

立法會
Legislative Council

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Finance Committee of the Legislative Council

Minutes of the 3rd meeting
held at Conference Room 1 of the Legislative Council Complex
on Friday, 6 November 2020, from 2:45 pm to 7:00 pm

Members present:

Hon CHAN Kin-por, GBS, JP (Chairman)
Hon CHAN Chun-ying, JP (Deputy Chairman)
Hon James TO Kun-sun
Hon LEUNG Yiu-chung
Hon Abraham SHEK Lai-him, GBS, JP
Hon Tommy CHEUNG Yu-yan, GBS, JP
Prof Hon Joseph LEE Kok-long, SBS, JP
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon WONG Ting-kwong, GBS, JP
Hon Starry LEE Wai-king, SBS, JP
Hon CHAN Hak-kan, BBS, JP
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP
Hon WONG Kwok-kin, SBS, JP
Hon Paul TSE Wai-chun, JP
Hon Claudia MO
Hon Michael TIEN Puk-sun, BBS, JP
Hon Steven HO Chun-yin, BBS
Hon Frankie YICK Chi-ming, SBS, JP
Hon WU Chi-wai, MH
Hon YIU Si-wing, BBS
Hon MA Fung-kwok, GBS, JP
Hon Charles Peter MOK, JP
Hon CHAN Han-pan, BBS, JP
Hon LEUNG Che-cheung, SBS, MH, JP

Hon Kenneth LEUNG
Dr Hon KWOK Ka-ki
Hon KWOK Wai-keung, JP
Hon Dennis KWOK Wing-hang
Hon Christopher CHEUNG Wah-fung, SBS, JP
Dr Hon Fernando CHEUNG Chiu-hung
Dr Hon Helena WONG Pik-wan
Hon IP Kin-yuen
Hon Martin LIAO Cheung-kong, GBS, JP
Hon POON Siu-ping, BBS, MH
Dr Hon CHIANG Lai-wan, SBS, JP
Ir Dr Hon LO Wai-kwok, SBS, MH, JP
Hon CHUNG Kwok-pan
Hon Alvin YEUNG
Hon Andrew WAN Siu-kin
Hon Jimmy NG Wing-ka, BBS, JP
Dr Hon Junius HO Kwan-yiu, JP
Hon LAM Cheuk-ting
Hon Holden CHOW Ho-ding
Hon SHIU Ka-fai, JP
Hon SHIU Ka-chun
Hon Wilson OR Chong-shing, MH
Hon YUNG Hoi-yan, JP
Dr Hon Pierre CHAN
Hon CHEUNG Kwok-kwan, JP
Hon HUI Chi-fung
Hon LUK Chung-hung, JP
Hon LAU Kwok-fan, MH
Hon Kenneth LAU Ip-keung, BBS, MH, JP
Dr Hon CHENG Chung-tai
Hon KWONG Chun-yu
Hon Jeremy TAM Man-ho
Hon Vincent CHENG Wing-shun, MH, JP
Hon Tony TSE Wai-chuen, BBS, JP

Members absent:

Hon Mrs Regina IP LAU Suk-yea, GBS, JP
Hon Alice MAK Mei-kuen, BBS, JP
Hon Elizabeth QUAT, BBS, JP

[According to the announcement made by the Hong Kong Special Administrative Region Government on 11 November 2020 pursuant to the Decision of the Standing Committee of the National People's Congress on Issues Relating to the Qualification of the Members of the Legislative Council of the Hong Kong Special Administrative Region, Kenneth LEUNG, KWOK Ka-ki, Dennis KWOK Wing-hang and Alvin YEUNG were disqualified from being a member of Legislative Council on 30 July 2020.]

Public officers attending:

Ms Alice LAU Yim, JP	Permanent Secretary for Financial Services and the Treasury (Treasury)
Mr Raistlin LAU Chun, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 1
Miss Jennie CHAN Cheuk-yin	Principal Executive Officer (General), Financial Services and the Treasury Bureau (The Treasury Branch)
Ms Irene YOUNG Bick-kwan, JP	Deputy Secretary for the Environment
Ms Queenie LEE Lai-kwan	Principal Assistant Secretary for the Environment (Renewable Energy Review and Development)
Mr Paul WONG Yan-yin	Principal Assistant Secretary for the Environment (Energy)
Mr Joseph CHAN Ho-lim, JP	Under Secretary for Financial Services and the Treasury
Mr Maurice LOO Kam-wah, JP	Deputy Secretary for Financial Services and the Treasury (Treasury) 2
Ms Jessie WONG Hok-ling, JP	Co-ordinator (Special Duties), Financial Secretary's Office
Mr Bobby CHENG Kam-wing, JP	Deputy Director of Administration 1, Chief Secretary for Administration's Office

Clerk in attendance:

Ms Anita SIT	Assistant Secretary General 1
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Staff in attendance:

Ms Angel SHEK	Chief Council Secretary(1)1
Miss Bowie LAM	Council Secretary (1)1
Miss Queenie LAM	Senior Legislative Assistant (1)2

Mr Frankie WOO
Miss Mandy POON
Miss Yannes HO

Senior Legislative Assistant (1)3
Legislative Assistant (1)1
Legislative Assistant (1)7

Action

The Chairman reminded members of the requirements under Rule 83A and Rule 84 of the Rules of Procedure.

Item 1 — FCR(2019-20)8
RECOMMENDATION OF THE ESTABLISHMENT
SUBCOMMITTEE MADE ON 22 MARCH 2019

EC(2018-19)27
HEAD 137 — GOVERNMENT SECRETARIAT: ENVIRONMENT
BUREAU
Subhead 000 Operational expenses

Continuation of the discussion on item FCR(2019-20)8

2. The Finance Committee ("FC") continued with the discussion on FCR(2019-20)8. The Chairman advised that this item sought the approval of FC for the recommendation of the Establishment Subcommittee ("ESC") made at its meeting on 22 March 2019 regarding EC(2018-19)27, i.e. making permanent of one supernumerary post of Administrative Officer Staff Grade C ("AOSGC") (D2) under the Environment Bureau ("ENB") to continue taking forward tasks in relation to the promotion of renewable energy ("RE") and long-term development of the electricity market. The ESC had spent a total of around 1 hour 57 minutes on the scrutiny of the aforesaid proposal. FC had also spent 2 hours 56 minutes on the discussion of this agenda item at its last meeting.

3. Mr IP Kin-yuen stated that although the Government had launched a scheme to assist schools in installing RE systems (i.e. the "Solar Harvest" scheme), yet of most the solar photovoltaic ("PV") systems installed were small in scale, and the follow-ups were done by the Electrical and Mechanical Services Department ("EMSD") (instead of ENB/the Environmental Protection Department). Mr IP was of the view that this kind of scheme could not fully utilize the potential of promoting RE in schools. Mr IP enquired how the creation of the proposed post in ENB as recommended by the Government would help further promote RE in Hong Kong (especially in schools).

4. Deputy Secretary for the Environment ("DSEN") advised that the policy and planning of the "Solar Harvest" scheme was led by ENB, and the proposed permanent post would continue taking forward the work. The scheme subsidized and provided one-stop service to eligible schools (except government and profit-making schools) and non-governmental welfare organizations which received recurrent subventions from the Social Welfare Department, and assisted them in installing small-scale solar energy generation systems at their premises. EMSD was the department that implemented the scheme and was responsible for following up the entire process of installation, and the schools/organizations concerned could take part in system design. In addition, EMSD also assisted these schools/organizations in joining the Feed-in Tariff ("FiT") Scheme. DSEN pointed out that systems installed under the "Solar Harvest" scheme would provide participating schools/organizations with information such as capacity of electricity harvesting and distribution of electricity consumption of the relevant solar energy generation systems. It was believed that such information was conducive to schools' education about science, technology, engineering and mathematics (STEM), climate change and energy conservation, etc. The scheme had received around 350 applications since implementation in March 2019. At present, 94 applications had completed system installation, of which 45 had already joined the FiT Scheme.

5. Mr CHAN Hak-kan stated that the Government lacked objectives in taking forward the promotion of RE. Even though it was committed to the development of solar PV technology and incentivized the two power companies to launch the FiT Scheme in recent years, the Government's promotion of RE was still focused on the waste-to-energy system (such as "food waste/sewage sludge anaerobic co-digestion" in sewage treatment works); the promotion of RE in other areas was still insufficient. Therefore, he took the view that the Government's proposal to create the proposed permanent post to support the promotion of RE was not justified.

6. DSEN advised that as Hong Kong was subject to geographical constraints and a lack of natural resources, there were certain difficulties in developing RE. That said, the Government would keep on trying to explore sources of RE and develop relevant technologies. In addition to the above-mentioned "Solar Harvest" scheme, the Government would also continue to take the lead in developing RE and assist various bureaux and departments in the installation of RE systems, with more than 80 projects completed so far. Considering the importance of the promotion of RE to the achievement of the long-term decarbonization target, the Government considered it necessary to create the proposed permanent post to assist in formulating strategies and measures for promoting RE development and the

future development of the fuel mix, etc.

7. Mr CHAN Hak-kan enquired whether Hong Kong's realisable RE potential still stayed at 3% to 4% estimated years ago. DSEN advised that on top of RE generation from solar energy and waste-to-energy technologies, the two power companies were also respectively studying the feasibility of developing large-scale wind power systems.

Withdrawal of FCR(2019-20)8

8. The Chairman advised that FC had spent more than three hours discussing this item at the last meeting and the meeting today, and it seemed that no members supported the proposal. He enquired how the Government planned to deal with this item.

9. DSEN advised that the Government hoped to explain the item to FC again at today's meeting. However, in light of the Chairman's enquiry and having re-considered the views expressed by members, she stated that the Government decided to withdraw this item (i.e. FCR(2019-20)8) so that it could re-examine the proposal. DSEN expressed gratitude to members for their views expressed at the two meetings. In light of ENB's proposal to withdraw FCR(2019-20)8, Deputy Secretary for Financial Services and the Treasury (Treasury)1 ("DSFST(T)1") confirmed withdrawal of the item on behalf of the Financial Secretary ("FS").

10. Ms Claudia MO, Mr James TO, Mr SHIU Ka-chun, Mr LEUNG Yiu-chung, Dr KWOK Ka-ki, Mr Alvin YEUNG, Mr KWONG Chun-yu and Mr IP Kin-yuen spoke one after the other and expressed the following views:

- (a) the Government should clarify when it decided to withdraw the item, and the process and justifications for the decision to withdraw the item;
- (b) it was really abrupt that the Government withdrew the item at today's meeting after FC had proceeded to the discussion of item FCR(2019-20)8 (but not before proceeding to the discussion) when only two members had spoken on the item at that moment. It was truly unbelievable that the Government withdrew the item immediately after the Chairman put forward the views in paragraph 8 above, as if no prior discussion was necessary among officials before such a decision. It seemed that the Government and the Chairman had a consensus before the meeting that the item be

withdrawn; and that the Chairman had led the Government to make the said decision. If the item was withdrawn for the efficient conduct of the meeting, the Government should have taken the initiative to withdraw the item before continuation of the discussion on the item; and

- (c) before the Government withdrew the item, only two members had spoken on this item, while several other members were waiting to speak. The Chairman should have allowed these members to speak, or at least allowing some members from different parties to speak, so that the Government could receive more suggestions on improving the item.

11. The Chairman advised that he asked members not to speculate his motives for expressing views to the Government. He pointed out that ESC and FC had spent a total of around five hours discussing this item and there had been thorough discussion. In his observations, no members had expressed support for the proposal; even if more time was spent on the discussion, the Government/members would merely repeat their own arguments. In the above circumstances, it was necessary for him, as the Chairman, to consider in due course how to preside over the meeting efficiently and fairly, and remind the Government accordingly. If the Government did not withdraw the item, he would also consider proposing to adjourn the discussion on the agenda item. The Chairman advised that as the Government had already withdrawn the discussion item, members should not continue to discuss the item.

12. Ir Dr LO Wai-kwok advised that it was not the first time that the Government withdrew discussion items in the course of FC's discussion. Similar arrangements had also been made in meetings of FC or its subcommittees in the past. He pointed out that the Finance Committee Procedure ("FCP") did not set any conditions on the time spent on a discussion item or the number of members participating in the discussion before the Government could withdraw the item. In fact, FC had spent nearly three hours discussing this item in the last meeting, so there had been thorough discussion. He was of the view that FC should discuss the next agenda item as soon as possible. Mr Martin LIAO pointed out that the Government had the power to withdraw items in accordance with FCP. Currently, FC still had many agenda items to be deliberated. Members should not keep on discussing the withdrawn item, and should handle other agenda items as soon as possible. Mr Abraham SHEK stated that he agreed with the Chairman's action to ask the Government to consider withdrawing the item. He also hoped that FC would deal with other items on the agenda as soon as possible.

13. At the invitation of the Chairman, DSEN responded that after FC had discussed this item for more than three hours, members had divergent views on the item. It was a feasible option, and a better decision, for the Government to withdraw the item. DSFST(T)1 advised that withdrawing the item was the decision of the relevant bureau, and he confirmed the withdrawal of the item on behalf of FS in accordance with FCP. He added that there was nothing exceptional for the Government to withdraw an item. In the previous legislative session, the Government had also withdrawn the agenda item on the way forward of Ocean Park. Moreover, as pointed out by the Chairman, many members (including members from different parties) did question the proposal under this item. On the other hand, the staffing proposals on the agenda were submitted to FC for deliberation quite some time after being discussed by ESC, including the item concerned, so members' support for respective items might change in light of the latest developments. In the above circumstances, ENB's decision to withdraw the item was understandable.

Item 2 — FCR(2020-21)63

**RECOMMENDATION OF THE ESTABLISHMENT
SUBCOMMITTEE MADE ON 24 JUNE 2019**

EC(2019-20)10

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

Subhead 000 Operational expenses

14. The Chairman advised that this item sought the approval of FC for the recommendation of the ESC made at its meeting on 24 June 2019 regarding EC(2019-20)10, i.e. the creation of one permanent post of Administrative Officer Staff Grade B1 ("AOSGB1") (D4) or one D4-equivalent non-civil service position in the Financial Secretary's Office ("FSO") to be the Head of the Budget and Tax Policy Unit to be established in the future, so as to strengthen its directorate support for assisting FS in the formulation and follow-up of Budget-related proposals as well as spearheading strategic tax policies and measures in Hong Kong. The ESC had spent approximately 1 hour and 38 minutes in total in deliberating the above recommendation. The Administration had also submitted an information paper.

Justifications for creating the proposed post on a permanent basis

15. Dr KWOK Ka-ki stated that as the incumbent FS and a few of his predecessors all stated the need for reviewing and reforming the tax regime, it seemed that the duties of the proposed post in this respect were not new. Mr Tony TSE and Dr KWOK enquired about the justifications for the need to increase manpower to carry out tax policy-related work and the creation of a D4 post to head the Budget and Tax Policy Unit ("BTPU"). Mr Alvin YEUNG also stated that the Administration had studied the introduction of new taxes in the past, and the creation of the proposed post might seem repetitious. He enquired whether the proposed BTPU would draw reference from the results of previous studies on the tax regime. Mr YEUNG also questioned whether the incumbent FS was incapable of performing his duties, rendering it necessary to increase manpower to assist him with the preparation of the Budget. Ms Claudia MO requested the Administration to explain whether the work of the holder of the proposed post and BTPU was related to improving the people's livelihood.

16. Mr KWONG Chun-yu stated that as the Administration did not intend to launch the Cash Payout Scheme again, he was opposed to the staffing proposal. Mr LAM Cheuk-ting was of the view that Hong Kong was faced with many economic uncertainties, and now was not the time to create the proposed post. Mr HUI Chi-fung criticized that the discussion paper was too sketchy, making it difficult for members to support the proposal.

17. The Under Secretary for Financial Services and the Treasury ("USFST") responded that the international tax scene was fast evolving, and Hong Kong's tax policy had to be updated accordingly before it could align with international standards. He pointed out that, to address base erosion and profit shifting ("BEPS"), the Organisation for Economic Co-operation and Development ("OECD") proposed to impose a global minimum tax rate (generally referred to as "BEPS 2.0"). The holder of the proposed post would lead BTPU to examine and update Hong Kong's tax policies and measures. The Government also intended to enhance the competitiveness of specific industries in Hong Kong and stimulate economic growth through tax measures. All of the above were new challenges for the current Government in terms of tax measures. USFST stressed that the proposed BTPU would not only carry out a single tax policy review. Instead, it would perform the relevant work on an ongoing basis. The Government was open to different proposals for the introduction of new taxes and would also draw reference from the results of past reviews of the tax regime.

18. USFST added that, with more extensive public consultations on the Budget, the Government had received an increasing number of suggestions, and in recent years the preparation of the Budget took longer time than before. Therefore, a senior directorate officer was needed to assist FS with the preparation of the Budget and to coordinate with various bureaux/departments in response to the views and suggestions received during public consultations, as well as to closely liaise with relevant stakeholders for follow-up. In the past, the Government did not have a dedicated unit responsible for the work in this aspect. Such work was also not under the purview of the current Tax Policy Unit ("TPU"). The scope of the above work was extensive, and it was necessary to study relevant proposals and policies in depth. Therefore, the Government was of the view that the proposed post had to be a permanent post at AOSGB1 rank (D4) or a D4-equivalent non-civil service position, and the holder would be responsible for supervising the work of the future BTPU. Regarding the Budget's measures to benefit the people's livelihood, the holder of the proposed post would consider the effectiveness of the measures and manage their implementation.

19. Mr Michael TIEN enquired about the outcome of the work of TPU after it was set up in 2017-2018, including the new taxes it had studied. Mr TIEN was of the view that it was now the right time to reform the tax regime of Hong Kong. He suggested the Administration add more tax types and reduce the rates of existing taxes to enlist public support for broadening the tax base.

20. USFST advised that upon its establishment, TPU had assisted in formulating the legislative framework and implementation details of some new tax measures, including the two-tiered profits tax rates regime and the provision of enhanced tax deduction for research and development expenditure. TPU had also been assisting some bureaux in studying tax measures relevant to specific sectors, such as the insurance industry and ship leasing business.

21. Mr CHAN Chun-ying stated his support for the financial proposal. He enquired that, before the creation of the proposed post, which official was responsible for the relevant responsibilities (including supporting FS in formulating the Budget), and why the official concerned was not able to continue carrying out these responsibilities. The Chairman and Mr Jeremy TAM enquired about the current directorate arrangement for supporting FS in formulating the Budget. Mr Vincent CHENG enquired whether it was feasible to support the preparation of the Budget with the existing manpower of the Financial Services and the Treasury Bureau

("FSTB").

22. USFST advised that after TPU was transferred to FSO since 1 July 2019, it had been continuously examining and reviewing tax issues, including the above-mentioned work in response to the proposed global minimum tax rate, and the assistance for some bureaux in studying tax measures relevant to specific industries. However, it had not yet been able to commence its work to support FS in preparing the Budget. USFST and Co-ordinator (Special Duties), Financial Secretary's Office further advised that currently FSO did not have a dedicated directorate officer to support FS in preparing the Budget and following up related suggestions. The Treasury Branch set up a small team every year on a supernumerary basis to underpin the preparation of the Budget Speech and the team would be disbanded after passage of the Appropriation Bill.

23. Mr Christopher CHEUNG expressed his support for the financial proposal. He enquired how, after the creation of the proposed post, the officer concerned and BTPU would stabilize Hong Kong's economy and improve the people's livelihood through various measures, including Budget proposals. Mr CHEUNG advised that he expected the officer and BTPU to have better performance in projecting fiscal surplus for future financial years.

24. Mr LEUNG Yiu-chung enquired how the holder of the proposed post would deal with the long-lasting problem of wealth disparity. He was worried that reforming the tax regime would only aggravate the uneven distribution of wealth. He was of the view that the Administration had to devise clear work indicators (e.g. lowering the Gini coefficient in Hong Kong) for the holder of the proposed post. Dr Fernando CHEUNG and Mr KWONG Chun-yu also expressed similar concerns. Dr CHEUNG pointed out that the discussion paper only focused on the benefits of reforming the tax regime to the economy and individual industries, without mentioning the goal of eliminating social and economic inequality through tax measures. Dr CHEUNG considered that if there were no work indicators for eradicating poverty, it was not worth creating the proposed post.

25. USFST responded that while stimulating the economy through tax measures, the Government was also committed to improving the people's livelihood. There was no conflict between them. He explained that economic improvement would increase the revenue of the public coffer, giving more room for more relief measures. He reiterated that the holder of the proposed post would support FS in considering various factors (including stimulating the economy and alleviating the people's hardship)

to formulate the Budget framework, analyse policies and coordinate and follow up with relevant parties both within and outside the Government on Budget proposals. As the Government's revenue was closely related to the resources required to implement the measures in the Budget, the Government was of the view that it would be more effective to have a directorate officer leading BTPU. He advised that the Government was happy to respond to members' concerns on individual social issues on other occasions.

26. Mr Andrew WAN enquired about the division of work between BTPU and FSTB. Mr WAN and Mr WU Chi-wai expressed concerns over the possible overlap of functions among BTPU, FSTB and the Office of the Government Economist ("OGE"). Mr WU was of the view that Hong Kong could only accept any latest global requirements on taxation (including amendment to relevant laws) seemingly without much room for examination, and such task had always been borne by FSTB. As to studying specific tax policies to stimulate the development of individual industries, such time-limited function should belong to OGE; and whether to promote individual tax policies and measures was a political decision of FS, and FSTB was responsible for formulating relevant laws and measures accordingly. Mr WU stated that it was redundant to have FSTB and BTPU carrying out the work related to tax policies separately. Therefore, he had great reservations about the creation of the proposed post on a permanent basis.

27. USFST responded that FSTB was a bureau responsible for coordinating tax related issues, while the Inland Revenue Department was the executive arm of FSTB for implementing the Inland Revenue Ordinance. He added that one of the tasks of BTPU was to examine and review Hong Kong's existing tax policies in accordance with the latest international tax requirements to ensure that relevant policies and measures had complied with international requirements. In addition, BTPU would also draw reference from other regions' practices in economic stimulus through tax policies, and formulate proposals on tax policies and measures for specific industries in Hong Kong to foster the development of respective emerging industries, so as to ensure that Hong Kong remained competitive in wealth creation. During the process, BTPU had to communicate with relevant bureaux/departments and consult relevant stakeholders. As for implementing the measures, the Government might do so through the Budget; new laws would be drafted or existing laws would be amended through FSTB if necessary. The laws, after passage, would be enforced by various departments, including the Inland Revenue Department.

28. USFST added that OGE was responsible for studying Hong Kong's macroeconomic and industrial performance. It would be the work of BTPU to study how to stimulate growth of individual industries through tax measures. In addition, the holder of the proposed post would communicate with individual bureaux and stakeholders outside the Government in relation to Budget proposals, which was not the function of OGE.

29. Ir Dr LO Wai-kwok stated that the Business and Professionals Alliance for Hong Kong supported the staffing proposal. He expected that the Budget for the new financial year could achieve the goal of boosting the economy and alleviating the people's hardship. Mr Tommy CHEUNG stated that the Liberal Party supported the staffing proposal. Mr Tony TSE also expressed support for the proposal.

Feasibility of handling relevant work by supernumerary post or existing manpower

30. Mr James TO enquired whether the responsibilities of the holder of the proposed post included supervising BTPU to study the re-launch of the Cash Payout Scheme and tax/economic measures to offer relief, such as introducing negative profits tax or "universal basic income", and the simplification of the process of relief measures. Mr James TO and Mr Vincent CHENG were of the view that under the current economic environment, the Administration should make the best use of existing manpower to handle new tasks. Mr HUI Chi-fung stated that TPU already had created a supernumerary directorate post to follow up on the "Cash Payout Scheme" proposed in the 2020-2021 Budget and assist in preparing the 2021-2022 Budget. Mr HUI enquired whether it was feasible to create a supernumerary post to supervise BTPU.

31. USFST responded that the functions of the proposed post were different from those of the above-mentioned supernumerary post. The functions of BTPU led by the proposed post would be more extensive than those of the existing TPU, and the holder of the proposed post had to follow up on tax policy issues in the long run. Furthermore, in terms of supporting FS in formulating the Budget framework, policy analysis and coordination on Budget-related proposals, the holder of the proposed post had to closely liaise with various bureaux/departments and relevant stakeholders. Some of the deliberations would take longer time, and might therefore go beyond one Budget cycle to the next. This would be a task of long term nature. Co-ordinator (Special Duties), Financial Secretary's Office responded that she currently held a supernumerary directorate post created under FSO. In addition to the work referred to by

Mr HUI Chi-fung, she was presently responsible for supervising the work of two contract Senior Tax Researchers in TPU which was already transferred to FSO. She advised that as BTPU's functions were regular in nature, the Government needed a permanent post to supervise its work.

32. Dr Helena WONG enquired whether the duties of the two existing AOSGC (D2) of FSO could be merged and assigned to one of the administrative officers, so as to free one of them to lead BTPU.

33. USFST responded that the above suggestion was not feasible as these two directorate officers (i.e. the Administrative Assistant to FS and the Press Secretary to FS) already had their own duties; and the holder of the proposed post had to be responsible for work concerning tax policies, and had to assist FS in following up Budget proposals, as well as to closely liaise with various bureaux/departments and relevant stakeholders.

Functions of the Budget and Tax Policy Unit

34. Mr Martin LIAO enquired about the direction of the review of Hong Kong's tax policy to be conducted by the holder of the proposed post and BTPU led by the holder to achieve the goals of broadening tax base, enhancing Hong Kong's competitiveness and improving the people's livelihood.

35. Ms Claudia MO was of the view that under the current economic environment, the Administration should study the broadening of tax base. Moreover, she was concerned whether the Administration should proceed with the development of the artificial islands in the Central Waters, given the huge fiscal deficit.

36. USFST responded that 70% of the revenue of the Special Administrative Region Government came from profits tax, salaries tax, stamp duty and land premium, and these revenues would fluctuate with the macroeconomic situation, corporate profits and asset values. To maintain fiscal sustainability, the Government had to contain expenditure and consider adding drivers for growth in the economy and government revenue. The Government would also draw reference from tax regimes in overseas places, review Hong Kong's tax regime and measures from time to time with a view to ensuring Hong Kong's competitiveness, as well as complying with the latest tax requirements proposed by OECD. He advised that any changes to the tax regime would affect individual industries and stakeholders. The Government would duly consult the public and the industries. He advised that the Government would examine the need and consider allocating more resources for essential

development projects, such as projects like hospital and housing development.

37. Dr Priscilla LEUNG expressed her support for the staffing proposal. She considered that maintaining a low and simple taxation regime was vital to Hong Kong. Rather than reducing welfare expenditure, she suggested BTPU explore the introduction of new taxes from new economic activities and examine the issue of government bonds to increase revenue.

38. Mr Holden CHOW stated that emerging economic industries might generate new taxable items and tax evasion problems. Dr Fernando CHEUNG was of the view that the anti-avoidance regime in Hong Kong was seriously inadequate. Mr CHOW and Dr CHEUNG enquired whether the holder of the proposed post and BTPU led by the holder would be responsible for formulating anti-avoidance measures.

39. USFST advised that when reforming and introducing new taxes, the Government would uphold the principle of a low and simple taxation regime to maintain Hong Kong's competitive edge. When considering whether to implement individual new taxes, the Government had to take into account the impact on different sectors of society and on the industries, as well as the prevailing local and international tax environment, etc. The Government would also consult the public and relevant stakeholders. He added that OECD's recent proposal on addressing the tax challenges of the digital economy, income inclusion rule and base erosion would have wide implications for Hong Kong's tax policy. BTPU would study and follow up in this regard. He advised that Hong Kong performed well in complying with international tax policies. As regards the proposal of OECD, the Government would respond by continue arranging manpower and resources as needed to comply with international standard.

40. Mr YIU Si-wing was concerned that many places near Hong Kong had applied zero import tariffs, and Hong Kong's tourism industry was no longer competitive. He enquired whether BTPU would study tax measures to promote the recovery of tourism.

41. USFST advised that BTPU would study the impact of tax policies of other regions (including the Mainland) on Hong Kong's economy, so as to consider how to adjust the tax regime to enhance Hong Kong's competitiveness.

42. Mr SHIU Ka-chun stated that the Administration had reviewed Hong Kong's tax regime many times in the past, seemingly without formulating any tax measures related to the people's livelihood. He

requested the authorities to explain the direction and scope of future review of tax regime. Mr SHIU was of the view that it was contradictory for the Administration to talk of the need for broadening the tax base on one hand, while shelving the legislation on property vacancy tax on the other. Mr WU Chi-wai stated his worry that BTPU's examination and review of the tax regime would lead to a change in the low and simple taxation policy practised in Hong Kong for years, weakening Hong Kong's competitiveness. It seemed that the Administration established BTPU simply to prepare for the implementation of Goods and Services Tax in future. Mr LEUNG Yiu-chung enquired about the consultation mechanism for the introduction of new taxes.

43. USFST responded that the Government was open to recommendations for broadening the tax base and introducing new taxes (including the Goods and Services Tax which members were concerned about). The Government understood that changes to the tax regime would have extensive impact, and would act cautiously after thorough consultation with stakeholders.

44. Mr Kenneth LEUNG declared that he was a member of the Joint Liaison Committee on Taxation, and expressed his agreement to the need for the creation of the proposed post to handle tax policies. Mr LEUNG was of the view that if this item was approved, the holder of the proposed post should regularly meet members of the Joint Liaison Committee on Taxation to explain the progress of implementing BEPS 2.0 and receive views from members of the Liaison Committee.

45. USFST responded that Hong Kong was a small externally-oriented economy, and Hong Kong's economic and trading partners generally adopted measures promoted by OECD (including BEPS 2.0). Therefore, Hong Kong had to follow suit. He confirmed that OECD was still drafting the details of the relevant policy initiatives, but Hong Kong also had to be well prepared for this. To this end, the Government had already set up the Advisory Panel on BEPS 2.0, comprising members familiar with the subject as representatives of the accountancy sector and multinational companies. Deputy Secretary for Financial Services and the Treasury (Treasury) 2 ("DSFST(T)2") advised that the Government would consult the Joint Liaison Committee on Taxation from time to time, and would regularly report on the progress of formulating BEPS 2.0-related policy initiatives.

46. Mr HUI Chi-fung enquired about the arrangements for FS's public consultation on the Budget. USFST responded that FS would properly consult Legislative Council, District Councils, the public and relevant

industries both during the preparation or after the publication of the Budget.

Candidates for the proposed post

47. Mr Kenneth LEUNG was of the view that the holder of the proposed post had to possess extensive experience in international taxation, so incumbent senior civil servants might not be competent for the post. He enquired how the Administration would select candidates for the proposed post.

48. USFST responded that the proposed post could be filled by an AOSGB1 or through open recruitment. He advised that, after examining the prevailing work requirements, the Government tended to identify relevant candidates from within the civil service at this moment.

49. Mr YIU Si-wing was of the view that in addition to the experience in handling tax issues, the holder of the proposed post also needed to have a full grasp of policies of the Mainland, especially those related to the Guangdong-Hong Kong-Macao Greater Bay Area. Mr Holden CHOW stated that senior civil servants did have an advantage in carrying out duties to review and reform the tax regime, but the holder concerned should also have an international perspective and the experience. Mr Martin LIAO enquired how the Administration could confirm that the candidate had the foresight required to reform the tax regime of Hong Kong.

50. USFST responded that the holder of the proposed post, together with two contract Senior Tax Researchers in non-civil service grade, would conduct tax-related studies, support FS in formulating the Budget framework, analyse policies and coordinate with relevant parties both within and outside the Government on Budget proposals. During the process, they would communicate with relevant bureaux/departments and stakeholders from different industries to gauge external views on public policies.

Establishment of the Budget and Tax Policy Unit

51. Ms Claudia MO was concerned whether there would be excessive non-directorate support for the holder of the proposed post. USFST advised that after BTPU was formally established, in addition to the existing tax review work, BTPU had to support FS in formulating the Budget framework and conduct relevant follow-ups at the same time. Owing to the enhancement in the existing work and the need to carry out new work, the Government was of the view that BTPU had to be given

more manpower support.

52. Mr Holden CHOW and Mr Tony TSE enquired about the composition of BTPU. Mr CHAN Chun-ying enquired when the two non-directorate posts (one Senior Assessor and one Senior Personal Secretary) would be created. Mr Jeremy TAM enquired about the differences between the current TPU and the proposed BTPU in terms of supervisory personnel and establishment.

53. USFST responded that if FC approved the creation of the proposed post, the existing two non-civil service contract Senior Tax Researchers and one Assistant Clerical Officer in TPU would be transferred to BTPU to be established in the future. Two new civil servant posts would also be created then, i.e. one Senior Assessor and one Senior Personal Secretary. DSFST(T)2 advised that no directorate posts were created in TPU upon its establishment in 2017, and it was supervised by a Deputy Secretary under the establishment of the Treasury Branch. In addition to leading the TPU, the Deputy Secretary was also responsible for tasks such as supervising the fees and charges policy, the operation of the Inland Revenue Department and tax-related legislation and proposals on legislative amendments. The TPU was later transferred to FSO in 1 July 2019. DSFST(T)2 advised that after the establishment of BTPU, the work of the Deputy Secretary would not overlap with the holder of the proposed post. As the scope of work of BTPU would be more extensive than that of the current TPU, there was a need to strengthen directorate support. In response to Mr SHIU Ka-chun's enquiry, DSFST(T)2 advised that the pay point of Senior Personal Secretary ranged from 22 to 27 (\$44,555 to \$55,995 per month). It was a usual practice of the Administration that a D4 post was supported by one Senior Personal Secretary.

54. Mr YIU Si-wing and Mr Tony TSE were concerned that whether the manpower of BTPU was sufficient to deal with such a wide range of work. USFST responded that after the establishment of BTPU, FSO would review the adequacy of resources in a timely manner and make manpower deployment when necessary.

Number of directorate officers in the Offices of the Chief Secretary for Administration and the Financial Secretary

55. Mr Jeremy TAM was concerned that there were currently a total of 29 permanent and supernumerary directorate posts in the Office of the Chief Secretary for Administration ("CSO") and FSO, in which FSO only had two directorate officers at the moment. In other words, CSO was served by as many as 27 directorate officers. Deputy Director of

Administration 1 explained that directorate officers under Head 142 respectively served in various units, including CSO, FSO, and the Policy Innovation and Co-ordination Office and the Protocol Division, etc., and were responsible for different areas of work. In light of Mr TAM's request, the Administration would provide the breakdown of FSO's establishment based on the tabular form in paragraph 18 of EC(2019-20)10 after the meeting.

[*Post-meeting note:* The supplementary information provided by the Administration was circulated to members vide LC Paper No. FC39/20-21(01) on 13 November 2020.]

Meeting arrangements

56. The meeting was suspended at 4:59 pm and resumed at 5:12 pm.
57. The meeting ended at 7:00 pm.

Legislative Council Secretariat
4 June 2021