

LCQ6: Enhancing support for middle-class people

Following is a question by the Hon Lee Chun-keung and a reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (December 6):

Question:

There are views that the middle class has all along "paid large amounts of tax but enjoyed few welfare benefits", which, coupled with the current inflated commodity prices, high global interest rates and persistently high property prices, has increased their expenditure on aspects such as supporting parents, healthcare and children's education, putting them under immense livelihood pressure. In this connection, will the Government inform this Council:

(1) whether it will set up a commission dedicated to the affairs of the middle class to comprehensively review the policies and measures relating to the middle class, and to put forward concrete and comprehensive corresponding strategies in a focused manner, so as to assist middle-class families in alleviating their burdens in life; if so, of the details; if not, the reasons for that;

(2) whether it has considered introducing tax allowance for children's educational expenses to alleviate the burden on the middle class; if so, of the details; if not, the reasons for that; and

(3) as it is learnt that retired middle-class elderly people, especially retired civil servants and professionals, often live solely on their savings and are not eligible to apply for the Government's cash welfare for the elderly other than the Old Age Allowance, or the Old Age Living Allowance which is subject to an asset test, whether the Government has considered enhancing the support for the middle-class elderly people; if so, of the details; if not, the reasons for that?

Reply:

President,

First of all, I would like to express my appreciation to the Hon Lee Chun-keung for raising the question, which allows me to, on behalf of the Government, respond to an issue of public concern – how to support the middle class. Having consulted the Labour and Welfare Bureau and the Civil Service Bureau, we set out a consolidated reply as follows:

As mentioned by the Chief Executive in his 2023 Policy Address, the Government aims to create "a vibrant economy for a caring community", making Hong Kong a better place for different social groups. The Government will

continue to strengthen the economy and improve people's livelihoods through various policy measures, supporting Hong Kong's pursuit of high-quality development and enhancing Hong Kong people's quality of life. All these measures will also benefit the middle class.

"Middle class" is a loosely-defined term with no universal definition. On one hand, the term could generally refer to one's economic background, academic qualification, income or asset level. On the other hand, it may also reflect one's lifestyle and values. Since there is no objective criterion to define middle-class individuals or households, it is difficult to formulate targeted policy measures to meet their specified needs. However, this definitely does not mean that the Government ignores the needs of the middle class. The Government conducts extensive consultations during the preparation of the Policy Address and the Budget. Members of the public may express their opinions through these channels, thus allowing us to fully consider different voices and formulate appropriate measures to respond to the needs of different groups in the society. The consultation exercise for the 2024-25 Budget has just been launched and we are more than willing to listen to suggestions from Members and the general public in this respect.

With regards to supporting the middle-class people, one of the suggestions we often receive is that the Government should reduce the tax burden of the middle-class individuals as much as possible. When considering whether to adjust recurrent tax measures, such as providing new allowance or deduction items, we must carefully examine the impact of such proposals on public finance and whether they are in line with the simple and fair principles of our tax regime, so as to strike a balance between reducing the tax burden of taxpayers and maintaining healthy public finance.

In fact, Hong Kong has all along been maintaining a simple and low tax regime. Regarding salaries tax, the tax liability is calculated based on either the taxpayer's net chargeable income at progressive tax rates or the taxpayer's net total income at the standard tax rate of 15 per cent, whichever is the lower. In other words, our salaries tax rate is capped at only 15 per cent. Compared to other tax jurisdictions, such as Singapore with a highest individual income tax rate of 24 per cent starting from the year of assessment 2024 and the United Kingdom with a highest individual income tax rate of 45 per cent, Hong Kong's salaries tax rate is at a relatively low level globally. Furthermore, Hong Kong also provides generous allowances under salaries tax. In the year of assessment 2021/22, even before the implementation of one-off tax reduction measure, the overall average effective tax rate for salaries taxpayers was only about 8 per cent, which represents a very light tax burden.

To alleviate the burden on taxpayers in supporting their children, the Government has increased the basic child allowance and the additional child allowance for each child born during the year of assessment under salaries tax and tax under personal assessment from \$120,000 to \$130,000 starting from the year of assessment 2023/24, as proposed in the 2023-24 Budget. As regards educational expenses for children, it was announced in the 2019 Policy Address that the provision of the student grant would be regularised starting

from the 2020/21 school year, with secondary day school, primary school and kindergarten students each entitling to an annual grant of \$2,500. In addition to these measures, the Government has over the years also introduced one-off relief measures under the Budgets in a timely manner, such as providing tax concessions to taxpayers under salaries tax and tax under personal assessment, providing rates concession, paying the examination fees for school candidates sitting for the Hong Kong Diploma of Secondary Education Examination, etc. All these measures have helped relieve the tax burden on the middle class and other taxpayers.

Besides, I must point out that the Government implements a non-contributory social security system to provide suitable cash assistance for needy people, comprising the Comprehensive Social Security Assistance Scheme and the Social Security Allowance Scheme (which includes the Old Age Living Allowance, Old Age Allowance and Disability Allowance). Currently, about 1.24 million (or more than 70 per cent of) Hong Kong elderly people aged 65 or above are social security recipients. Most of the cash assistance schemes are means-tested to echo their aims of assisting those persons in need of financial support. Retired civil servants are also eligible for retirement benefits as specified in their terms of appointment. While we understand that Members are concerned about the retired middle-class elderly, the Government also has to balance the needs of different classes and ensure the proper use of public funds when formulating policies.

In any event, the Government highly recognises the important contributions made by the middle-class individuals to the society and understands that many people are concerned about the problems and challenges faced by the middle class. When formulating relevant policies, we will work with relevant policy bureaux to study the relevant issues, carefully consider the views of Members, and continue to assist the middle-class individuals in overcoming difficulties and challenges and making more contributions to the society and economy of Hong Kong. As I mentioned earlier, the consultation exercise for the next financial year's Budget has just begun. We will continue to listen to the views of various sectors of the community.

Thank you, President.