

## 1994-95 Budget forecasts and recommendations

ISSUE	CHAMBER SUBMISSION	REVENUE EFFECT	REMARKS
Economy 1993-94	5.5 per cent growth high activity level.	Positive	Revenue should gain from high levels of activity in property, share market and consumer markets.
Economy 1994-95	5 per cent growth, activity moderating.	Positive	Activity high but moderating; China effect; requires Budget caution.
Budget outcome	Deficit forecast likely, but Government should aim for balanced Budget.	Not applicable	Deficits may emerge because of substantial capital commitments in the short term. Longer term balanced Budget the aim. Post 1997 Basic Law requires balance.
Inflation	Greater emphasis to be placed on consumer price and asset price inflation; costs control.	Not applicable	Inflation danger to Hong Kong's competitiveness. Property and labour costs need to be controlled.
Expenditure			
- Recurrent	Up 5 per cent or real \$4.5 billion in line with GDP.	Not applicable	Chamber agrees with Government policy on recurrent spending increases.
- Capital	Up one-third on increased infrastructure spending.	Not applicable	Faster spending expected. Chamber concerned by "catch up" effects from previous under-spending.
Revenue	No further narrowing of a tax base already dependent heavily on salaries and profits tax.	Potentially negative	Chamber believes Government too reliant on direct taxes (salaries and profits) determined by continuing high level of economic activity.
- Direct taxes			
- Profits Tax	Cut by 1 per cent to return to 16.5 per cent.	Negative \$1.6 billion a year	Chamber believes cut would enhance Hong Kong's competitive position; bring profits tax closer into line with salaries tax.
- Salaries Tax	No change in standard rate - Personal allowances and tax bands in line with CPI	Positive	Chamber believes Government should not narrow salaries tax base further. Wages rises ensure greater tax take.
- Stamp Duty	No further reduction in stock transfer duty from present 0.3 per cent.	Positive \$1 billion	Chamber questions logic of narrowing tax base further. Retain present stock transfer duty. Saving to revenue \$1 billion.
- Estate Duty	Call for regular review of threshold and bands.	Negative	Chamber welcomed last year's lift in the threshold.
- Property Tax	No change.	Positive	Chamber believes active property market boosts revenue.
- Rates	No increase in general rates in revaluation year.	Positive	Chamber believes rates revaluation from April 1, 1994 will lift Government revenue without general rates increase.
- Fuel, Alcohol and Tobacco	No increase in duties.	Probably Neutral	Anti-inflationary measure; Government must monitor "unintended consequences" (eg smuggling); also loss of revenue from such activity.
- Departure Tax	Reduce departure tax from \$150 (to \$100?)	Negative	Chamber believes reduction would add confidence to vital tourism industry. Modest cost to revenue.
- Betting Duty	No change in rate.	Neutral to Positive	Duty increased last year. Further increase unnecessary.
- Hotel Accommodation	No change in rate.	Positive	Tourism vital industry.
- First Registration Tax	No increase in tax rate after FRT review this year.	Positive	Review of FRT this year will bring additional revenue to Government without need to increase rates of tax further.
- Fees and Charges	Increase in line with CPI only.	Positive	Aid in controlling inflation.