sales (BUD Fund) this year, following the injection of \$1.5 billion last year;

(d) following the extension of the geographical scope of the BUD Fund from the Mainland to ASEAN countries in August 2018, to further extend the scope to include all economies which have entered into an FTA with Hong Kong, thereby enabling enterprises to take advantage of the FTAs to explore new markets and new business opportunities;

(e) following an increase in the funding ceiling per enterprise under the BUD Fund from \$0.5 million to \$2 million last year, to further increase the ceiling to \$3 million this year, including \$1 million for the Mainland market and \$2 million for other FTA markets; and

(f) to help SMEs facing liquidity problems, we implemented enhancements to the special concessionary measures under the SME Financing Guarantee Scheme operated by the HKMC Insurance Limited last November, including reducing the guarantee fee rates by 50 per cent, increasing the maximum loan amount to \$15 million, and lengthening the maximum loan guarantee period to seven years. We also extended the application period of the special concessionary measures. I have decided to further extend the application period of the special concessionary measures under the scheme and the three enhancement measures mentioned above to 30 June 2020.

110. With uncertainties prevailing in the global political and economic scenes, we need to get well prepared at all times. I will keep a close watch on the external and local economic situation and introduce appropriate measures when necessary to support enterprises and stabilise the economy.

(To be continued.)