

## **ITEM FOR ESTABLISHMENT SUBCOMMITTEE OF FINANCE COMMITTEE**

### **HEAD 142 – GOVERNMENT SECRETARIAT : OFFICES OF THE CHIEF SECRETARY FOR ADMINISTRATION AND THE FINANCIAL SECRETARY**

#### **Subhead 000 Operational Expenses**

Members are invited to recommend to Finance Committee the creation of the following permanent post/non-civil service position in the Financial Secretary's Office with effect from the date of approval by the Finance Committee –

1 Administrative Officer Staff Grade B1/  
D4-equivalent non-civil service position  
(D4) (\$225,900 – \$239,700)

### **PROBLEM**

The Financial Secretary's Office (FSO) needs to strengthen its directorate support for assisting the Financial Secretary (FS) in the formulation and follow-up of Budget-related proposals as well as spearheading strategic tax policies and measures in Hong Kong.

### **PROPOSAL**

2. We propose that one Administrative Officer Staff Grade B1 (AOSGB1) (D4) post/D4-equivalent non-civil service (NCS) position, to be designated as Head of the Budget and Tax Policy Unit (H/BTPU), be created in FSO with effect from the date of approval by the Finance Committee (FC).

**/JUSTIFICATIONS .....**

## JUSTIFICATIONS

### Background

3. FS announced in the 2017-18 Budget Speech that a Tax Policy Unit (TPU) would be set up in the Financial Services and the Treasury Bureau (FSTB) to comprehensively examine and review tax issues from a macro perspective. These include (a) aligning our tax practices with international standards and actively studying ways to foster the development of pillar industries, industries over which we have advantages and emerging industries through tax measures, so as to ensure that Hong Kong remains competitive in wealth creation; and (b) enhancing our tax regime and exploring the broadening of tax base and revenue generation, so as to ensure that adequate resources are available to support Hong Kong's sustainable development and long-term financial stability.

4. TPU was established in the Treasury Branch of FSTB in April 2017. It is currently staffed by two contract Senior Tax Researchers (pitched at the civil service rank of Senior Assessor) and one civil service Assistant Clerical Officer (ACO), and is under the supervision of a Deputy Secretary (at AOSGB1 rank (D4)) in the Treasury Branch of FSTB.

5. Upon its establishment, TPU has been working to support the new taxation direction of the Government, facilitating the development of Hong Kong's industries and economy through tax policy. So far, TPU has assisted in formulating the legislative framework and the implementation of new tax measures, including the two-tiered profits tax rates regime and the provision of enhanced tax deduction for research and development expenditure. TPU has also been assisting some policy bureaux in studying tax measures relevant to specific sectors, such as the insurance industry and ship leasing business. Furthermore, TPU has been keeping in view major tax policy changes in the Mainland and overseas, such as tax reforms in the United States and the Mainland, as well as the latest tax initiatives from the Organisation for Economic Co-operation and Development (OECD).

### Transfer of TPU to FSO

6. With global requirements on taxation matters becoming more complex and Hong Kong moving towards a more diversified economy, the Government would continue to closely monitor international developments on tax requirements and ensure compliance, while introducing tax measures strategically to enhance Hong Kong's competitiveness and ensure stability of our tax revenue.

/To .....

To better support the Government's efforts in this regard, FS announced in the 2019-20 Budget that TPU would be transferred from FSTB to come under FSO. The transfer will take effect from 1 July 2019, and has been reflected in the 2019-20 Estimates.

### **Need for Directorate Support for TPU Upon Transfer**

7. With the transfer of TPU, FSO considers it appropriate and timely to maximise its function and expand its responsibilities so that it would not only strengthen the support for FS on tax policy matters but also on Budget-related matters. The expanded set-up would be renamed as the Budget and Tax Policy Unit (BTPU) to better reflect its functions.

8. On tax policy side, the fast evolving international tax scene and growing emphasis on the use of tax measures to enhance economic competitiveness has added to the complexity of the work of TPU. BTPU will continue to undertake tax studies and assist other bureaux in formulating new tax measures targeting specific sectors with a view to further enhancing the competitiveness of our tax regime. Besides, BTPU will continue to follow closely international tax developments. OECD has recently introduced a new global tax standard which requires no or nominal tax jurisdictions to impose substantial activity requirements on certain non-domestic entities incorporated or registered in their jurisdictions. Also, OECD's recent proposals on addressing the tax challenges of the digital economy, income inclusion rule and tax on base eroding payments would have wide implications for many jurisdictions. These developments warrant close monitoring and timely assessment of their implications on Hong Kong. We hence see the need for enhanced directorate supervision over the work of BTPU.

9. In addition, BTPU will take on new responsibilities to support FS in formulating the Budget framework and following up on Budget proposals which require thorough policy analysis and co-ordination with relevant parties both within and outside the Government. With more extensive public consultations and a growing number of Budget proposals received all year round, the preparation of the Budget has become an increasingly lengthy process in recent years. Many of the proposals received entail not only financial provisions but interface with existing policies and measures. Consideration of these proposals requires close liaison with bureaux/departments, legislators, and possibly stakeholders in the relevant sectors/professions. Some of the deliberations would take longer time, and may therefore go beyond one Budget cycle to the next.

10. With the growing complexity of tax policy work and an additional dimension of Budget-related work, we consider it appropriate for these tasks to be supervised by a senior directorate officer in the proposed BTPU. At present, FSO has a small set-up with a total strength of only 20 staff members. It does not have the capacity to provide FS with the necessary support in formulating and following up on Budget proposals on a year-round basis. Meanwhile, the small team set up in the Treasury Branch of FSTB every year on a supernumerary basis to underpin the preparation of the Budget Speech cannot fill the gap because it is transient and will be disbanded after passage of the Appropriation Bill.

11. We therefore propose that a permanent post at AOSGB1 rank (D4) or a D4-equivalent NCS position be created in FSO to lead BTPU and supervise its work on a day-to-day basis. The proposed post may be filled by an AOSGB1 or a contract staff engaged through open recruitment from outside the civil service with the requisite knowledge. We would like to provide such flexibility to ensure that BTPU would be led by a senior officer with the requisite knowledge and be given the most appropriate support as the circumstances may warrant. The post will be designated as H/BTPU and will report directly to FS. The proposed job description is at Enclosure 1.

Encl. 1

### **Non-directorate Support**

12. H/BTPU will be supported by the following six non-directorate staff –

- (a) two existing contract Senior Tax Researchers, one Senior Administrative Officer (SAO) (post unfilled at present) and one existing ACO in TPU, transferred from FSTB; and
- (b) two new posts to be created, namely one Senior Assessor and one Senior Personal Secretary.

13. In other words, setting up BTPU will give rise to a net increase of one directorate D4 post/NCS position) and two non-directorate posts mentioned in paragraph 12(b) above. The proposed organisation chart of BTPU is at Enclosure 2.

Encl. 2

**/ALTERNATIVES .....**

## ALTERNATIVES CONSIDERED

14. We have critically examined the feasibility for FSO to redeploy internal resources to take up the supervisory role over BTPU. Currently, there are only two directorate officers in FSO, namely the Administrative Assistant to FS and the Press Secretary to FS, who are both at the rank of Administrative Officer Staff Grade C (D2). They are already fully engaged in their existing schedules with distinctively different duties. The work of the BTPU is also much wider in scope and requires expertise much different from that of the Office of the Government Economist (OGE). It would therefore be a mismatch for directorate officers of OGE to supervise the work of BTPU. Moreover, there is a genuine need for enhanced supervision of BTPU at a senior directorate level. We have come to the conclusion that redeployment is neither practicable nor desirable as a solution.

## FINANCIAL IMPLICATIONS

15. The proposed creation of the permanent H/BTPU post/NCS position at D4 rank in FSO will bring about an additional notional annual salary cost at mid-point of \$2,793,000. The full annual average staff cost, including salaries and staff on-cost, is \$4,177,000. We have earmarked sufficient funding provision to meet the cost.

16. As mentioned in paragraph 12 above, H/BTPU will be supported by six non-directorate staff (i.e. four civil servants and two contract staff) in the existing establishment or by creation of posts.

- (a) In respect of existing posts (paragraph 12 (a)),
  - (i) for the two existing contract staff, the full-year salary provision in 2019-20 is about \$2,754,000; and
  - (ii) for the existing SAO post (unfilled at present) and ACO post, the total notional annual salary cost at mid-point is \$1,720,320, and the full annual average staff cost, including salaries and staff on-cost is \$2,540,000.
- (b) The net increase of two non-directorate posts (paragraph 12(b)) will incur an additional notional annual salary cost at mid-point of \$2,028,420. The annual average staff cost, including salaries and staff on-cost, is \$3,183,000.

/The .....

The cost for these posts in 2019-20 will be absorbed within FSO's existing resources and that for 2020-21 and beyond will be included in the Estimates of subsequent years.

## PUBLIC CONSULTATION

17. We consulted the Legislative Council Panel on Financial Affairs on 3 June 2019 on the above proposal. Members supported the creation of one permanent D4 post/NCS position to enhance directorate support in FSO and supervise BTPU.

## ESTABLISHMENT CHANGES

18. The establishment changes of Head 142 Government Secretariat: Offices of the Chief Secretary for Administration and the Financial Secretary for the past two years are as follows –

Establishment (Note)	Number of posts			
	Existing (As at 1 June 2019)	As at 1 April 2019	As at 1 April 2018	As at 1 April 2017
A <sup>@</sup>	27 + (2) <sup>#</sup>	27 + (3)	25 + (1)	30 + (4)
B	100	100	94	127
C	380	376	359	396
<b>Total</b>	<b>507 + (2)</b>	<b>503 + (3)</b>	<b>478 + (1)</b>	<b>553 + (4)</b>

Notes:

A - ranks in the directorate pay scale or equivalent

B - non-directorate ranks, the maximum pay point of which is above MPS 33 or equivalent

C - non-directorate ranks, the maximum pay point of which is at or below MPS 33 or equivalent

( ) - number of supernumerary directorate posts

<sup>@</sup> - excluding supernumerary posts created under delegated authority

<sup>#</sup> - As at 1 June 2019, there was no unfilled directorate post

## CIVIL SERVICE BUREAU COMMENTS

19. The Civil Service Bureau supports the proposed creation of one permanent AOSGB1 post or D4-equivalent NCS position in FSO. The grading and/or ranking of the post/position are considered appropriate having regard to the level and scope of responsibilities required.

/ADVICE .....

**ADVICE OF THE STANDING COMMITTEE ON DIRECTORATE  
SALARIES AND CONDITIONS OF SERVICE**

20. The Standing Committee on Directorate Salaries and Conditions of Service has advised that the proposed grading for the post concerned will be appropriate if the proposal is to be implemented.

-----

Financial Secretary's Office  
Financial Services and the Treasury Bureau  
June 2019

**Proposed Job Description**  
**Head of the Budget and Tax Policy Unit in the Financial Secretary's Office**

**Rank** : Administrative Officer Staff Grade B1 (D4)/Non-civil  
service appointment (D4-equivalent)

**Responsible to** : Financial Secretary (FS)

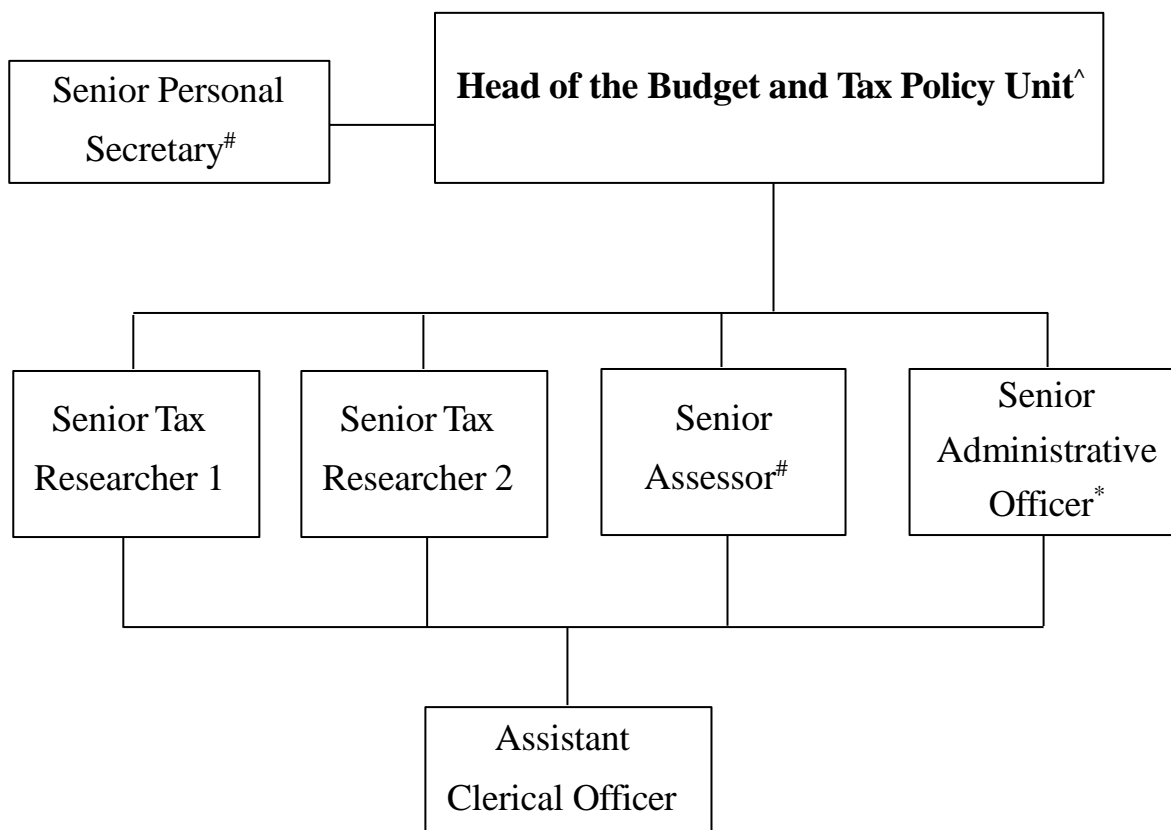
**Main Duties and Responsibilities –**

1. Supervise the work of the Budget and Tax Policy Unit.
2. Support the Government's overall efforts in economic development through co-ordination of strategic tax policies and measures.
3. Monitor new developments in the international tax scene, assess their relevance to Hong Kong and formulate responses.
4. Provide FS with support in formulating the overall strategy and framework for the Budget; monitoring and advising on responses collected through Budget consultation and other channels; and co-ordinating with bureaux/departments and liaising with stakeholders outside the Government to follow up on Budget proposals received.

-----



### Proposed Organisation Chart of Budget and Tax Policy Unit



<sup>A</sup> Proposed permanent AOSGB1 (D4) post or D4-equivalent non-civil service position

# New non-directorate posts to be created

\* Existing non-directorate post in the Tax Policy Unit to be filled