

LCQ12: Relief measures for middle class

Following is a question by the Hon Paul Tse and a written reply by the Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (December 18):

Question:

The Gross Domestic Product (GDP) of Hong Kong has recorded negative growth for two consecutive quarters, indicating that Hong Kong's economy has entered a technical recession. Recently, the Financial Secretary has even pointed out that as the revenues from taxes and land sales in this financial year are expected to drop significantly amid the economic downturn, the Government will record its first budget deficit in 15 years. The business environment of the retail and catering sector, which employs more than 500 000 people, has deteriorated, with some 300 restaurants closing down over the past two months, and the unemployment rate of the sector surging to 6.1 per cent, hitting a record high in six years. The unemployment rate of the construction sector has also soared to 4.9 per cent. In addition, there were 5 940 bankruptcy cases in the first three quarters of this year, representing a year-on-year increase of 7.7 per cent. Besides, the number of residential mortgage loans in negative equity (negative equity) has been on a rising trend. It is hard to be optimistic about the outlook of Hong Kong's economy in the fourth quarter of this year and next year. In this connection, will the Government inform this Council:

(1) whether it has assessed, as the economic conditions is anticipated to continue to deteriorate, if there will be a significant increase in the unemployed population and the numbers of bankruptcy and negative equity cases in the fourth quarter of this year and next year; if it has, of the rates of increase;

(2) as some persons from the middle class have pointed out that the four rounds of relief measures introduced by the Government mainly aim to support small and medium enterprises and the grassroots, and the middle class has not benefited much from them, whether the Government will consider expeditiously introducing measures (e.g. providing allowances for the expenses on children's education outside Hong Kong and hiring foreign domestic helpers, as well as granting a concession on salaries tax for the whole of this year) to assist the middle class in tiding over the difficult times; if so, of the details; if not, the reasons for that;

(3) as quite a number of minority property owners from the middle class have complained that in addition to rates, they are also required to pay Government rent which has been increasing year after year, whether the Government will revise its policy of offering rates concession only and provide a concession on Government rent at the same time, so as to relieve

the burden on minority property owners; and

(4) as some members of the public have criticised that among the relief measures of the fourth round, the measure of waiving surcharges for payment of taxes by instalments is far worse than the relief initiative put forth by a local tycoon earlier on in terms of the simplicity of the application procedure, efficiency of the vetting and approval process and effectiveness, etc., and is thus not conducive to assisting the taxpayers with financial difficulties in tiding over the difficult times, and has also raised concerns that the measure may, similar to the Caring and Sharing Scheme which disbursed \$4,000 to members of the public, give rise to a lot of problems (e.g. loss of application forms, prolonged delay in vetting and approval of applications), whether the Government has assessed the additional manpower and administrative costs involved in implementing the measure, and the average time needed for vetting and approval of an application; whether it will streamline the relevant procedure so as to facilitate members of the public in need to apply and to reduce unnecessary administrative costs?

Reply:

President,

My reply to the various parts of the question is as follows:

(1) The labour market has eased further as the economic conditions of Hong Kong continue to worsen. The seasonally adjusted unemployment rate increased successively from 2.8 per cent in the second quarter of 2019 to 3.2 per cent in September to November 2019, whereas the number of unemployed persons increased by around 11 200 to 125 400 over the same period. According to past experiences, if the overall economy, in particular the consumption market, continues to weaken significantly, the local labour market is expected to be under severe pressure in the short term.

6 725 bankruptcy petitions were presented in the first ten months of 2019 cumulatively. The figure will vary depending on various factors and it is difficult to predict its future trend. In general, the number of bankruptcy cases is likely to increase if the economic situation deteriorates and the unemployment rate increases.

According to the survey of the Hong Kong Monetary Authority, 53 cases of residential mortgage loans (RMLs) were in negative equity at the end of the third quarter of 2019. The majority of these cases were housing loans for bank staff, while a small number of them were RMLs under mortgage insurance programmes. Should the economy continue to deteriorate, there may be corresponding adjustments in property prices. The number of RMLs in negative equity may then increase. It is difficult to predict the level of adjustment at the moment.

The Government will remain vigilant and continue to closely monitor the economic performance and the relevant situation.

(2) and (4) To counter the highly challenging domestic and external economic environment, the Government has announced four rounds of helping measures costing over \$25 billion in total since August 2019. These measures support enterprises, safeguard jobs and relieve people's financial burden, benefitting a wide range of citizens and sectors. Measures benefitting the public include providing a one-off electricity charge subsidy of \$2,000 to each residential electricity account; providing a subsidy to day school students of kindergartens, primary and secondary schools at \$2,500 per head in the 2019/20 school year; providing an extra allowance to social security recipients and applying similar arrangements to recipients of the Working Family Allowance and Work Incentive Transport Subsidy; paying one month's rent for lower income tenants living in the public rental units of the Hong Kong Housing Authority and the Hong Kong Housing Society; and providing a one-off living subsidy for low-income households not living in public housing and not receiving Comprehensive Social Security Assistance (commonly known as the "N have-nots") through the Community Care Fund.

For the year of assessment 2018/19, the Government has announced that the reductions of salaries tax, tax under personal assessment and profits tax will be increased to 100 per cent, subject to the same ceiling of \$20,000 per case as previously proposed. The Inland Revenue Department (IRD) will reflect the tax reduction in the tax demand notes. In addition, for taxpayers who have financial difficulties in settling their profits tax, salaries tax or tax under personal assessment on time, upon obtaining the IRD's approval for payment of tax by instalments, the surcharge on the amount of tax outstanding will be waived for up to one year.

The IRD has an established mechanism for handling applications for payment of tax by instalments from taxpayers having financial difficulties in settling their tax bill on time. The processing of these applications is part of the IRD's daily duties and no additional expenditure will be incurred.

Taxpayers who wish to apply for payment of tax by instalments due to financial difficulties should lodge an application as soon as practicable upon the receipt of the tax demand note.

The Financial Secretary is preparing the 2020-21 Budget and is conducting public consultation. He will adopt a forward-looking and strategic fiscal approach in formulating measures to address the needs of the community.

(3) The Government will consider whether to provide rates concession in the light of the economic situation and the Government's fiscal position of the year. The Financial Secretary announced in the 2019-20 Budget to waive rates for all domestic and non-domestic tenements for four quarters in 2019-20, subject to a ceiling of \$1,500 per quarter for each tenement. Thereafter, the Financial Secretary announced on December 4, 2019 the provision of an enhanced rates concession to non-domestic tenements for the fourth quarter of 2019-20, increasing their concession ceiling from \$1,500 to \$5,000 per tenement.

As regards the Government rent, according to Article 121 of the Basic Law, for all leases of land granted or renewed where the original leases contain no right of renewal, during the period from May 27, 1985 to June 30, 1997, which extend beyond June 30, 1997 and expire not later than June 30, 2047, the lessee is not required to pay an additional premium as from July 1, 1997, but an annual rent equivalent to 3 per cent of the rateable value of the property, adjusted in step with any changes in the rateable value thereafter, shall be charged.

Since the Basic Law has stipulated the obligation to pay Government rent for the relevant leases, the Government has to uphold the Basic Law requirement and is not able to provide any form of concession on Government rent for the relevant leases.