Special Meetings of the Finance Committee of the Legislative Council
to Examine the Estimates of Expenditure 2021-22
Public Finance

(3:20 pm - 4:00 pm on 13 April 2021)

Speaking Note of the Secretary for Financial Services and the Treasury

Chairman and Honourable Members,

This session of the special meetings of the Finance Committee will examine the expenditure estimates of the Treasury Branch and related departments. Before the question session begins, I would like to brief Members on a few points.

Estimates of Expenditure

2． The estimated total expenditure of the Treasury Branch and the departments under its purview for 2021-22 is about $50.434 billion, representing a decrease of $34.077 billion (about 40%) over the original estimate of $84.511 billion for last year. The decrease is mainly attributed to a drop in the estimated non-recurrent expenditure under Head 147 of the Treasury Branch by $33.852 billion (about 45%). The estimate for last year covered the one-off non-recurrent expenditure on the Cash Payout Scheme, the estimated expenditure of which is also higher than that on the Consumption Voucher Scheme to be launched this year. Discounting the non-recurrent expenditure, the estimated total recurrent expenditure of the Treasury Branch and the departments under its purview this year is $9.204 billion, which is $260 million (about 3%) less than the original estimate for last year.

Key Areas of Work

3. I would like to speak briefly on a few key areas of work in the coming year.

4. Firstly, on public finance, we will continue to exercise fiscal prudence to ensure that the financial commitments are commensurate with the increase in revenue, so as to maintain healthy public finance. In the past year, we have increased government expenditure substantially to combat the epidemic and roll out relief measures. As proposed in the 2021-22 Budget, we will continue to implement counter-cyclical fiscal measures to support the economy and alleviate

people's hardship. A fiscal deficit of over $100 billion is envisaged for 2021-22 and deficits are also projected in the Medium Range Forecast for the coming few years. As far as expenditure is concerned, we will have zero growth in the civil service establishment in this financial year. Besides, we will implement an expenditure reduction programme in 2022-23 with the aim to trim recurrent expenditure by 1% without affecting livelihood-related spending. As regards revenue, Hong Kong needs to maintain the development and vibrancy of our economy and identify new areas of growth, with a view to increasing our revenue. We also need to consider seeking new revenue sources or revising tax rates, and reducing one-off relief measures progressively. Having duly considered the impact on the securities market and our international competitiveness, we have decided to raise the rate of Stamp Duty on Stock Transfers. It is expected that government revenue will increase as a result. Having regard to the prevailing economic environment and the impact of the epidemic, we consider that it is not the appropriate time to revise the rates of profits tax and salaries tax. That said, we will keep in view the situation and make adjustments at the appropriate time. As fighting the epidemic and reviving the economy are our current priorities, this is also not the time to introduce new taxes. Nevertheless, we will carry out related research and make preparation to facilitate in-depth discussions at a suitable time, and forge consensus before introducing new taxes to increase revenue.

5. Secondly, on international tax co-operation, the Organisation for Economic Co-operation and Development is drawing up new proposals to address base erosion and profit shifting (BEPS 2.0), which include a global minimum tax rate and a digital tax. We will actively implement the BEPS 2.0 proposals according to international consensus; strive to maintain the simplicity, certainty and fairness of our tax regime which are our key advantages; minimise the compliance burden on affected corporations; and keep up our efforts in improving Hong Kong's business environment and enhancing our competitiveness. The Advisory Panel on BEPS 2.0 will submit a report to the Government after the proposals are finalised. We will then study the report carefully with a view to formulating specific response measures.

6. Thirdly, on the rating system, the Financial Services and the Treasury Bureau and the Rating and Valuation Department are reviewing the rating system, including the case for introducing a progressive element to the rating system, providing rates concession for owner-occupied properties on a regular basis, and shifting the primary liability for rates payment from the occupier to the owner of a

property. Our target is to consult the relevant panel of the Legislative Council within this year on whether and how to revise the rating system.

7. Furthermore, the Financial Secretary has announced in the Budget that electronic consumption vouchers with a total value of $5,000 would be disbursed by instalments to each eligible Hong Kong permanent resident and new arrival aged 18 or above, so as to encourage and boost local consumption. This initiative is expected to benefit around 7.2 million eligible persons. We are working in full swing on the preparatory work, and as announced on Sunday, a number of stored value facility operators have been selected to help implement the scheme. We will continue to discuss the workflow and arrangements with the operators and other collaborating departments. The coverage of the consumption voucher scheme will be as extensive as possible to include different local businesses in the retail, food and beverage, and service sectors and the like. The registration procedures and the entire workflow design of the scheme will follow the principles of simplicity, convenience and security. We will announce the details as soon as possible, with the current target of commencing registration in this summer vacation.

8. Chairman, my colleagues and I will be happy to answer any questions from Members.

9. Thank you.