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Helping Business since 1861

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The Honourable Paul Chan Mo-po, GBM, GBS, MH, JP
Financial Secretary
Hong Kong Special Administrative Region
25/F, Central Government Offices
2 Tim Mei Avenue, Tamar
Hong Kong

Dear Financial Secretary,

I am pleased to submit the Hong Kong General Chamber of Commerce's proposals for the upcoming Government Budget.

The growing uncertainty in the global landscape casts a shadow over Hong Kong's economy. While we remain confident in our long-term prospects, it is crucial for the Government to devise a comprehensive strategy to achieve fiscal balance. We believe that by effectively utilising our resources, the Government can drive economic growth that benefits all.

Amid the structural changes in the economy, the business community stands ready to collaborate with the Government to navigate towards a promising future. The attached submission outlines our recommendations for strategies that can help position Hong Kong prominently on the international stage.

We hope you find our suggestions valuable in formulating the forthcoming Budget.

Yours sincerely,



Agnes Chan
Chairman

Encl.

HKGCC Submission to the 2025-26 Budget

Executive Summary

Hong Kong has experienced three consecutive years of deficits, leading to a gradual depletion of reserves. The need to reduce wastage and explore new revenue streams has become even more compelling. The Chamber urges the Government to raise revenue and reduce expenditure through a multipronged approach. It may take a few years before the Government returns to a surplus. Prior to that, identifying crucial areas for expenditure and investment is paramount within these financial constraints.

I Supporting People and Businesses

- **Relieve People's Burden:** To alleviate the financial strain on middle-class and other taxpayers, the Government should consider providing a tax reduction of 100%, subject to a ceiling of HK$3,000 on salaries tax, tax under personal assessment and profits tax for 2025-26. Additionally, the Chamber suggests a 50% reduction on the ad valorem stamp duty for property valued at HK$5 million or below for first-time homebuyers, to support the younger generation and stimulate the property market.

- **Support SMEs:** Many SMEs face challenges in adjusting to the structural shifts in the economy. The Government should consider providing long-term fixed-rate mortgage loans to SMEs to help them mitigate risks associated with interest rate fluctuations.

- **Issue Bonds:** Hong Kong maintains a relatively low government debt-to-GDP ratio, currently at around 10%, compared to other advanced economies. We support for an increase in the issuance of government-backed bonds, provided that the fund raised from such bonds are applied to long-term investments rather than finance recurrent expenditure.

- **Increase Revenue:** To address the imminent fiscal challenges, we reiterate our call for the introduction of taxes on digital activities performed by non-Hong Kong resident digital service providers. Referencing to other jurisdictions, the Chamber proposes initially implementing a 3% to 5% tax on a limited scope of digital activities. This measure would not only create a fairer tax environment for local digital suppliers but also enhance Hong Kong's economic resilience.

- **Contain the Growth of Expenditure:** Alongside raising revenue, it is imperative for the Government to contain expenditure in order to achieve a fiscal balance. The Government should consider reviewing civil servant establishments and salaries to confine recurrent expenditure. In addition, adjusting the Public Transport Fare Concession Scheme (HK$2 Scheme) by introducing an annual cap of 750 trips (equivalent to covering one round trip per day for 365 days a year) per elderly person aged between 60 and 64 is suggested. Individuals aged 65 and above remain unchanged.

- **Headquarters Economy:** It is crucial to attract regional headquarters (RHQs) to establish presence in Hong Kong to draw in additional capital, new technologies and talents. The Government should consider granting a 3-year tax holiday to RHQs that were previously based in Hong Kong. Additionally, offering a preferential tax rate on qualifying profits (i.e., 8.25%) for RHQs is proposed.

- **Human Capital:** It is important for Hong Kong to maintain a sustainable supply of market-relevant human capital. The Government should consider raising the subsidy ceiling of the Continuing Education Fund to HK$30,000 per person. We also suggest providing a 120% tax deduction to employers for investing in upskilling their workforce's digital proficiencies. Expanding the scope of the Labour Importation Schemes for the Construction Sector is also proposed to alleviate the persistent labour shortage in the construction and engineering sectors.

II Strengthening Hong Kong's Competitive Edge

- **Financial Markets:** In light of the strains on government resources amidst the prevailing fiscal conditions, a broader adoption of public-private partnerships, involving both financial and non-financial participation from the private sector, could significantly enhance the efficiency in the delivery of public goods. Additionally, enhancements to the family office regime are put forth.

- **Bond Market Development:** To further promote the development of the local bond market, the Government should consider offering subsidies for listing costs to high-quality international issuers list bonds on the Hong Kong Stock Exchange. In addition, we suggest that the Government establishing a blockchain-based platform for digital bond issuance.

- **RMB Internationalisation:** To enhance offshore RMB liquidity and enrich the RMB ecosystem in Hong Kong, we urge the Government to continue widening and deepening the funding sources for offshore RMB (CNH). Through the enhancement of diverse connect schemes, Hong Kong can solidify its position as the largest and most important global offshore RMB business hub.

- **Greater Bay Area:** To further promote Hong Kong as the preferred gateway for investments into and out of the Mainland, the Chamber suggests that the Government engage with Mainland authorities on eliminating withholding tax on dividends paid by Mainland businesses to Hong Kong investors. In addition, to enhance tax transparency and assurance, the establishment of a Quick Repatriation Channel is proposed.

- **Innovation and Technology:** To take forward the low-altitude development of Hong Kong to the next level, the Chamber suggests that the Government providing tax incentives for activities associated with low-altitude economic development. We also reiterate our call to extend the super-deduction to include R&D activities conducted in the GBA.

- **Real Estate Sector:** The Government should prioritise strategic infrastructure investments, even amidst budget deficits, particularly when these projects exhibit robust returns. We support that the Government mobilising land resources for the development of New Development Areas, as well as data centres. Additionally, enhancements to the land sale programme are proposed.

- **Raising Trade Competitiveness:** It is crucial that the Government continue in strengthening the trade mechanism. To boost Hong Kong's maritime strength, the Government should consider providing a one-off full tax deduction on ship acquisition expenses, taking inspiration from the successful enhancement of the aircraft leasing incentive. Furthermore, proposals for increasing the adoption of sustainable aviation fuel are also put forth.

III Preparing for an Ageing Society

- **Primary Healthcare:** With an aging population, recurrent expenditure is expected to rise as health and social needs of this demographic increases. To relieve the growing burden on the public healthcare system, there is pressing need to accelerate the move from secondary and tertiary healthcare towards more primary healthcare services such as screening and testing. This can be achieved by actively pursuing a collaborative relationship with the private sector for delivery of primary healthcare programmes.

- **Retirement Savings:** The Chamber believes there is still room for improving the MPF system to better meet the basic retirement protection needs of the working population. The Government should consider introducing an index mechanism that is pegged to the cost of living. Also, allowing partial withdrawal of MPF contributions for major life events can encourage employees to increase their contributions. Additionally, proposals to incentivise voluntary retirement savings are also put forth.

HKGCC Submission to the 2025-26 Budget

I Supporting People and Businesses

1 Supporting the Economy

- ***Relieve People's Burden***

1.1 While Hong Kong is on the path to post-pandemic recovery, the economy continues to face significant challenges. The reduction of "sweeteners" in the 2024-25 Budget has increased the tax pressure and living costs of taxpayers. Considering the growing economic headwinds, the Chamber suggests that the Government:

1.1.1 **Retain the 100% one-off reduction of profits tax, salaries tax and tax under personal assessment, subject to a ceiling of HK$3,000 for each case,** to alleviate the economic pressure on taxpayers;

1.1.2 **Extend the Dependent Parent and Dependent Grandparent Allowance to include the dependents ordinarily resident in the nine Mainland Greater Bay Area (GBA) cities,** taking reference of the Elderly Health Care Voucher Greater Bay Area Pilot Scheme, which allows eligible Hong Kong elderly residents to use healthcare vouchers for outpatient services at designated medical institutions in the GBA; and

1.1.3 **Provide a reduced ad valorem stamp duty (AVD) for first-time homebuyers for acquiring residential properties for their residence,** subject to the fulfilment of certain conditions. Consideration could be given to provide a 50% deduction on the AVD for property valued at HK$5 million or below. This initiative will provide additional support to the younger generation that would otherwise find it difficult to purchase their first home, while also bolstering the property market.

- ***Support for Small and Medium Enterprises***

1.2 For many small and medium enterprises (SMEs), it is not business as usual post-pandemic, as a result of fundamental shifts in consumption patterns, an anemic property market, and lingering geopolitical risks. It has become apparent that an increasing number of Hong Kong residents are heading north for consumption, reflecting the anticipated consequences of the deepening economic ties within the GBA.

1.3 While we anticipate that the GBA will benefit on the whole, the service sector in Hong Kong faces challenges in competing with other GBA cities due to high rental and labour costs. As access to a stable and affordable source of financing is often a central issue of an SMEs' ability to operate as an ongoing concern, the Chamber proposes that the Government:

1.3.1 **Provide long-term fixed-rate mortgage loans to SMEs,** such that the longer the mortgage term, the lower the monthly payments, enhancing affordability for SMEs. Fixed rates would further enable SMEs to mitigate risks associated with interest rate fluctuations. However, commercial banks currently lack long-term fixed-rate deposits, posing a challenge for the introduction of long-term fixed-rate mortgages. The Hong Kong Mortgage Corporation would be tasked with the purchase and guarantee of these mortgages from financial institutions by using the long-term fixed-rate bond proceeds to increase affordable lending, a role that mirror that performed by the US Federal National Mortgage Association (Fannie Mae).

2 Navigating Fiscal Challenges

2.1 According to the latest government estimate, Hong Kong's deficit is projected to getting close to HK$100 billion in the 2024-25 financial year, a figure on par with the HK$100.2 billion recorded in 2023-24, marking three consecutive years of deficits. As reserves are gradually depleted, the need to contain expenditure and explore new revenue streams has become even more compelling. We also argue that attention should be given sustaining and enhancing Hong Kong's reputation as a premier business-friendly destination. In this connection, we suggest that the Government:

2.1.1 **Set up a task force composed of tax experts and economists to conduct a thorough review of Hong Kong's public finances.** The task force's responsibility is to analyse the current state and long-term sustainability of the public finances in light of various factors and to propose actionable recommendations for implementation.

- ***Issue Bonds for Financing Long-term Investments***

2.2 Despite the recent decline in fiscal reserves, Hong Kong still possesses significant borrowing capacity, in view of its relatively low government debt-to-GDP ratio, currently at around 10%, compared to other advanced economies. As such,

2.2.1 **We support for an increase in the issuance of government-backed bonds** to create a vibrant bond market, boost liquidity, and generally support growth of a diverse financial services sector. Monies raised from such bonds should however be applied to long-term investments rather than finance recurrent expenditure.

- ***Tax Non-Hong Kong Resident Digital Service Suppliers***

2.3 To address the imminent fiscal challenges, a multi-pronged approach is essential to sustaining economic stability and safeguarding the integrity of Hong Kong's public finances. However, in view of the current economic headwinds, the Government should refrain from raising profits and salaries taxes to alleviate further pressure on businesses. Instead, we reiterate our call for the

introduction of taxes on digital activities performed by non-Hong Kong resident digital service providers. This would not only create a fairer tax environment for local digital suppliers but also enhance Hong Kong's economic resilience.

2.4 The Government has previously committed to implementing digital business taxation in accordance with the BEPS 2.0 guidelines. Yet, around 120 jurisdictions have already enacted taxes, either directly or indirectly, on cross-border digital activities, highlighting a disappointing progress on the OECD Pillar One negotiation. *Appendix 1* outlines the latest implementation of Digital Services Tax in major jurisdictions.

2.5 Since Hong Kong has not yet implemented taxes on cross-border digital transactions, this imbalance allows non-resident entities to generate substantial revenue without contributing to the local economic development. Conversely, Hong Kong-based businesses are taxed on digital services and products supplied to many overseas markets. We strongly recommend that the Government introduces taxes specifically targeting digital sales solely by non-Hong Kong suppliers to create a more level playing field for local digital businesses, while also safeguarding the Government's revenue base.

2.6 Maintaining a low and straightforward tax regime is essential for preserving Hong Kong's competitive tax advantage. The Government could consider:

2.6.1 **Referencing to other jurisdictions by initially implementing a 3% to 5% tax on a limited scope of digital activities,** such as in-app purchases, game downloads, content streaming and other substantial e-commerce revenues. The Government could require platform operators to register, allowing taxes to be withheld directly at the source by these operators or by financial intermediaries managing payments.

2.7 The Chamber would like to emphasise that this new tax is not meant to be regressive for the Hong Kong community, it is instead similar to the special betting duty levied on the Hong Kong Jockey Club, which serves as a tax on leisure and entertainment. Most importantly, its purpose is to prevent remote digital service suppliers from using Hong Kong as a base to avoid paying taxes.

- ***Reduce Recurrent Expenditure***

2.8 In addition to raising revenue, it is crucial for the Government to contain expenditure in order to achieve a fiscal balance. The Chamber suggests that the Government:

2.8.1 **Review civil servant establishments and salaries to confine recurrent expenditure.** In 2023-24, the civil servant salary expenditure was HK$156 billion, representing about 26% of the Government's recurrent expenditure. Consideration should be given, for example, to combine agencies with overlapping responsibilities, such as OASES and InvestHK, into a single government department to improve government efficiency; and

2.8.2 **Adjust the Public Transport Fare Concession Scheme (HK$2 Scheme)** by considering the implementation of an annual cap of 750 trips (equivalent to covering one round trip per day for 365 days a year) per elderly person aged between 60 and 64. Individuals aged 65 and above remain unchanged. The Government should make timely reviews and adjustments where necessary, with a view to meeting people's needs while maintaining healthy public finances.

- ***Incentivise the Headquarters Economy***

2.9 We commend the Government's efforts to attract and retain foreign direct investment. However, the number of regional headquarters (RHQs) set up in Hong Kong has yet to return to pre-pandemic levels. There is pressing need to attract enterprises from outside of Hong Kong to set up headquarters and/or corporate divisions in the city. The Chamber suggests that the Government:

2.9.1 **Provide finite concessions such as a 3-year tax holiday to RHQs** that were previously based in Hong Kong, to attract overseas businesses back to the city;

2.9.2 **Offer preferential tax rates for RHQs**, such as adopting 50% of the normal tax rate (i.e., 8.25%) for profits derived by RHQs in the city. Consideration could be given to replicating Singapore's approach, eligibility criteria could include factors like the number of local employees hired and meeting specific expenditure threshold;

2.9.3 **Adopt a holistic approach that incorporates non-tax incentives** to further enhance the appeal of the headquarters economy initiative. These could encompass measures such as assistance with applying for visas, housing, education, and healthcare services. Continuous enhancement of the talent schemes would draw in high-caliber international professionals to Hong Kong. By providing such comprehensive support, businesses and their international executives would find the city more attractive and desirable as a place to live and work; and

2.9.4 **Empower front-end agencies like InvestHK and OASES to disburse incentives for potential investors.** This initiative would provide a single window for Mainland and foreign investors to obtain information on and access suitable investment incentives, including cash grants and tax benefits, thereby affording greater visibility and certainty to the entire investment planning process.

3 Creating a Sustainable Supply of Market-relevant Human Capital

3.1 While we applaud the Government's efforts in attracting talent, the availability of labour force remains below pre-pandemic levels, potentially hamstringing Hong Kong's growth. Addressing medium- to longer-term manpower needs is crucial to ensuring that Hong Kong maintains a readily available supply of labour equipped with the relevant skills. To boost the labour force participation rate and upskill the workforce, the Chamber recommends the following measures:

3.1.1 **Provide tax deduction for expenses on employing one domestic helper or caregiver for every year of assessment,** subject to a cap of HK$30,000. This measure would provide support to low-to-middle income families and those who require assistance in taking care of their families and incentivise their re-entry into the workforce;

3.1.2 **Raise the subsidy ceiling of the Continuing Education Fund from HK$25,000 per person to HK$30,000** to encourage the local residents to pursue continuous education and learning;

3.1.3 **Offer incentives to employers, such as a 120% tax deduction, for investing in upskilling their workforce for the digital world** in essential areas such as automation, data analysis, artificial intelligence (AI) and other emerging technologies;

3.1.4 **Establish a streamlined mechanism for assessing and recognising technical qualifications in the cybersecurity, engineering, and construction sectors from both Mainland and overseas jurisdictions.** This will enable professionals to meet local regulatory and safety standards, ensuring that they can perform their duties effectively while upholding industry standards in their respective fields.

- ***Source Skilled Construction Workers and Technicians***

3.2 The construction and engineering sectors in Hong Kong have grappled with a persistent labour shortage over the years. With numerous ambitious infrastructure projects in the pipeline, such as the Northern Metropolis, the Kau Yi Chau Artificial Islands, and the accelerated construction of public housing, this situation is expected to continue exacerbating.

3.3 We welcome the Government's Labour Importation Schemes for the Construction Sector (Construction Sector Scheme) and propose extending and expanding its scope to alleviate the current and forecasted labour shortages challenges, as follows:

3.3.1 **Enable principal contractors for eligible works contract to apply for a waiver if they can achieve a 1:1.5 manning ratio, instead of the minimum 1:2 manning ratio requirement,** considering the challenge of recruiting sufficient local manpower to meet the mandatory requirement;

3.3.2 **Allow monthly submissions for applications,** rather than quarterly, to expedite the processing of the applications for the Construction Sector Scheme;

3.3.3 **Lower the value threshold for eligible public sector construction works contracts from a minimum of HK$1 billion to HK$400 million,** such that the scheme covers "Group B" Contractors listed in the Development Bureau's Approved Contractors for Public Works; and

3.3.4 **Extend the Construction Sector Scheme to private sector construction contracts,** considering that the current scheme primarily applies to public sector construction works contracts.

II Strengthening Hong Kong's Competitive Edge

4 Strengthening the Financial Markets

- ***Establishment of Public-Private Partnerships***

4.1 Given the demands on government resources in the current fiscal climate, a broader adoption of public-private partnerships (PPP), involving both financial and non-financial participation from the private sector, could significantly enhance the efficiency in the delivery of public goods. We commend the Government for showing increased interest in PPP financing. To further capitalise on the benefits of PPP we suggest that the Government:

4.1.1 **Engage early with businesses and the Chambers for planning and financing of government projects,** such as the Northern Metropolis and the Kau Yi Chau Artificial Islands. Professionals in relevant fields can provide essential expertise in project design, financing, execution, and procurement. This collaborative approach will help ensure that government projects are delivered with optimum performance at a reasonable cost; and

4.1.2 **Introduce investment incentives, such as providing 1.5-2x multipliers for eligible investments** meeting specific capital deployment requirements (i.e., assets under management) to enjoy the favourable tax regime for family offices, mirroring the approach adopted in Singapore. These initiatives would attract more private capital into government projects to foster economic growth and enhance Hong Kong's global competitiveness.

- ***Enhance the Family Office Regime***

4.2 We applaud the Government for its efforts dedicated to cultivating a dynamic ecosystem for global family offices and asset owners. As the largest cross-border wealth management hub in Asia, and second globally only to Switzerland, Hong Kong is expected to become the world's largest cross-boundary wealth management centre in the next few years. However, constant and growing competition does not leave room for complacency. To further enhance Hong Kong's appeal as a destination for family offices, the Chamber suggests that the Government:

4.2.1 **Grant a waiver for single family offices (SFOs) with respect to the 5% cap on incidental transactions.** The current 5% cap imposed on incidental transactions poses practical challenges for SFOs to effectively manage their investments. A waiver would however be consistent with the asset allocation needs of UHNW families and reduce the operational challenges on SFOs, which would be required to meet existing requirements;

4.2.2 **Grant a concessionary tax rate of 10% to eligible SFOs on qualifying income** subject to the fulfilment of certain criteria akin to Singapore's approach; and

4.2.3 **Issue Departmental Interpretation and Practice Notes** to facilitate better understanding of and clarity on the IRD's interpretation of relevant tax laws. This guidance would facilitate the smooth setup and day-to-day management of SFOs.

- ***Promote Bond Market Development***

4.3 Bond market is a significant part of Hong Kong's financial landscape. The development of a mature local bond market will enhance fund allocation efficiency, thereby fostering financial stability, reinforcing Hong Kong's status as an international financial centre, and driving economic growth. To further promote the development of the local bond market, the Chamber suggests that the Government:

4.3.1 **Provide incentives for listing bonds on the Hong Kong Stock Exchange.** Consideration could be given to offering subsidies for listing costs to high-quality international issuers seeking to list bonds in Hong Kong;

4.3.2 **Offer incentives for super-nationals and high-quality sovereign issuers from the Belt and Road jurisdictions to issue RMB bonds in Hong Kong.** This initiative will expand the RMB asset class and attract additional RMB funds into Hong Kong; and

4.3.3 **Establish a blockchain-based platform for digital bond issuance.** We suggest that the Government promote and encourage statutory bodies issue digital bonds using such platform.

- ***RMB Internationalisation***

4.4 Hong Kong is the largest and most important global offshore renminbi (RMB) business hub and has played a unique and key role in the internationalisation of the RMB. To enhance offshore RMB liquidity and enrich the RMB ecosystem in Hong Kong, we urge the Government to continue widening and deepening the funding sources for offshore RMB (CNH) and expanding the CNH pool. This will facilitate a more stable pricing rate for the CNH, fostering an environment where financial institutions can further drive RMB internationalisation efforts. In this connect, the Chamber recommends the following measures:

4.4.1 **Wealth Management Connect:** i) Liaise with the Mainland authorities to further expand the scheme to other major Chinese cities such as Shanghai and Beijing; ii) extend the product scope to offer structured deposits and equity linked investment projects, which would broaden investor choices; iii) further facilitation of cross border advisory sales and the allowance of more licensed individuals and institutions to participate in the scheme, as and when conditions permit, would also be key to unleashing Hong Kong's potential as a leading wealth management hub.

4.4.2 **Stock Connect:** i) Allow block trade, trading of non-Hang Seng Index shares, non-Hong Kong underlying ETFs, and more importantly, IPOs; ii) lower the threshold for Southbound eligible investors; iii) Expand the range of eligible stocks for Northbound trading; iv) Expedite HKEX's development of the HKD-RMB Dual Counter Program to include more securities and incentivize RMB counter trading.

4.4.3 **Bond Connect:** We welcome the new measures to deepen financial cooperation between Hong Kong and the Mainland, especially the arrangement for CNH bond repurchase (repo) business. We hope that this initiative will pave the way for additional developments in the repo market, such as cross-border RMB repo and cross-currency repo, among others. Additionally, we suggest the following actions: i) establish a Repo Connect Scheme to facilitate repurchase agreement trading; ii) expand the scope of eligible securities for Southbound Bond Connect and simplify the registration process with onshore regulators; iii) set up an eligibility and onboarding protocol for preliminary securities and allow investors to participate in CNH/CNY new issues.

4.4.4 **Swap Connect:** i) Enhance Northbound trading clearing and documentation arrangements to enable more participation by foreign investors and, in the process, contribute to higher liquidity; ii) expand the range of eligible underlying assets for Northbound trading to include credit default swaps; iii) lower the cost of funding, specifically the expenses associated with investors or clearing banks posting cash or non-cash collateral to OTC Clear, to attract more investors to trade derivatives via Swap Connect.

- ***Harnessing the Benefits of the Greater Bay Area***

4.5 The Government has made it a key objective to facilitate foreign enterprises' access to the Mainland market, and to also assist Mainland enterprises to expand abroad. To further promote Hong Kong as the preferred gateway for investments into and out of the Mainland, continuous efforts are needed to enable the flow of capital between the two jurisdictions. As Hong Kong and the Mainland's economies become increasingly intertwined, the Chamber suggests that the Government:

4.5.1 **Liaise with Mainland authorities on exempting Mainland individual investors from paying the 20% tax on dividends from Hong Kong stocks bought via Stock Connect.** This initiative is poised to boost southbound flows and revive Hong Kong's stock market;

4.5.2 **Engage with its Mainland counterparts on eliminating withholding tax on dividends [1] paid by Mainland businesses to Hong Kong investors** (whether corporates or individuals) by way of an administrative concession;

4.5.3 **Work jointly with Mainland authorities to establish a Quick Repatriation Channel (QRC)** that enables foreign investors to repatriate money within a designated, short period of time, when they exit their investments through Hong Kong. This channel would enhance the certainty of capital flow during repatriation, thereby attracting foreign investors to use Hong Kong as a base for their Mainland investments;

4.5.4 **Liaise with Mainland authorities to clarify tax rules and regulations regarding profits allocation for Limited Partnership Funds.** These funds often encounter tax uncertainties when investing in the Mainland, impacting their investment returns. Specifically, both sides should set out the circumstances under which an investment made through Qualified Foreign Limited Partnership constitutes permanent establishment in China, and clarify the applicable tax rates for profit allocated from the funds; and

4.5.5 **Engage with Mainland authorities to broaden the scope of areas for piloting cross-border financial services or capital flow models beyond the four "platforms",** namely Qianhai, Nansha, Hetao and Hengqin, to ensure a sufficient scale for piloting.

[1] Under the existing provisions of the Mainland-Hong Kong Comprehensive Avoidance of Double Taxation Agreement, dividends paid by a Mainland entity to a Hong Kong corporate shareholder are subject to a 5% withholding tax rate if the relevant substance requirements are met. For Hong Kong-based individual shareholders receiving similar dividends, the withholding tax rate is 10%.

5 Promoting Innovation and Technology

- ***Develop the Low-altitude Economy***

5.1 Low-altitude economy has been identified as one of the emerging industries of national strategic importance. We applaud the Government for its light touch approach to promoting the sector's growth. The Chamber suggests building on the achievements made to date by:

5.1.1 **Providing tax incentives, such as super tax deductions and refundable tax credits, for activities associated with low-altitude economic development.** For example, to help offset substantial upfront investment costs and enhance liquidity for businesses in this burgeoning sector, considerations should be given to offering tax incentives for establishing vertiports and charging stations.

- ***R&D and Innovation***

5.2 To develop Hong Kong as an innovation and technology (I&T) hub, it is imperative for the Government to invest in AI, which will unlock significant opportunities across industries. We suggest that the Government:

5.2.1 **Adopt a multi-disciplinary approach to promote collaboration among professionals from different backgrounds,** thereby fostering an environment where innovative ideas can thrive. Consideration could be given, for example, to providing incentives that encourage the establishment of cross-country AI research laboratories.

5.3 To incentivise businesses in Hong Kong to increase R&D activities, companies are allowed to claim a 300% tax deduction for the first HK$2 million of eligible R&D expenses and 200% for the remaining amount, with no cap on the amount eligible for the 200% deduction, provided that the qualifying R&D activities are conducted within Hong Kong. However, the stipulation mandating local R&D activities in Hong Kong presents significant challenges, given the persistent shortage of talent and facilities compared to other GBA cities such as Shenzhen. The Chamber reiterates the call made last year for the Government to:

5.3.1 **Extend the super-deduction to include R&D activities conducted in the GBA.** This would enable companies to leverage Hong Kong's unique advantages such as our close connection with the Mainland, and better contribute to the nation's objective of becoming an IT superpower.

- ***Pillar Two of BEPS 2.0***

5.4 While Hong Kong currently offers incentives such as the R&D super deduction, these incentives appeal may be eroded with the implementation of the Pillar Two minimum tax. In this connection, and to maintain Hong Kong's attractiveness to multinational enterprises (MNEs) and foster an innovative ecosystem, the Chamber suggests that the Government:

5.4.1 **Implement a Qualified Refundable Tax Credit for MNEs engaged in qualifying R&D activities.** This credit would offer advantages over non-refundable credits by being treated as Pillar 2 GloBE income and therefore likely subject to a lower effective tax rate, offering a more favourable option for promoting R&D without negatively impacting the overall tax positions of MNEs.

6 Boosting the Vibrancy of the Real Estate Sector

6.1 While the economic structure of Hong Kong is undergoing significant changes, it is crucial for the Government to establish mid- to long-term planning and provide support for businesses. Specifically, the Government should prioritise strategic infrastructure investments, even in the face of budget deficits, provided that these projects demonstrate strong returns. While prudence management of operating expenses is important, investing in well-planned infrastructure projects can generate substantial long-term value.

- ***New Development Areas***

6.2 We welcome the development of the Northern Metropolis and the mobilising of land resources to increase housing supply and infrastructure development. Comprehensive planning and a holistic view on the diverse projects being rolled out, such as developing private farmland, redeveloping brownfields, and integrating land in the New Territories, are necessary to ensure continuous and sustainable development.

6.2.1 **We support accelerating the current measures to increase land supply, including rezoning, land resumption, land swaps, land lease modification,** to meet the needs of Hong Kong's growing population and to stimulate economic growth.

- ***Adjust the Land Sale Programme***

6.3 Land sales used to be one of the major sources of government revenue. However, amid a sluggish property market, the land sales revenue of the current fiscal year is expected to fall significantly below the estimated HK$33 billion. To achieve optimum land sales results and effectively generate income, the Government should consider:

6.3.1 **Listing more smaller land lots with lower thresholds in the 2025-2026 Land Sale Programme** to attract more tender bidders. Smaller land lots with lower ticket sizes facilitate greater participation from developers and investors across the spectrum. Additionally, smaller land lots mitigate financial risks and enhance liquidity for developers, making it more viable for them to embark on new projects. This approach can be particularly beneficial in times of economic uncertainty and in the prevailing high-interest rate environment; and

6.3.2 **Eliminating developers' obligations to build government/public facilities in the conditions of sale,** as these requirements escalate construction costs and impose additional constraints on the overall design of the development. Consequently, the bidding prices offered by developers may fail to meet the minimum price threshold set by the Lands Department.

- ***Data Centre Development***

6.4 Data centres are key technological infrastructures that underpin Hong Kong's development into an international I&T centre and the building of a smart city. We support the Government's continued efforts to incentivise the industry to repurpose old industrial buildings for establishing data centres and other technology-related infrastructure.

6.5 At the same time, we note that data centre development tends concentrate in older industrial areas such as Kwai Chung and Tsuen Wan, which are highly congested with existing underground utilities. In this connection, we recommend that the Government:

6.5.1 **Streamline procedures related to the setup of supporting infrastructure and utilities (e.g., power, telecommunications, water)** to reduce construction time and costs. Consideration could be given, for example, to optimising existing procedures and processes relating to road excavation and underground utilities construction. Currently, the approval process for road excavation permits can span months and often involve stringent terms, such as constraints on trench length and work hours. Given that these procedures require coordination across multiple Government departments, enhancing communication and processing efficiency can profoundly enhance infrastructure project speed, thereby reducing costs.

7 Raising Trade Competitiveness

- ***Strengthen Trade Mechanism***

7.1 Amid escalating trade tensions, notably between the Mainland and the US, MNEs are actively seeking alternative sourcing avenues throughout Asia. Given our longstanding experience and expertise in global supply chains, Hong Kong stands to gain from the "China Plus One" strategy. By effectively managing the four critical flows, namely, digital information, logistics, services, and cash flows, Hong Kong can capitalise on its intrinsic strengths to attract more MNEs seeking to diversify their supply chains. The Chamber recommends that the Government:

7.1.1 **Digital information flow:** Promote the use of blockchain technology to significantly reduce paperwork and errors, thereby reducing transaction processing times. Leverage technologies such as AI to analyse data and improve cross-border communication with financial institutions to help and support enterprises, especially SMEs, to secure financing;

7.1.2 **Logistics flow:** Promote efficient and paperless logistics to ensure the timely movement of goods movement through such outcomes as reduced lead times and lower costs. By leveraging the Trade Single Window, the Government would be able to automate additional processes beyond those currently limited to customs and by conferring legal recognition to electronic signatures. Such improvements would create a more efficient trading environment, allowing businesses to focus on increasing trade volumes;

7.1.3 **Services flow:** Support businesses entering new markets by leveraging our robust financial and legal frameworks. Consideration could be given, for example, to implementing a fast-track visa processing system for foreign buyers, thereby enhancing sourcing activities in Hong Kong; and

7.1.4 **Cash flows:** Promote stablecoins to reduce transaction costs and streamline payment processes, thereby enhancing cash flow management. We suggest that consideration be given to allowing the issuance of RMB stablecoins or stablecoins backed by a basket of different currencies, including RMB, alongside HKD or USD, as a mean to further enhance the usage of RMB in international trade finance.

- ***Enhance the Ship Leasing Regime***

7.2 We applaud the Government’s efforts to promote the development of high value-added maritime and professional services. Specifically, we welcome the Government’s plan to enhance the preferential tax regime for ship leasing business, a move that is poised to boost Hong Kong’s maritime strength. The Chamber suggests that the Government:

7.2.1 **Provide a one-off full tax deduction for qualifying ship lessors on ship acquisition expenses in the year of acquisition,** taking inspiration from the successful enhancement of the aircraft leasing incentive. This would incentivise the setting up of ship leasing businesses in Hong Kong.

- ***Increase Adoption of Sustainable Aviation Fuel***

7.3 Encouraging the adoption of sustainable aviation fuel (SAF) is crucial for the aviation industry to achieve net-zero carbon emissions, thereby upholding the city's status as a global aviation hub. We suggest that the Government:

7.3.1 **Establish a one-off pilot fund of HK$100 million** to help airlines address the green premium associated with SAF usage;

7.3.2 **Establish an effective SAF levy allocation mechanism** to encourage airlines to increase their use of SAF at the Hong Kong International Airport (HKIA) and decarbonise its aviation emissions; and

7.3.3 **Set up a SAF blending facility at the HKIA** which would allow for the import of a large volume of SAF and enable airlines to directly blend them with local jet supply, driving down the overall cost of SAF utilisation.

8 Enhancing the Tax System and Delivery of Government Services

- ***Tax Treaties***

8.1 While we appreciate the Government's efforts in negotiating new tax treaties, Hong Kong's treaty network remains less extensive compared to other key markets in the Asia-Pacific region. As at September 2024, Hong Kong has signed comprehensive avoidance of double taxation agreement with 51 jurisdictions and is in negotiations with 16 jurisdictions. In contrast, Mainland China and Singapore have already established tax treaty networks with over 100 jurisdictions. The Chamber strongly recommends that the Government:

8.1.1 **Accelerate the expansion of its tax treaty network,** particularly with Belt and Road jurisdictions and emerging markets like ASEAN, the Middle East, Central Asia and Africa, to maintain Hong Kong's attractiveness to strategic enterprises. Leveraging existing economic relationships with Mainland China could further speed up the development of Hong Kong's treaty network.

- ***Tax Administration***

8.2 While we commend the Government's efforts to reform tax administration measures through initiatives like e-tax filing and simplifying the application of Certificates of Resident Status, more needs to be done to accelerate the digitisation of the tax system. A digital tax platform that is contemporaneous with an evolving economy will enable real-time data to be used for better forecasting and facilitate informed policy decisions, allowing the IRD to allocate resources more effectively to critical areas such as tax disputes, which can be and are usually drawn out and costly. In this connection, the Chamber suggests that the Government:

8.2.1 **Establish dedicated policy units that include both Government and business representatives** to improve tax policy formulation. This collaborative approach will provide valuable insights into the variety of challenges that business faces, helping the Government create responsive and effective policies that support sustainable growth and innovation.

III Preparing for an Ageing Society

9 Retirement and Health Protection

- ***Strengthen Primary Healthcare***

9.1 With an aging population, recurrent expenditure is expected to rise as health and social needs of this demographic increases. Currently, public spending is heavily skewed towards secondary and tertiary healthcare. To relieve the growing burden on the public healthcare system, there is pressing need to accelerate the move towards more primary healthcare services such as screening and testing, as a preventive measure to avoid higher costs for late-stage treatments provided mainly through the Hospital Authority. In this regard, the Chamber suggests that the Government:

9.1.1 **Actively pursue a collaborative relationship with the private sector for delivery of primary healthcare programmes.** Consideration should be given to a PPP that could take the form of a central procurement or grant-type process.

- ***Review the MPF System***

9.2 The objective of Mandatory Provident Fund (MPF) System, launched in December 2000, is to help Hong Kong's workforce save for their retirement. In view of the rapidly ageing population and notwithstanding enhancements introduced since MPF's rollout, the Chamber believes there is still room for improvement to better cater to the working population's needs for basic retirement protection. To this end, the Chamber recommends the following:

9.2.1 **Expedite the implementation of the initiative of paying MPF contributions for employees and self-employed persons exempted from making MPF contributions due to low income,** upon the full implementation of the eMPF Platform. Consideration should be given to doubling the threshold to 10% subject to eligibility under a means-tested mechanism to ensure that limited public resources are directed to those in need. It is important that public monies are set aside to fund such expenditure, which should be disbursed as early as possible subject to the Government's ability to do so. Delaying this further would only result in higher future social welfare expenditure, as wages will continue to increase with inflation;

9.2.2 **Adopt a tripartite approach to the MPF contribution mechanism,** to take into account of income disparities and ensure that "no one is left behind", as outlined in the following table:

Employee Monthly Income*	**Contributions**		
	Government	**Employer**	**Employee**
Less than HK$7,100	Salary x 10%	Salary x 5%	Nil
HK$7,100 to HK$30,000	Salary x 5%	Salary x 5%	Salary x 5%
More than HK$30,000	HK$0	HK$1,500	HK$1,500

9.2.3 **Introduce an index mechanism that is pegged to the cost of living, to serve as a guide in determining whether adjustments are needed to the relevant income cap for mandatory contributions,** which is currently set at $30,000. This measure could mitigate the corrosive effect inflation has on the purchasing power of retirement savings, due to the long lock-in period of MPF funds;

9.2.4 **Broaden the range of investment vehicles currently on offer** to further encourage those with the financial means to increase their contributions;

9.2.5 **Allow partial withdrawal of MPF contributions for major life events,** such as making a property deposit by first time homeowners, and expenditure on long-term care or payment for medical insurance. This would have the virtuous effect of encouraging employees to increase their contributions; and

9.2.6 **Establish a committee to explore ways to reduce expense ratios of MPF scheme.** While we applaud the launch of the e-MPF platform for simplifying the administrative process and lower associated costs, the Government should continue to look into ways of further reducing costs so as to improve investment returns for MPF accounts.

- ***Incentivise Voluntary Retirement Savings***

9.3 The ability to cover the cost of retirement is crucial not only to individuals but also has broader socio-economic implications. The 10% mandatory contributory ceiling currently applicable to both employers and employees falls below the OECD average of 18%. Although voluntary additional contributions are allowed and encouraged within the current MPF System, the overall contribution levels remain low, leading to a knock-on effect that limits investment returns by the time of retirement. To stimulate interest in voluntary retirement savings, the Chamber proposes that the Government:

9.3.1 **Incentivise employers and employees to increase their contributions through tax incentives equivalent to 120% of the amount that they contribute,** to encourage additional MPF contributions;

9.3.2 **Provide a similar tax concession to employees who contribute to retirement accounts of family members who are not part of the workforce** (such as homemakers) and are therefore not covered by the employment-based MPF system, subject to a cap at HK$30,000, to achieve the goal of universal retirement protection;

9.3.3 **Set separate caps at HK$60,000 for tax deductible MPF voluntary contributions and qualifying deferred annuity policies premium,** instead of an aggregate limit for both. Considering that these two products have entirely different designs and distribution channel, this approach enables employees to manage their financial priorities effectively.

HKGCC Secretariat
January 2025

Appendix 1: The Latest Implementation of Digital Services Tax in Major Jurisdictions

i. Europe

Jurisdiction	Tax Scope (including but not limited to)	Rate	Global Revenue Threshold	Domestic Revenue Threshold	Enforcement
Austria	● Advertising services on digital interfaces or any type of software or websites rendered in Austria	5% (DST)	EUR 750 million	EUR 25 million	Jan 2020
Denmark	● On-demand audio-visual media supply of films, fictional series, and documentary programs	2% basic rate and potential additional 3% surcharge	—	—	Jan 2024
France	● Provision of a digital interface such as marketplaces and intermediation services ● Targeted advertising and transmission of data collected about users for advertising purposes	3% (DST)	EUR 750 million	EUR 25 million	Jan 2019
	● Streaming tax applies to both paid and free services offering access to recorded music and online music videos. It is applicable on revenues that exceed EUR 20 million	1.2% (Streaming Tax)	—	—	Jan 2024
Hungary	● Internet advertising	7.5%, although the tax rate reduced to 0%, effective from July 1, 2019, through December 31, 2025 (DAT)	—	HUF 100 million	Jul 2017
	● Gross receipts from in-scope retail sales	0.1% - 2.7% (Retail Sales Tax)	—	—	Jan 2024
Italy	● Online advertising ● Digital marketplaces that facilitate the sale of goods or services ● The transmission of user data generated from a marketplace	3% (DST)	EUR 750 million	—	Jan 2020

i. Europe (continued)

Jurisdiction	Tax Scope (including but not limited to)	Rate	Global Revenue Threshold	Domestic Revenue Threshold	Enforcement
Poland	● Access fees for audio-visual media services ● Income from audio-visual commercial communications	1.5% (DST)	—	—	Jul 2020
	● Digital sector enterprises, irrespective of where they are established, are subject to regulations if they have a significant digital presence in Poland	7% (DST)	—	—	Proposed
Portugal	● Audiovisual commercial communication in streaming platforms	4%	—	—	Feb 2021
	● Video-on-demand services	1%	—	—	
Slovakia	● Payments to foreign digital platforms facilitating transport and lodging services in Slovakia, acting as a marketplace for such services in Slovakia, not registered as a PE in Slovakia	5% (WHT)	—	—	Jan 2018
Spain	● Online advertising, online intermediation services, sale of user data generated through a digital interface	3% (DST)	EUR 750 million	EUR 3 million	Jan 2021
Turkey	● Digital advertising services, digital services	7.5% but the President can reduce to 1% or increase to 15% (DST)	EUR 750 million	TRY 20 million*	Mar 2020
	● Payments made to providers of advertising services or intermediaries in return for the provision of such services via the Internet	15% (WHT)	—	—	Jan 2019
UK	● Social media platforms, internet search engine, online marketplace	2% (DST)	GBP 500 million	GBP 25 million	Apr 2020

ii. Asia Pacific

Jurisdiction	Tax Scope (including but not limited to)	Rate	Global Revenue Threshold	Domestic Revenue Threshold	Enforcement
Bangladesh	● Non-resident vendors of digital services to register for and collect VAT from consumers (B2C), include intermediation services from non-resident marketplaces that facilitate the sale of goods or services.	15% (VAT)	—	—	Jul 2019
India	● Online advertising, any provision for digital advertising space or any other facility or service for the purpose of online advertising	6%	—	—	Jun 2016
	● Digital PE	Domestic rate (VAT)	—	—	Apr 2022
	● Sale of goods / provision of service facilitated through digital or electronic facility or platform	Variable (WHT)	—	—	Oct 2020
Indonesia	● Digital PE	11% (VAT)	—	—	Mar 2020
Kazakhstan	● E-commerce sale of goods and providing digital services to individuals	12% (VAT)	—	—	Feb 2021
Malaysia	● Non-resident vendors (including online platforms) of digital services to customers (B2C and B2B) in Malaysia to register for and collect service tax	8% (Service Tax)	—	MYR 500,000	Jan 2020
Nepal	● Digital services	2% (DST)	—	NPR 2 million	Jul 2022
	● Digital PE	Domestic rate (VAT)	—	—	Jul 2024
New Zealand	● In-scope "taxable digital services" – principally the provision of intermediation platforms, social media and content sharing platforms, and internet search engines	3% (DST)	NZD 1.1 billion	NZD 3.5 million	Jan 2025 (stalled)
Pakistan	● Payments for offshore digital services, such as online advertising, website design, hosting, digital content distribution, user data processing, online sales, and other similar online services	5% (WHT)	—	—	July 2018
	● Digital PE	Domestic rate (VAT)	—	—	Jul 2023

ii. Asia Pacific (continued)

Jurisdiction	Tax Scope (including but not limited to)	Rate	Global Revenue Threshold	Domestic Revenue Threshold	Enforcement
Philippines	● Video and online games, electronic marketplaces, digital advertising platforms, file sharing and cloud storage services, internet-based telecommunication, payment processing services and the like	12% (VAT)	—	PHP 3 million	Oct 2024
	● Online platform providers to suppliers of goods and services selling through a platform	1% (WHT)	—	—	Jan 2024
Singapore	● Digital services	No announcement (DST)	—	—	Pending global solution
Thailand	● Digital services	7% (VAT)	—	THB 1.8 million	Sep 2021
	● Income from e-commerce supplies of goods and services in the country, including online advertising, gaming, shopping, and others	5% (WHT)	—	—	Proposed
Vietnam	● E-commerce, digital platform-based businesses	Variable (WHT)	—	—	Jan 2021

iii. Americas

Jurisdiction	Tax Scope (including but not limited to)	Rate	Global Revenue Threshold	Domestic Revenue Threshold	Enforcement
Argentina	● Bets made through a digital platform in or from Argentina.	5%, 10%, 15% (DST)	—	—	Dec 2020
Brazil	● Details to be announced	DST	Not yet specified		Proposed
Canada	● Online marketplace/advertising services, social media, user data	3% (DST)	EUR 750 million*	CAD 20 million	Jan 2022
	● Online streaming services to support the Canadian broadcasting system	5% (Streaming Tax)	—	—	Sep 2024
Colombia	● Digital advertising, streaming or download media and content, sale of user data, hosting, online e-learning and training, etc.	10% (WHT) or 3% (DST)	—	USD 297,000	Jan 2024
Mexico	● Download/access to images, movies, music, etc. ● Intermediation services	16% (VAT)	—	—	Jun 2020
	● Intermediaries facilitating digital service payments must withhold income tax for Mexican individuals selling goods and services on digital platforms	1% - 4% (WHT)	—	—	Jan 2020
Peru	● Non-resident vendors of digital services provided to consumers (B2C) in the country	Variable (VAT)	—	—	Aug 2024
	● Remote games and sports betting conducted through digital platforms by non-resident entities when the player resides in Peru	1% (Excise Tax)	—	—	Sep 2024
US - Maryland	● Advertising on a digital interface	2.5% - 10% (DST)	USD 100 million*	USD 1 million*	Jan 2022
Uruguay	● Audio-visual services provided via the internet	12% (WHT)	—	—	Jan 2018

iv. Africa & Middle East

Jurisdiction	Tax Scope (including but not limited to)	Rate	Global Revenue Threshold	Domestic Revenue Threshold	Enforcement
Côte d'Ivoire	● Digital services	18% (VAT)	—	XOF 200 million	Jan 2022
Nigeria	● Content; customer data; goods & services; and intermediary services	6% (Significant Economic Presence)	—	NGN 25 million	Feb 2020
Sierra Leone	● Ad, web and data services	1.5% (DST)	—	—	Jan 2024
Tanzania	● Non-resident digital service providers	2% (DST)	—	—	Jan 2022
	● Payments made to resident digital content creators and payments from the exchange of digital assets.	5% for digital content; 3% for digital assets	—	—	Jul 2024
Tunisia	● Sales of computer software and services	3% (DST)	—	—	Jan 2020
Uganda	● Online advertising services, data services, cloud computing services, etc.	5% (DST)	—	—	Jul 2023
Zimbabwe	● Supply of radio and television services, satellite broadcasting services and electronic services by electronic commerce operators	5% (DST)	—	—	Jan 2020

Note:
1. "—" indicates that no relevant thresholds have been set
2. For thresholds, the number itself is not inclusive unless otherwise specified
3. "" indicates that the number itself is inclusive*