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Hong Kong

February 2020

HONG KONG 2020/2021 BUDGET

On 26 February 2020, Financial Secretary, Mr Paul Chan Mo-po, GBM, GBS, MH, JP,¹ delivered the government's 2020/2021 Budget Plan² to the Legislative Council.

Given the tough economic environment, an expansionary fiscal stance is being adopted making optimal use of fiscal reserves to implement counter-cyclical measures.

The focus of the 2020/21 budget is:

- Supporting enterprises;
- Safeguarding jobs;
- Stimulating the economy; and
- Relieving the burden on the Hong Kong population.

The measures announced support individuals and entities, and also aim to reinforce international confidence in Hong Kong as a business and financial hub.

I. Hong Kong 2019 Review

The Financial Secretary outlines the difficulties Hong Kong faced in 2019, with the economy entering into a recession in the third quarter and contracting by 1.2% for the year as a whole, the first annual decline since the 2009 recession.

¹ <https://www.gov.hk/en/about/govdirectory/po/fs.htm>

² https://www.budget.gov.hk/2020/eng/pdf/e_budget_speech_2020-21.pdf

Hong Kong's total goods exports fell 4.7% in 2019 against a backdrop of US-China trade conflict and a global slowdown. Meanwhile social disturbances led to a fall in Hong Kong's exports of travel services and a 10.4% drop in total exports of services (the largest annual decline on record).

Private consumption expenditure and investment expenditure declined by 1.1% and 12.3%, respectively, while unemployment increased to 3.4%, its highest level in more than three years, with retail, accommodation and food services being the most severely impacted sectors with a combined increase in unemployment of 5.2%, a three-year high. Similarly, the residential property market has been quiet since June 2019, with transactions and prices retreating.

II. 2020 and Medium Term Outlook

Moving into 2020, The Financial Secretary notes that the outlook is far from promising in the near term, with the unexpected outbreak of the novel coronavirus a noteworthy factor. Indeed, it is stressed that the near-term economic impact could be greater than that of SARS in 2003, with a forecast for near-term economic growth of -1.5 to 0.5%.

The Financial Secretary also highlights other challenges faced by Hong Kong including:

- An ageing population;
- A dwindling labour force;
- Land shortages; and

- Social unrest.

The Financial Secretary endeavours to address these challenges, noting in particular that the government will continue to work to increase land and housing supplies and support individuals and enterprises through support measures, such as the recently announced HK\$30 billion Anti-epidemic Fund³.

However, the Financial Secretary emphasises that Hong Kong's economic fundamentals remain solid and that the economy should be able to recover, with a forecast of on average 2.8% economic growth per annum from 2021 to 2024, having regard in particular, to:

- Hong Kong and Asia's position as a key driving force of global growth;
- The huge market potential of the Mainland; and
- Opportunities brought by the Belt and Road Initiative (**BRI**) and Guangdong-Hong Kong-Macao Greater Bay Area (**Greater Bay Area**).

III. Mainland China and the Global Economy

a. Mainland China

The Financial Secretary forecasts that following the end of the coronavirus epidemic, the growth of the Mainland economy will continue to outpace other major economies given its solid economic fundamentals and the adequacy of its policy tools to maintain macro-economic stability.

The complexity of US-China trade relations and the coronavirus are however putting downward pressure on near-term economic performance.

b. Global Economy

The Financial Secretary notes the challenges the global economy is facing, and will continue to face, mainly the uncertainties of US-China trade relations and Brexit, geopolitical risks in the Middle East, which will potentially slow economic recovery, and the outbreak of the coronavirus, which will notably impact production and transportation in Mainland China and Asia and the global supply chain operation.

Demonstrative of this, the Financial Secretary looks to the easing economic growth in the US in 2019, the modest economic growth in the euro area owing to subdued manufacturing activities and the downward pressure on Japan's economy, coupled with the challenges it faces in terms of an ageing population and public debt.

Comparatively, the Financial Secretary foresees solid economic growth from ASEAN in the medium to long term, particularly given resilient domestic demand.

IV. Developing a Diversified Economy

Outlined below are some significant take aways from the budget as regards financial services, 5G infrastructure, professional services, trade, innovation and technology and related notes regarding the Greater Bay Area and Belt and Road Initiative (**BRI**).

a. Financial Services

Hong Kong has been working continuously to enhance its competitiveness as an international financial hub and it is emphasised that work would continue to ensure that Hong Kong's regulatory framework keeps pace with innovation, manages systemic risks and provides investor protection.

The budget speech notably outlined the following:

- A proposed waiver of stamp duty on stock transfers paid by ETF market makers in the course of creating and redeeming ETF units listed in Hong Kong, which will reduce transaction costs and develop the ETF market in Hong Kong;
- Issuance of green bonds totaling HK\$60 billion within the next five years to continue to develop Hong Kong as a green finance hub;
- Further issuance of iBonds this year to develop the retail bond market;
- The continued issuance of Silver Bonds to provide those aged 65+ with more appropriate investment products and to develop the silver market;
- Proposed tax concession for carried interest issued by private equity (**PE**) funds operating in Hong Kong (subject to fulfillment of certain conditions) in order to promote the development of PE funds in Hong Kong;

³ https://www.news.gov.hk/eng/2020/02/20200220/20200220_213509_930.html?type=ticker

- Plans to enhance Hong Kong's AML/CTF regime and to incorporate virtual asset service providers and dealers in precious metals, stones and jewellery into the AML/CTF regulatory framework; and
- Continued implementation of the latest international standards on banking regulation to safeguard the financial stability of Hong Kong.

In 2016, the Government set up the Future Fund⁴ and it was indicated in the Financial Secretary's last budget⁵ that he would invite experienced financial services professionals to advise on the fund's investment strategy and portfolio in order to enhance returns and reinforce Hong Kong's status as a financial, commercial and innovation centre.

Subsequently, a team made recommendations, including a recommendation for allocating part of the Future Fund to set up the Hong Kong Growth Portfolio for direct investments in projects with a Hong Kong nexus.

The Financial Secretary outlined in the budget that he had accepted the recommendations and would start preparing for their implementation.

b. 5G Infrastructure

It was outlined that the Innovation and Technology Bureau (ITB) would announce the Smart City Blueprint for Hong Kong 2.0 this year in an effort to promote smart city development, and as regards 5G, the government would adopt a multi-pronged approach in facilitating the development and application of a 5G network which will include:

- Implementing a subsidy scheme for mobile network operators to expand an optical fiber network to remote villages; and
- Opening up more suitable government properties, sheltered bus stops and telephone kiosks for setting up radio base stations by operators to support the development of 5G.

c. Professional Services

In order to reinforce Hong Kong's position as an international financial and business hub, it was announced that Hong Kong

would continue to promote the development of the professional services sector in the Greater Bay Area.

The Financial Secretary also announced that approximately HK\$450 million would be earmarked for the Department of Justice to implement the "Vision 2030 for Rule of Law" project to strengthen the community's understanding of the rule of law and how it is implemented.

d. Trade

As regards trade, it was announced that an additional HK\$150 million in funding would be allocated to the Trade Development Council (TDC) for organising initiatives to promote Hong Kong. The Anti-epidemic Fund has also set aside resources to provide subsidies to enterprises for attending conferences and exhibitions organised by the TDC, and for conferences and exhibitions held at the Hong Kong Convention and Exhibition Centre and Asia World-Expo.

These measures aim to re-establish the international community's confidence in Hong Kong as Asia's business hub.

e. Innovation and Technology

The budget emphasises the importance of innovation and technology (I&T) to future economic development.

In particular it was noted that the government will:

- Continue to provide enhanced tax deduction for qualifying R&D expenditure incurred by enterprises and subsidise local R&D work through the Innovation and Technology Fund (ITF);
- Extend the coverage of the Public Sector Trial Scheme next month to all technology companies conducting R&D activities in Hong Kong; and
- Inject HK\$2 billion into the ITF for launching the Re-industrialisation Funding Scheme to provide financial support for manufacturers on a matching basis for setting up new smart production lines in Hong Kong.

f. Greater Bay Area and Belt and Road Initiative (BRI)

As regards the Greater Bay Area, the budget noted that good progress has been made in discussions between Hong Kong and Mainland China on the establishment of a two-way wealth management connect scheme, and it was emphasised that they will strive to implement this as soon as possible.

⁴ <https://www.info.gov.hk/gia/general/201512/18/P201512180542.htm>

⁵ <https://www.budget.gov.hk/2019/eng/budget23.html>

It was also noted that the expansion of channels for two-way flow of cross-boundary RMB funds will continue to be explored (both with industry and the Mainland authorities).

Regarding the Belt and Road, it was noted that the Government will continue to support local enterprises and professional services sectors to go global with Mainland enterprises to tap overseas markets and will strengthen ties with overseas markets to seize opportunities from the BRI.

V. Measures to Overcome Current Challenges

The Financial Secretary outlined that measures would be introduced to:

- Support enterprises and safeguard jobs;
- Support employees; and
- Relieve the burden on Hong Kong people.

This will involve the introduction of new relief measures and the continued implementation of current measures, which are outlined below.

a. Measures to Support Enterprises and Safeguard Jobs

The following new relief measures will be introduced to help support enterprises and safeguard jobs (for approximately three million workers), costing a total of HK\$18.3 billion.

Measure	Details	Impact on Government Revenue
Concessionary Low-interest Loan under the SME Financial Guarantee Scheme	<p>A 100% guarantee will be provided by the Government (up to HK\$20 billion).</p> <p><u>Application period</u> – 6 months.</p> <p><u>Maximum amount of loan</u> – based on salary and rental expenditures for six months.</p>	n/a

Measure	Details	Impact on Government Revenue
Concessionary Low-interest Loan under the SME Financial Guarantee Scheme	<p>Repayment period – up to three years and a principal moratorium is available for the first six months during which only interest payments have to be made.</p>	n/a
Reduction in Profits Tax	<p>Profits tax will be reduced for the year of assessment 2019/20 by 100%, subject to a ceiling of HK\$20,000.</p> <p>This reduction will be reflected in the final tax payable for the year of assessment 2019/20.</p> <p>141,000 taxpayers will benefit.</p>	HK\$2 billion reduction in government revenue.
Waiver of Rates for Non-Domestic Properties	<p>Rates for non-domestic properties will be waived for four quarters of 2020-21, subject to a ceiling of HK\$5,000 per quarter in the first two quarters and HK\$5,500 per quarter in the last two quarters.</p> <p>420,000 non-domestic properties will benefit.</p>	HK\$3.2 billion reduction in government revenue.
Waiver of Business Registration Fees	<p>The business registration fees for 2020-21 will be waived.</p> <p>1.5 million business operators will benefit.</p>	HK\$3 billion reduction in government revenue.

Measure	Details	Impact on Government Revenue
Waiver of Registration Fees for all Annual Returns	The registration fees for all annual returns (except for late delivery) charged by the Companies Registry will be waived for two years.	HK\$212 million reduction in government revenue

Measure	Details	Impact on Government Revenue/ Government Expenditure
New Round of Rental Subsidy for Local Recycling Enterprises	Local recycling enterprises will be granted a new round of rental subsidy for six months.	HK\$100 million expenditure.

The following measures will continue to be implemented:

Measure	Details	Impact on Government Revenue/ Government Expenditure
Subsidy for Eligible Non-Domestic Household Accounts	A subsidy will be provided to each eligible non-domestic household account for four extra months. It will cover 75% of their monthly billed electricity charges. The subsidy will be capped at HK\$5,000 per account.	HK\$2.9 billion expenditure.
Waiver of Water and Sewage Charges	Water and sewage charges payable by non-domestic households will be waived by 75% for four extra months. These will be subject to a monthly cap of HK\$20,000 and HK\$12,500, respectively, per household.	HK\$340 million reduction in government revenue.

Reduction in Rental for Eligible Tenants of Government Properties, Government Land and EcoPark	Rental will be reduced by 50% for another six months for eligible tenants.	HK\$573 million reduction in government revenue.
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Reduction in Rental and Fees for Eligible Operators of Properties Covered by Short-term Waivers	Rental will be reduced by 50% for another six months for eligible operators of properties covered by short-term waivers.	HK\$265 million reduction in government revenue.
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Reduction of Hire Charges for Hirers of Civic Centres	Hirers or civic centres under the Leisure and Cultural Services Department (LCSD) will be provided a 50% reduction of hire charges for another six months.	HK\$23 million reduction in government revenue.
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Fees and Rent Reduction for Cruise Lines and Existing Tenants of the Cruise Terminal	Cruise lines and existing tenants of the Cruise Terminal will be offered another six months of fees and rent reduction.	HK\$18 million reduction in government revenue.
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b. Measures to Support Employees

The budget speech outlines the following measures that will be implemented to support employees.

1. *Additional Annual Funding to Enhance Employment Programmes of the Labour Department*

Additional annual funding of HK\$30 million will be provided in an effort to further encourage employers to hire the elderly, young people and those with disabilities, which is expected to benefit 4,000 persons annually.

Such current initiatives include:

- The Employment Programme for the Elderly and Middle-aged;
- The Youth Employment and Training Programme; and
- The Work Orientation and Placement Scheme.

2. *Employees Retaining Board (ERB) Initiatives*

The ERB will implement the following, with an expected benefit for over 40,000 trainees annually and an additional expenditure of HK\$2.5 billion:

- Enhance the new tranche of the Love Upgrading Special Scheme to be launched in July 2020 and provide 10,000 additional places; and
- Increase the maximum amount of monthly allowance of each eligible trainee from HK\$4,000 to HK \$5,800.

3. *The Construction Industry Council (CIC) Initiatives*

The CIC will introduce the following measures to aid the industry and better enable workers to upgrade their skills:

- Draw HK\$200 million from its levy income to provide around 6,000 eligible small and medium-sized contractors and registered subcontractors with a financial subsidy, subject to a cap of HK\$20,000 each; and
- Provide training allowances to those underemployed in-service workers attending its training courses.

4. *One-off Special Allowance*

The government will provide a one-off special allowance to around 200,000 eligible low-income householders under the Anti-epidemic Fund.

c. Measures to Relieve People's Burden

The following measures were announced to ease the financial burden of the public:

- Reduce salaries tax and tax under personal assessment for the year of assessment 2019/2020 by 100% (subject to a ceiling of HK\$20,000);
- Waive rates in respect of residential properties for four quarters of 2020-21, subject to a ceiling of HK\$1,500 per quarter for each ratable property;
- Provide an extra allowance to eligible social security recipients;
- Payment of one month's rent for lower income tenants in public rental units; and
- Payment of the examination fee for school candidates sitting the 2021 Hong Kong Diploma of Secondary Education Examination.

Notably, it was also announced that Hong Kong permanent residents aged 18 or above would receive a HK\$10,000 disbursement in an effort to both encourage local consumption and relieve financial burden. This was stated to be an exceptional measure taken in light of the current circumstances in order to stimulate the economy.

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