

**Motion on
“Actively Studying the Establishment of a Middle Class Commission”
at the Legislative Council Meeting on 1 March 2017**

Progress Report

Purpose

At the Legislative Council (LegCo) meeting on 1 March 2017, the motion on “actively studying the establishment of a middle class commission” moved by Hon Tommy CHEUNG, as amended by Hon Frankie YICK, Hon KWOK Wai-keung and Dr Hon Elizabeth QUAT, was passed. The full text of the motion is at Annex. This paper reports to Members the follow-up actions relating to the motion taken by the relevant bureaux.

Development of Industries and Technology

2. The Government is committed to promoting the diversified development of industries and adopting various measures to foster a broader economic base, thereby meeting the needs of Hong Kong people for start-up initiatives, employment, investment and business operation. Apart from continuing to expand and strengthen the four pillar industries where Hong Kong enjoys an advantage, the Government will also continue to develop the local information and technology as well as creative industries, so as to promote diversified development of the economy.

3. Hong Kong has been proactively working with other Asia-Pacific Economic Co-operation members to promote economic growth and development of the region. The Government will also continue to forge more free trade agreements with our trading partners, with a view to creating business opportunities and promoting Hong Kong’s long-term economic growth. In addition, the Government and the Ministry of Commerce are exploring further expansion and enhancement of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) in the areas of investment, economic and technical co-operation, etc. We expect to achieve some concrete results within this year.

4. As regards technology development, the Government strives to promote “re-industrialisation” by encouraging the development of high-end

manufacturing which leverages artificial intelligence, data analytics and Internet of Things, in order to drive the diversified and sustainable development of the economy, and create more quality and diversified employment opportunities. To support the development of “re-industrialisation”, the Hong Kong Science and Technology Parks Corporation (HKSTPC) is conducting Stage 1 of the Science Park Expansion Programme, and is developing a Data Technology Hub and an Advanced Manufacturing Centre at the Tseung Kwan O Industrial Estate.

5. In addition, the Government provides support to technology start-ups through the funds and incubation programmes of the HKSTPC and Cyberport, including providing rental discounts, work space, shared facilities, subsidies and funding, marketing and business development support. Moreover, the Government will, in the middle of this year, roll out the \$2 billion Innovation and Technology Venture Fund which co-invests in local technology start-ups with venture capital funds.

Supporting Professional Services

6. The middle class plays an important role in the professional services sector. As the development of Asia and its neighbouring regions progress steadily and the growth of emerging economies becomes more apparent, demand for high value-added professional services will continue to rise. To assist our professional services sector to tap the opportunities and meet the challenges, the Government launched the \$200 million Professional Services Advancement Support Scheme in November 2016 to support our local industry to step up exchanges and co-operation with their counterparts in external markets, promote publicity activities, and enhance their service standards and external competitiveness.

7. As regards the professional services sector, the Government has, through the successful implementation of CEPA over the years, introduced Hong Kong’s one-stop service model for infrastructure project management in the Qianhai Free Trade Zone (FTZ) and facilitated local industry to participate directly in the Mainland’s foreign aid construction projects in Nepal and Cambodia. The Government will continue to work closely with the sector to promote and implement wider adoption of the one-stop service model in other FTZs of the Mainland.

Land and Housing

8. To meet the housing needs of the middle class, the Government will continue to increase land supply and build up a land reserve under a multi-pronged approach. In the short to medium term, the Government will provide a total of over 380 000 residential units by way of changing existing land uses and increasing development intensity. In the medium to long term, various new development areas (NDAs) and new town extensions (including Kwu Tung North (KTN) and Fanling North (FLN) NDAs, Tung Chung New Town Extension, Hung Shui Kiu (HSK) NDA and Yuen Long South (YLS) Development), as well as potential railway property development projects being planned (including Siu Ho Wan Depot and Pat Heung Depot), can provide over 220 000 residential units. In the longer term, the Government will explore new sources of developable land such as reclamation outside Victoria Harbour, and developments of cavern and underground space. The two strategic growth areas proposed under “Hong Kong 2030+”, namely the East Lantau Metropolis and New Territories North (NTN), will satisfy the long term demand of land and increase the development capacity of Hong Kong. The Government will continue to report to the public the latest situation regarding the supply of land and housing in a timely manner.

9. Optimising utilisation of brownfield sites is one of the major directions of the Government’s multi-pronged strategy for increasing land supply. It is estimated that a total of about 340 hectares (ha) of brownfield sites are involved in HSK, YLS and KTN/FLN NDAs projects which are currently underway. The potential development areas in NTN as proposed under “Hong Kong 2030+” are estimated to cover another 200 ha of brownfield sites. The Civil Engineering and Development Department is actively exploring the feasibility of accommodating some of the brownfield operations in multi-storey buildings, taking HSK as a pilot case. This year, the Planning Department will also commence a comprehensive survey on the distribution, use and operation of brownfield sites in the New Territories, so as to formulate a holistic brownfield policy framework to examine the issues and policy directions regarding development of brownfield sites. We will consult the LegCo and the public on the proposed policy framework for tackling brownfield sites in due course.

10. As regards the proposal to introduce tax allowance for rental for the middle class, the Government considers that in the midst of the present tight housing supply, any form of rent subsidy provided by the Government to the tenants will likely lead to rent increase by the landlord, leaving the tenants with no effective assistance. Hence, the Government will not

introduce such allowance at this stage.

Tax and One-off Relief Measures

11. When formulating the Annual Budget, the Government will consider whether there is room to enhance the existing tax regime having regard to the prevailing economic situation, the Government's fiscal position, public aspirations and relevant policy considerations. In the 2017-18 Budget, the Financial Secretary proposed the following five recurrent tax measures –

- (a) widening the marginal tax bands from \$40,000 to \$45,000;
- (b) raising the disabled dependant allowance from \$66,000 to \$75,000;
- (c) raising the dependent brother/sister allowance from \$33,000 to \$37,500;
- (d) extending the entitlement period for home loan interest deduction from 15 years of assessment to 20 while maintaining the deduction ceiling of \$100,000 a year; and
- (e) raising the deduction ceiling for self-education expenses from \$80,000 to \$100,000.

12. In addition, the 2017-18 Budget introduced a number of one-off relief measures, many of which would benefit the middle class, including –

- (a) reducing salaries tax, tax under personal assessment and profits tax for 2016/17 year of assessment by 75%, subject to a ceiling of \$20,000 per case; and
- (b) waiving rates for four quarters of 2017-18, subject to a ceiling of \$1,000 per quarter for each rateable property.

13. As regards the proposed tax deduction for specific expenditure item, the Government must pay due regard to the overall financial commitments and the existing narrow tax base. To avoid complicating the tax regime, one-off tax reduction and increase in tax allowance can address these requests more directly.

Education and Manpower Development

14. On kindergarten (KG) education, the Government will implement the free quality KG education policy starting from the 2017/18 school year. The basic tenet of the new policy is to enable each eligible KG to provide quality half-day services in accordance with the standards prescribed by the Government. The Government will provide an additional provision of 30% and 60% for eligible KGs offering whole-day and long whole-day services respectively.

15. According to the information submitted by KGs, about 80% of the half-day KGs will be free. For whole-day KGs, as the Government has provided additional subsidy, parents will only pay part of the school fee, hence the overall school fee is maintained at a low level. About 50% of the whole-day KGs initially estimate to charge a monthly school fee of \$1,000 or below, representing a significant increase from about 5% in the 2016/17 school year. The Education Bureau is rigorously vetting individual KGs' proposals for collecting school fees.

16. On post-secondary education, the Government has set up various student financial assistance schemes to assist students to further their post-secondary education, including the means-tested Tertiary Student Finance Scheme – Publicly-funded Programmes and Financial Assistance Scheme for Post-secondary Students, and the non-means-tested loan schemes. In 2015/16 school year, the means-tested financial assistance (including grants, living expenses loans and student travel subsidy) disbursed was about \$2.6 billion. It benefitted more than 47 200 students and 63% of them received full-grant assistance. The average amount of non-repayable grant disbursed was about \$44,000 in 2015/16 school year.

17. Meanwhile, the Government encourages local work force to pursue further education with a view to meeting the needs of the increasingly globalized and knowledge-based economic development. The Government set up the Continuing Education Fund (CEF) in June 2002. Hong Kong residents aged 18 to 65, regardless of their education attainment, employment and financial status, may choose to attend about 8 000 CEF reimbursable courses with a wide variety of contents, and apply for reimbursement of 80% of the course fees upon successful completion of the CEF courses, subject to a ceiling of \$10,000.

18. At present, the total funding provision for CEF is \$6.2 billion. As at end-January 2017, nearly 750 000 applications for opening accounts were approved, with about \$4 billion disbursed to applicants who had

successfully completed courses. The Government proposed in the 2017 Policy Address and 2017-18 Budget to inject an additional \$1.5 billion into CEF in 2017-18 and explore various measures to enhance its operation.

Healthcare

19. The Government will implement the Voluntary Health Insurance Scheme (VHIS) to encourage those who are able and willing to make use of private healthcare services. The Food and Health Bureau will establish a VHIS Office to certify those insurance products that are VHIS-compliant, which would be eligible for tax deduction, and aim to finalise the relevant arrangements in 2018.

20. As regards the proposal to provide tax deduction for health screening, the Government considers that health promotion and education through a life-course approach and provision of health screening services to targeted groups are more effective in utilizing public resources to safeguard public health. In this regard, the Department of Health has all along provided free and subsidised health services to members of the public, including health screening and vaccination programmes, etc. Targeted groups include children, primary and secondary students, women and elders. At the same time, the Government has implemented the Colorectal Cancer Screening Pilot Programme since September 2016 which provides screening tests and education for prevention of colorectal cancer for eligible Hong Kong residents aged 61 to 70 in phases in three years.

Labour Benefits and Family-friendly Employment Practices

21. Having regard to Hong Kong's economic and social developments, the interests of employees and the affordability of employers, the Government from time to time examines and improves employment rights and benefits. In this regard, the Labour Department will continue to promote the family-friendly employment practices through a wide range of publicity activities.

Transport

22. The Government has been consolidating and expanding Hong Kong's external transport infrastructure and network to broaden and deepen the economic hinterland of Hong Kong. The Government's investment in

the construction of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link and Hong Kong-Zhuhai-Macao Bridge, as well as the support to the Airport Authority Hong Kong to expand the Hong Kong International Airport into a Three-Runway System, will help support and consolidate Hong Kong's pillar industries, including financial services, trade, logistics, tourism industries, etc., so that the middle class and professionals could benefit from the sustained and stable economic development.

23. Hong Kong will further develop railways as the backbone of our transport system and mass-transport services, thereby facilitating residents' commutation to work and school as well as their outdoor trips. This enables the middle class to enjoy convenient, reliable and economical public transport means without relying on the use of private cars.

May 2017

**Financial Services and the Treasury Bureau
Commerce and Economic Development Bureau
Innovation and Technology Bureau
Transport and Housing Bureau
Development Bureau
Education Bureau
Labour and Welfare Bureau
Food and Health Bureau**

**Motion on
“Actively studying the establishment of a middle class commission”
moved by Hon Tommy CHEUNG
at the Legislative Council meeting of 1 March 2017**

**Motion as amended by Hon Frankie YICK, Hon KWOK Wai-keung
and Dr Hon Elizabeth QUAT**

That the middle class has always been an important force for maintaining social stability and promoting economic development, but in recent years, the long-standing concerns in the external economic environment, the seriously lopsided development of Hong Kong’s industries, the short supply of housing, the polarization between the rich and the poor, and the never-ending political wrangling have caused the middle class to face problems of housing, taxation, education, healthcare, etc., and created a trend of downward mobility of the middle class; the Government’s support for the middle class has all along been limited to one-off relief measures such as providing tax rebates, increasing tax allowances, exempting rates or offering electricity charge subsidies, but these measures are just utterly inadequate for the middle class and have not practically alleviated their plight; in addition, as currently there is no precise definition of the middle class, and the Government does not regularly provide statistics and information specific to the middle class, if the authorities or community organisations use such information to formulate policies or measures to support the middle class, such policies or measures will very often be out of focus, biased and superficial; in this connection, this Council requests the Government to actively study the establishment of a middle class commission to comprehensively review the policies or measures relating to the middle class from a focused and higher-level perspective, so as to alleviate the various problems faced by the middle class and consolidate the strength of the middle class, thereby promoting afresh economic development and strengthening the momentum of upward mobility of the community as a whole; the relevant measures should include:

Definition

- (1) to lay down a clear and precise definition of the middle class, and regularly publish relevant statistics in respect of the definition;

Development of industries

- (2) to adopt a multi-pronged approach to promote diversified development of industries in Hong Kong, so as to create more jobs at the middle and senior levels as well as business start-up opportunities in various industries and professions;
- (3) to further strengthen regional economic development for integration with the economic development circles of different regions on the Mainland, so as to provide more and better career development opportunities for middle-class professionals within or outside the territory;

Housing

- (4) to expedite the identification of land for developing new development areas, optimize the use of rock caverns and carry out reclamation on an appropriate scale outside Victoria Harbour, so as to increase the supply of residential land on all fronts; and to increase the transparency of the housing plans as well as the supply of and demand for residential land for the next 10 years, and conduct an interim strategic review of and make corresponding adjustment to the relevant plans every five years;
- (5) to actively study the exploitation of green belt areas and “brownfield sites” for the purpose of residential development;
- (6) to introduce a tax allowance for rentals for the marginal middle class;

Taxation

- (7) to adjust salaries tax downwards, in particular widening tax bands for salaries tax and lowering the marginal rate, so as to vigorously alleviate the burden of the marginal middle class;
- (8) to relax the restrictions on the dependent parent or dependent grandparent allowance by relaxing the eligibility requirement from living in the same unit to living in the same housing estate;

Education

- (9) to introduce a tax allowance for children’s education to alleviate the

burden of children education expenses on middle-class families;

- (10) to substantially increase the salaries tax deduction for self-education expenses and the subsidy under the Continuing Education Fund;

Healthcare

- (11) to provide tax deduction for medical insurance contributions; and
- (12) to provide tax deduction for medical examinations to encourage the middle class to undergo such examinations on a regular basis;

the middle class commission should also formulate specific improvement measures in areas such as occupational right, family-friendliness, retirement protection, living environment and transport, with a view to providing support to the middle class on all fronts, thereby alleviating the various kinds of pressures and burdens facing them; the middle class commission should also cater for the interests of the middle class and respond to their different demands, as well as create more opportunities for upward mobility to expand the ratio of the middle-class population, thereby enabling society to develop in a sustainable, stable and harmonious manner.