

For discussion
on 3 June 2019

Legislative Council Panel on Financial Affairs

Enhancing Support for Tax Policy Unit

PURPOSE

This paper briefs Members on the Government's plan to establish a Budget and Tax Policy Unit in the Financial Secretary's Office ("FSO").

JUSTIFICATIONS

Background

2. The Financial Secretary ("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 and can create wealth; and (b) enhancing our tax regime and exploring the broadening of tax base and increase of revenue, so as to ensure that adequate resources are available to support Hong Kong's sustainable development.

3. The TPU was established in the Treasury Branch ("TsyB") 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, and is under the supervision of a Deputy Secretary (at Administrative Officer Staff Grade B1 ("AOSGB1") rank (D4)) in TsyB.

4. 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, the 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. The 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, the TPU has been keeping in view major tax policy changes in the Mainland and overseas, such as the 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

5. 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 better support the Government's overall efforts in this regard, FS announced in the 2019-20 Budget that the TPU would be transferred from the TsyB to come directly under the 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

6. With the transfer of the TPU from TsyB, FSO considers it appropriate and timely to maximize the function of the Unit by expanding 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").

7. 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 the original 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, the BTPU will continue to follow closely international tax developments. Tax reform in individual tax jurisdictions aside, OECD recently introduced a new global tax standard which requires no or nominal tax jurisdictions to impose substantial activities 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, the income inclusion rule and tax on base eroding payments would have wide implications for many jurisdictions. Tax developments of these kinds warrant close monitoring and timely assessment of their implications on Hong Kong. We hence see the need for additional directorate supervision of the BTPU.

8. In addition, the 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 coordination 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. Some proposals announced in the Budget also necessitate oversight and/or coordination thereafter to ensure their smooth implementation.

9. With the growing complexity of tax policy work and an additional dimension of Budget-related work, we consider it appropriate for the supervision of these tasks at a senior directorate level 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 TsyB 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.

10. In view of the above limitations, a three-month supernumerary post entitled Special Assistant to FS (Budget) at D3 rank was created from late November 2018 to early March 2019 in FSO to assist FS in formulating the overall strategy and framework for the 2019-20 Budget, monitoring and providing advice on suggestions received through Budget consultation and other channels. The officer was also responsible for following up and coordinating with bureaux/departments on key initiatives of the Budget. While the time-limited post was found useful, many Budget proposals, in particular those more complicated ones, would require more in-depth study which might straddle one or more Budget cycles (see paragraph 8 above) as well as follow-up over a longer time span. This recent operational experience indicates the need for a dedicated senior directorate officer to ensure the continuity of the work concerned.

11. We therefore propose to create a permanent directorate post at AOSGB1 rank (D4) in FSO to oversee the BTPU with effect from 1 July 2019 or upon approval by the Finance Committee, whichever is the later. 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 the Unit would be led by someone with the requisite knowledge and be given the most appropriate support as the circumstances might warrant. The post will be designated as the Head of the Budget and Tax Policy Unit (“H/BTPU”). The post holder will report directly to FS. The proposed job description is at **Annex A**.

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

(a) two existing contract Senior Tax Researchers, one Senior Administrative Officer (post unfilled at present) and one existing

Assistant Clerical Officer in the TPU, transferred from the TsyB;
and

- (b) one Senior Assessor and one Senior Personal Secretary (posts to be created).

13. In other words, setting up the BTPU will give rise to a net increase of one directorate staff (i.e. the D4 post) and two non-directorate staff posts detailed in paragraph 12(b) above. The proposed organisation chart of the BTPU is at **Annex B**. We will seek approval of the Finance Committee for creation of the permanent D4 post.

14. We have critically examined the feasibility for FSO to redeploy internal resources to take up the supervisory role over the 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. Moreover, as mentioned in paragraph 11 above, there is a genuine need for supervision of the BTPU at a senior directorate level. We have come to the conclusion that redeployment is neither practicable nor desirable as a long-term solution. We have also examined but do not consider it appropriate to create a supernumerary D4 post having regard to the ongoing nature of the additional duties involved.

FINANCIAL IMPLICATIONS

15. The proposed creation of the permanent H/BTPU post at D4 rank in FSO will incur 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 included sufficient provision in the 2019-20 Estimates and will do so in subsequent years to meet the cost of the proposal if approved.

16. The net increase of two non-directorate posts in the BTPU as

mentioned in paragraph 12(b) above will incur an additional notional annual salary cost at mid-point of \$2,028,420. The full annual average staff cost, including salaries and staff on-cost is \$3,184,000. The cost for 2019-20 will be absorbed within FSO's existing resources and that for 2020-21 and beyond will be included in Estimates of subsequent years.

WAY FORWARD

17. We welcome Members' views on the above proposal. We will then follow up and seek approval for the creation of the permanent D4 post from the Finance Committee.

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

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

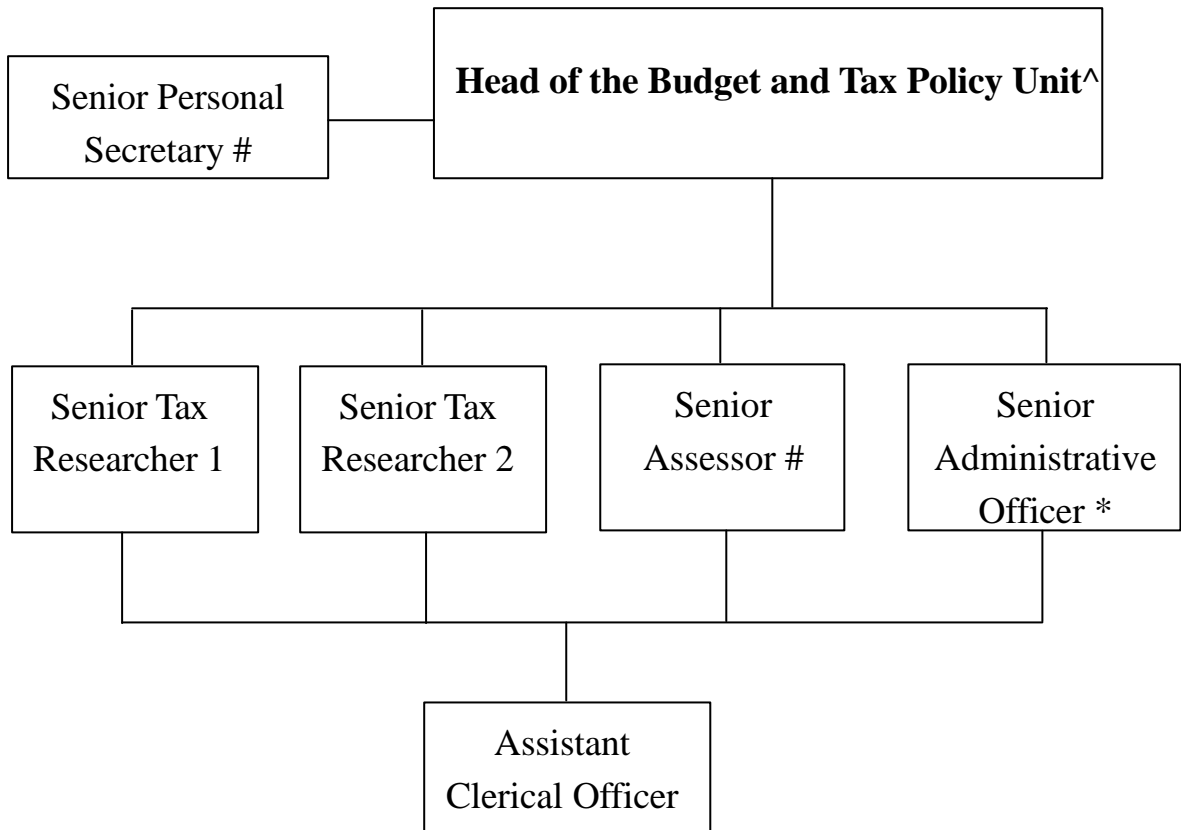
Rank : Administrative Officer Staff Grade B1 or equivalent
(D4)

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 coordination 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 coordinating 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



^ Proposed permanent directorate post at D4 rank

New non-directorate posts to be created.

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