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*Helping Business since 1861*

16 January 2026

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,

We appreciate this opportunity to submit the Hong Kong General Chamber of Commerce's proposals for the Government's forthcoming Budget.

Hong Kong's economy has demonstrated remarkable strength and resilience amid global turbulence. Despite heightened uncertainty and volatile markets – driven by intersecting economic, geopolitical, technological and societal shifts – our economy continued to grow against the odds. Building on this solid foundation, it is now time to address the structural challenges that will shape our long-term development.

Hong Kong cannot remain untouched by evolving global trends. An ageing population will soon, if it has not already, affect economic growth across many developed economies, making a comprehensive strategy indispensable. Yet artificial intelligence offers a promising avenue to unlock new growth and efficiency, and we must seize the moment to accelerate its adoption across all sectors of society.

The attached submission outlines our recommendations for comprehensive, forward-looking strategies to ensure Hong Kong remains at the forefront of these global dynamics.

We hope you find our proposals constructive and valuable.

Yours sincerely,

Agnes Chan  
Chairman

Encl.

# Hong Kong General Chamber of Commerce

## Submission to the 2026-27 Budget

### *A Silver Society, A Smarter Community*

#### **Executive Summary**

Hong Kong's economy has demonstrated remarkable resilience amid global uncertainty. Following a resilient 2025, we are poised to leverage the strengths we have built as we enter a promising 2026 and beyond.

We continue to support the Government in fostering the development of the Northern Metropolis through the adoption of public-private partnerships, streamlining procedures, and expediting approvals. We emphasise the importance of creating synergy within the Greater Bay Area by enhancing the Connect Schemes and deepening financial market connectivity. Strengthening Hong Kong's international business environment remains crucial. Leveraging the city's status as the world's premier international financial centre, this effort includes advancing key market segments such as family offices, the bond market, sustainable finance, intellectual property trading, and new growth areas like digital assets and commodity trading.

However, achieving sustainable growth requires addressing structural challenges, notably the disruptions brought by artificial intelligence (AI) and the rapid aging of our population.

#### **Ageing Population: Formulating Population Growth Strategy**

The demographic shift is a ticking time bomb. The number of residents aged 65 and over is projected to increase from 1.45 million (20% of the total population) in 2021 to 2.75 million (33.5% of the total population) by 2046. An ageing population will soon, if not now, start to hinder economic growth, creating significant economic, social, and healthcare pressures—from a shrinking labour force to rising healthcare costs and shifting consumption patterns. It is imperative for the Government to take action now to implement a comprehensive population growth strategy, as outlined in our submission, including measures to encourage childbearing, boost labour supply, improve healthcare services, reform the MPF system, and enhance land use planning.

#### **AI as a Driver of Transformation**

Above all, the adoption of AI is the most critical driver of Hong Kong's successful economic transformation. We view AI not as a separate segment, but as a strategic tool to drive meaningful changes and positive developments across all sectors of society. With the pace of skill obsolescence accelerating, we strongly recommend that the Government build on the existing Innovation and Technology Development Blueprint and develop a dedicated AI strategy and roadmap focused on responsible implementation. This strategy should include encouraging local research and development activities, nurturing an AI-ready workforce, and accelerating AI adoption. These initiatives will enable the city to move beyond pilot projects and scale AI integration across industries, ultimately improving overall efficiency.

Our vision is clear: a smarter Hong Kong that offers growth opportunities for the younger generation, stability for the middle-aged, and healthy aging for seniors—ultimately creating a prosperous, inclusive future for all.

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# Hong Kong General Chamber of Commerce

## Submission to the 2026-27 Budget

### *A Silver Society, A Smarter Community*

## 1 Well-managed Public Finance

### *Stimulate the Economy*

- 1.1 Despite a resilient performance in 2025, the Hong Kong economy continues to face various risks and challenges. Although inflation remains contained, many small business owners and residents still grapple with significant cost-of-living pressures. To alleviate people's burden, we suggest that the Government provide one-off reductions of salaries tax, tax under personal assessment and profits tax for the 2025-26 year of assessment by 100%, subject to a \$3,000 ceiling per case.
- 1.2 Due to limited elderly care resources in Hong Kong, an increasing number of senior residents are seeking elderly care options in the Mainland. To facilitate the retirement of Hong Kong elderly persons in the Greater Bay Area (GBA), consideration should be given to extending the Dependent Parent and Dependent Grandparent Allowance to include dependents ordinarily residing in the nine Mainland GBA cities. This initiative could take reference from 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.
- 1.3 We suggest enhancing and streamlining the application process for the Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund) to enable enterprises, particularly small and medium-sized enterprises (SMEs), to secure support more promptly for overseas promotion, exhibitions, and market-entry activities. Providing clearer guidelines and reducing processing times would help businesses respond swiftly to opportunities in new markets.
- 1.4 We also suggest extending the application period of the SME Financing Guarantee Scheme (for the 90% Guarantee Products, as the 80% Guarantee Product application period has been extended) for one-year to end-March 2027. Many SMEs are grappling with cash flow issues, alongside high operating costs like labour and rent. Extending the government-guaranteed financing/loan scheme can help SMEs restructure their finances and release debt burdens.
- 1.5 SMEs are the backbone of Hong Kong's economy. We reiterate our call for the introduction of long-term fixed-rate mortgage loans for SMEs, such that the longer the mortgage term, the lower the monthly payments. Fixed rates would enable SMEs to mitigate risks associated with interest rate fluctuations. While commercial banks currently lack long-term fixed-rate deposit options, the Hong Kong Mortgage Corporation could adopt a model similar to that of the US Federal National Mortgage Association (Fannie Mae), which involves purchasing and guaranteeing these mortgages from financial institutions using proceeds from long-term fixed-rate bonds to enhance affordable lending.

## *Generate Government Income*

- 1.6 We commend the Government for its efforts to eliminate the fiscal deficit, which presents a promising pathway toward achieving a healthy budget this fiscal year after five consecutive years of deficits. However, the fiscal reserve remains around \$600 billion, just half of its peak in early 2019. In light of the fiscal pressures stemming from increasing debt and growing social spending, we encourage the Government to continue exploring new sources of tax revenue to meet its rising expenditure needs.
- 1.7 With the rapid digitalisation of the global economy, many jurisdictions around the world have imposed indirect taxes on digital activities. We reiterate our call for the introduction of an indirect tax on digital activities conducted by non-Hong Kong resident digital service providers, proposing an initial tax rate of 3% to 5% on a limited range of digital activities, such as in-app purchases, game downloads, content streaming, and other significant e-commerce revenues. The Government could require platform operators to register on behalf of these digital service providers—a common approach for imposing GST/VAT on cross-border digital supplies—facilitating tax withholding directly at the source by these operators or by financial intermediaries managing payments.

## **2 Attract Enterprises and Investment**

### *Develop Headquarters Economy*

- 2.1 The constantly shifting US economic and trade policies have created significant uncertainty for businesses, presenting an opportune moment for Hong Kong to reinforce its role as a hub for enterprises and investments. Leveraging its free trade policy, low and simple tax regime, robust legal system, and vibrant financial market, Hong Kong is uniquely positioned to serve as a “super connector” to assist Mainland enterprises in “going global” while helping international firms access the vast Mainland market. It also acts as a strategic intermediary for businesses wary of direct engagement with the Chinese Mainland or the US during these turbulent times.
- 2.2 We reiterate our call to prioritise the development of a “headquarters economy”, as regional headquarters (RHQs) bring capital, talent, and technology that drive growth. To attract RHQs, we recommend providing tax incentives such as a preferential rate at 50% of the standard corporate tax on profits derived by RHQs in the city, provided they meet economic substance requirements like minimum local employment and spending thresholds. Additionally, finite concessions such as a three-year tax holiday for RHQs that were previously based in Hong Kong could help lure overseas businesses back. When complemented by other supporting measures, including talent policies, professional services, and facilitation of cross-border operations, Hong Kong’s appeal as the preferred destination for RHQs could be further enhanced.
- 2.3 Bringing in corporate treasury centres (CTCs) will also provide further impetus to the development of the headquarters economy, as many multinational corporations co-locate their CTCs with their RHQs. This underscores the need to enhance the CTC tax regime so that qualifying CTCs can also perform RHQ functions without jeopardizing the CTC claim, thereby enhancing commercial viability and providing greater flexibility for companies in structuring their operations. We also suggest that the Government revisit the interest expense deductibility rule, which currently limits deductions on interest expenses paid by Hong Kong taxpayers to local CTCs, discouraging intra-group financing. Additionally, the

Government should provide greater clarity on tax treatment under the CTC regime by establishing a “green lane” with Mainland authorities or a dedicated desk in Hong Kong to expedite approvals for banks and corporates.

- 2.4 We commend the Government’s efforts to formulate preferential policy packages and empower front-end agencies like InvestHK and OASES to apply them flexibly during negotiations with enterprises on settlement details, providing greater visibility and certainty for investment planning. To strengthen the negotiation power, we recommend the Government to recruit professional expertise who have relevant experience from the private market. By refining its workforce and leveraging market expertise, the Government can better respond to evolving market dynamics and shape policy instruments in a market-driven manner.

#### *Strengthen Dispute Resolution Capacity*

- 2.5 By leveraging Hong Kong’s well-established legal system, the Government should enhance its dispute resolution capacity. To improve the overall efficiency of the commercial dispute resolution mechanism, we recommend that the Government implement measures to promote the complementary cooperation of judicial procedures and diverse dispute resolution methods. Consideration should be given to adopting technology, particularly artificial intelligence (AI), in the provision of legal services, including digital evidence, document management, online dispute resolution, RegTech, LegalTech, cross-border data transfer, FinTech, and digital asset regulation. The industrialisation of legal services should not only modernize the legal sector and enhance system efficiency and predictability but also attract international organizations and businesses to establish themselves in the city.
- 2.6 In many instances, the Alternative Dispute Resolution (ADR) system can be more efficient and cost-effective than traditional litigation. Promoting ADR can help create a more predictable investment environment for businesses operating locally, as well as in the GBA and internationally. The Government should allocate additional resources to educate both the business community and the general public about the similarities, differences, and implications of these two systems. Furthermore, the Government could collaborate with reputable professional organizations, such as the Asian-African Legal Consultative Organisation, which has made significant contributions to international law and dispute resolution, to advance this initiative.

#### *Enhance Existing Policies*

- 2.7 Hong Kong is well known for its business-friendly environment and open economy. As global uncertainty continues to surge, the city should focus on enhancing its business environment to create certainty and attract international businesses and talent. We suggest that the Government evaluate existing policies and frameworks, as well as their economic benefits to Hong Kong’s economy and society, in order to implement targeted measures that strengthen these policies and improve the overall business environment. Below set out a few suggested priorities.
- 2.8 The Government should review and update section 45 of the Stamp Duty Ordinance to extend stamp duty relief to all bona fide intra-group transfers, regardless of the legal form of the entities involved, provided there is no change in ultimate beneficial ownership. This enhancement would strengthen Hong Kong’s inward company re-domiciliation regime, making the city more attractive to non-Hong Kong incorporated companies seeking to re-domicile. We suggest that the Government lobby with Chinese tax

authorities to explore special tax treatment for cases involving inward re-domiciliation to Hong Kong which indirectly hold assets (equity or properties) in the Mainland China.

- 2.9 In the aftermath of the Wang Fuk Court fire, the Government should develop strategies to address the long-standing issue of bid rigging associated with old building repair works. We propose that the Government establish a statutory Building Repair Authority to serve as a central coordinating and regulatory body for maintenance and repair issues concerning aging buildings in the territory. While the Incorporated Owners will retain the final decision-making authority regarding building repairs, the Authority could provide advice on work scope and contractor selection.

#### *Expand Tax Treaty Network*

- 2.10 Hong Kong's treaty network remains less extensive compared to other key markets in the Asia-Pacific region. While Hong Kong has signed comprehensive avoidance of double taxation agreements (DTAs) with 54 jurisdictions, nearby economies including the Chinese Mainland and Singapore have already established tax treaty networks with over 100 jurisdictions. A robust tax treaty network increases tax certainty and reduces barriers to cross-border trade and investment, serving as an effective tool to attract foreign investment. In this connection, we strongly recommend that the Government 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.

### **3 Strengthen the Competitiveness of Finance Market**

#### *Revamp the Family Office Regime*

- 3.1 The Government has achieved early completion of its previous target of facilitating 200 family offices (FOs) to establish a presence in the city by the end of 2025. To meet the next target of attracting an additional 220 FOs by 2028, it is crucial to further strengthen the preferential tax regime for FOs. As the Government completed industry consultations on enhancement measures in early 2025, we urge prompt legislative action to ensure timely implementation and maximise the benefits of these enhancements.
- 3.2 We have previously recommended measures to enhance the preferential tax regimes for the asset and wealth management industry, including expanding the scope of qualifying assets to cover bonds and removing the 5% threshold for incidental income under the unified tax regime for funds and the tax concession regime for family-owned investment holding vehicles (FIHVs) managed by eligible single FOs. Given the growing popularity of fixed-income investments in a high-yield environment, these enhancements would better align with the asset allocation needs of ultra-high-net-worth (UHNW) families and reduce operational challenges for single FOs in meeting existing requirements.
- 3.3 In addition, the Government should consider introducing a concessionary tax rate of 10% to eligible single FOs on qualifying income subject to the fulfilment of certain criteria akin to Singapore's approach. This initiative would ensure Hong Kong remains competitive in attracting global wealth.

### *Develop the Bond Market*

- 3.4 Bonds are becoming an increasingly popular investment class, particularly in the current environment of diversified portfolio strategies and growing demand for fixed-income products. To strengthen Hong Kong's position as a leading bond market in Asia, the Government should introduce incentives to encourage the listing of bonds on the Hong Kong Stock Exchange.
- 3.5 Consideration could be given to offering subsidies for listing costs to high-quality international issuers seeking to list bonds in Hong Kong. In particular, targeted incentives should be provided to supranational institutions and high-quality sovereign issuers from Belt and Road jurisdictions to issue RMB-denominated bonds in Hong Kong.
- 3.6 The Government should issue more RMB bonds of different maturities under the Infrastructure Bond Programme and the Government Sustainable Bond Programme, thereby establishing a regular, transparent and predictable issuance mechanism. This would accelerate the development of a more complete offshore RMB yield curve, providing more precise benchmark references for bank loan pricing, corporate RMB financing, and renminbi fixed-income products offered by asset management firms.
- 3.7 To further modernise the bond market, the Government should establish a blockchain-based platform for digital bond issuance. This would improve efficiency, transparency, and settlement speed, while reducing operational costs. We recommend that the Government actively promote and encourage statutory bodies to issue digital bonds using this platform as a demonstration of leadership and innovation.

### *Promote Sustainable Finance*

- 3.8 We recommend that the next phase of the Hong Kong Taxonomy for Sustainable Finance (i.e., Phase 2B) include natural gas-fired power generation as a transition activity - with practical emissions thresholds and sunset dates—to reflect its role as a bridge fuel in Hong Kong's energy transition. In view of its growing share in Hong Kong's energy mix, we also encourage the Hong Kong Monetary Authority (HKMA) to classify nuclear power generation—a stable zero-carbon baseload electricity source—as a green activity, in alignment with Mainland China's Green Finance Endorsed Project Catalogue (2025). The Taxonomy framework could also consider accepting entity-level transition plans to reflect broader decarbonisation efforts, allowing flexibility for context-specific categories and adding credibility to project-based transition activities.
- 3.9 In addition, the Government is encouraged to strengthen collaboration among financial institutions, corporates, and academia through the HKMA and the Sustainable Finance Cross-agency Steering Group. This will reinforce Hong Kong's role as a regional hub for sustainable and transition finance, while combating greenwashing and advancing the development of a comprehensive sustainable disclosure system.

### *Facilitate Intellectual Property Trading*

- 3.10 A robust intellectual property (IP) regime is a critical enabler of artificial intelligence (AI) innovation, providing innovators with the means to protect their creations and maintain competitive advantage. As AI reshapes how IP is created, valued, and exchanged, Hong Kong must develop a comprehensive framework that safeguards both traditional IP assets and AI-generated inventions and content.
- 3.11 Priority should be given to establishing internationally accepted IP valuation standards across intangible assets, including patents, trademarks, copyrights, and trade secrets. Standardised valuation protocols would allow businesses to accurately assess the worth of their IP, facilitating investment, trade, and commercialisation. A transparent, independent, and fair valuation framework would also promote the development of IP-backed financing, enabling lenders to accept IP as a viable asset class. This would allow businesses—particularly startups and SMEs—to use IP as collateral for financing, thereby increasing access to capital and accelerating innovation.
- 3.12 In addition, consideration should be given to treating acquisition costs of IP as tax-deductible expenses when calculating profits tax for IP holding companies, particularly in cases involving transfers between associated entities. While profits tax deductions are provided for capital outlays on acquiring IP rights, such claims are often denied where made by affiliates of IP owners or where the IP is already in use under a licence outside Hong Kong at the time of purchase. Given that transfer pricing rules are already in place, these transactions would, by definition, take place at arm's length and therefore present a lower risk of abuse. As such, we suggest that claims by affiliates be eligible for deductions, as this would encourage IP owners with overseas IP rights to register in Hong Kong.
- 3.13 We commend the recent opening of the Hong Kong Technology and Innovation Support Centre, which provides patent valuation services and subsidies to local small and medium-sized I&T enterprises. While patents remain a cornerstone of traditional IP portfolios, particularly trade secrets—are increasingly outpacing patents in terms of strategic importance. To amplify these efforts and further support innovation, consideration should be given to expanding the scope of services to include other IP assets such as trademarks, copyrights, and trade secrets. This broader coverage would help businesses unlock the full value of their intangible assets.
- 3.14 Traditional static IP valuations often fail to keep pace with rapid changes in market conditions, technology, and the legal landscape. We recommend that the Government explore the use of digital technologies such as blockchain and AI to enable real-time, market-driven IP valuations. Real-time pricing of IP assets based on actual supply and demand would allow IP to be treated as a liquid asset, enabling startups and SMEs to secure loans or attract investors more effectively by demonstrating immediate, verifiable collateral value.

### *Nurture New Growth Areas*

- 3.15 The digital asset space is a rapidly growing area in the financial landscape. We suggest that the Government set up the necessary infrastructure to facilitate interoperability across different digital platforms. To drive the adoption of Central Bank Digital Currency (i.e., e-HKD) or stablecoins, consideration should be given to integrating with the Faster Payment System (FPS) for on-ramp and off-ramp functionality.

- 3.16 We support the Government's initiative to propel Hong Kong into an international gold trading centre and create a commodity trading ecosystem. To facilitate financial trading of gold, we propose that the Government establish an OTC Trading and Central Clearing and Settlement System to attract international participation. This would require the formation of a dedicated trade association for precious metals to drive industry self-discipline, cultivate talent, and strengthen the regulatory framework.
- 3.17 To foster the development of a commodity trading ecosystem, the Government has announced in its Policy Address that a new half-rate tax concessionary regime will be introduced for qualified commodity traders. We urge prompt legislative action on these new incentives and the introduction of the proposed framework with stakeholders at an early stage, including the hosting of commodity forums or summits, to ensure effectiveness. Additionally, we recommend that the Government start exploring the feasibility of "Commodity Connect" to facilitate financial trading.

## 4 Create Synergy in the GBA

### *Deepen Financial Market Connectivity*

- 4.1 Over the past years, several mutual capital market access schemes have been launched, enabling international institutional investors to access Mainland capital markets more conveniently through Hong Kong. To maintain Hong Kong's role as a key gateway for Mainland capital, it is essential to further enhance existing connect schemes and explore the establishment of new ones in response to rapidly evolving market dynamics. These initiatives would allow Hong Kong to continue contributing to the internationalisation of Mainland capital markets, deepen cross-border financial integration, and reinforce its position as a leading international financial centre.
- 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 incentivise RMB counter trading.
- 4.3 **Bond Connect:** i) 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 **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.

- 4.5 **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 noncash collateral to OTC Clear, to attract more investors to trade derivatives via Swap Connect.
- 4.6 With growing global interest in virtual asset investments, Hong Kong should seize the opportunity to strengthen its position as a leading digital finance hub. We propose the establishment of Virtual Asset Connect, enabling two-way cross-border participation in licensed virtual asset activities between Hong Kong and the Mainland. Consideration should be given to adopting a daily investment quota, initially set at RMB 5 billion—approximately 10% of the Northbound trading quota under Stock Connect.
- 4.7 In addition, the Government should liaise with Mainland authorities to achieve mutual recognition of data between the Mainland’s data exchanges and Hong Kong-licensed virtual asset trading platforms. This integration would enhance data verification and compliance assurance for virtual asset activities by enabling access to authoritative datasets curated by Mainland exchanges, including enterprise information, asset-related disclosures, and compliance or creditworthiness records.

#### *Accelerate RMB Internationalisation*

- 4.8 To boost cross-border investment flows, removing tax barriers with the Mainland would reduce transaction costs and encourage foreign investment, thereby accelerating RMB internationalisation. Specifically, we recommend liaising with Mainland authorities to exempt Mainland individual investors from paying the 20% tax on dividends from Hong Kong stocks purchased via Stock Connect. This initiative would significantly boost southbound flows, enhance market liquidity, and help revive Hong Kong’s stock market.
- 4.9 In addition, the Government should engage with its Mainland counterparts to eliminate withholding tax on dividends paid by Mainland businesses to Hong Kong investors—whether corporates or individuals—through an administrative concession. This measure would reduce friction in cross-border investment and strengthen Hong Kong’s role as a preferred platform for Mainland enterprises seeking international capital.
- 4.10 Operational enhancements are equally critical. We propose working jointly with Mainland authorities to establish a Quick Repatriation Channel that enables foreign investors to repatriate funds within a designated, short timeframe when exiting investments through Hong Kong. This mechanism would provide greater certainty and efficiency in capital flows, making Hong Kong an attractive base for foreign investors deploying capital into Mainland markets.
- 4.11 We also suggest that the Government establish a Hong Kong-ASEAN Foreign Exchange Trading Centre. With the support of the People’s Bank of China, the Hong Kong Monetary Authority (HKMA) can consult with the central banks of ASEAN countries to introduce a local currency liquidity facility for participating countries via Hong Kong. This initiative will establish a bilateral quotation and market-making mechanism to enhance the liquidity of direct exchange between RMB and ASEAN currencies. By increasing market participants and scale, this approach will help foster the role of RMB as a regional anchor currency.

### *Enhance Cross-border Tax Certainty*

- 4.12 Hong Kong's company re-domiciliation regime aims to attract non-Hong Kong incorporated corporates to relocate their domicile to Hong Kong. However, tax implications in the Mainland remain unclear, creating uncertainty for businesses considering re-domiciliation. We urge the Government to engage with Mainland tax authorities to clarify potential China tax implications for companies re-domiciling to Hong Kong. Greater tax certainty would significantly enhance Hong Kong's attractiveness as a re-domiciliation destination and strengthen its role as a regional headquarters hub.
- 4.13 Similarly, Hong Kong should liaise with Mainland authorities to clarify tax rules and regulations regarding profit allocation for Limited Partnership Funds. These funds often face tax uncertainties when investing in the Mainland, which can negatively impact investment returns. Specifically, both sides should define circumstances under which an investment made through a Qualified Foreign Limited Partnership constitutes a permanent establishment in China, and applicable tax rates for profits allocated from such funds.

## **5 Foster Development of Northern Metropolis**

- 5.1 The Northern Metropolis plays a pivotal role in Hong Kong's social and economic development, serving as a key driver for innovation, technology, and other emerging industries. While we support continued investment in infrastructure—particularly in the Northern Metropolis—we urge the Government to formulate a holistic strategy and long-term roadmap for the area's development. This strategy should emphasise synergy with Shenzhen, leveraging the GBA's strengths to transform the region into an international innovation and technology powerhouse. Consideration should be given to replicating the success of Silicon Valley's model, which integrates capital, talent, culture, and infrastructure to create a self-reinforcing cycle of innovation.

### *Adopt Public-private Partnership*

- 5.2 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 efficiency in delivering public goods. We commend the Government for its growing interest in PPP financing as a means to accelerate infrastructure and urban development.
- 5.3 To fully capitalise on the benefits of PPP, we recommend that the Government continue engaging with businesses and Chambers of Commerce in the planning and financing of the Northern Metropolis. Professionals from relevant fields can provide essential expertise in project design, financing structures, execution, and procurement, ensuring that projects are delivered with optimal performance and cost efficiency.
- 5.4 Moreover, early and transparent engagement will allow businesses to better understand the governing principles and development framework for the Northern Metropolis. This clarity will enable companies to plan strategically and align their investments with the broader vision, fostering a collaborative ecosystem that supports long-term growth and innovation.

- 5.5 We support drawing on and leveraging market practices from other countries to stimulate private-sector participation and accelerate development—particularly through innovative PPP frameworks that can effectively shape the financing, construction, and operational arrangements of various projects. We also recommend that the Government continue creating opportunities and strengthening the presence of local businesses in the development of the Northern Metropolis.

#### *Streamline Approval Procedures for Construction Works*

- 5.6 The current approval process for large infrastructure and building projects is thorough and ensures compliance and quality, but it comes at the cost of time and complexity. The process can be lengthy, involving multiple stages of pre-planning, planning, approval, and coordination before construction can commence. For example, the approval process for road excavation permits is often time-consuming, with timelines heavily influenced by reviews from multiple Government departments and stakeholders, as well as site-specific challenges. This slows the progress of major infrastructure programmes and undermines Hong Kong's overall competitiveness.
- 5.7 Continued efforts should focus on reducing both the construction cost and time required for supporting infrastructure and utilities, such as power, telecommunications, and water. As these procedures require coordination among multiple Government departments, improving communication and processing efficiency can significantly accelerate project delivery for companies in the infrastructure and construction sectors. While the Government has announced improvements through the new Working Group on Planning and Development (specifically for the Northern Metropolis), we support and encourage active reforms to streamline these procedures and requirements. Such measures would help accelerate construction and ensure the successful delivery of large-scale projects across Hong Kong.

#### *Provide Tax Incentives*

- 5.8 Tax incentives can play a critical role in reducing the cost of investing in the Northern Metropolis, making it an effective tool to attract businesses during the early stages of development. We recommend that the Government introduce enhanced tax depreciation allowances for capital expenditure incurred in the Northern Metropolis, enabling companies to recover costs more quickly and improve project viability.
- 5.9 In addition, the Government should consider introducing investment incentives, such as providing 1.5x–2x multipliers for eligible investments that meet specific capital deployment requirements (e.g., assets under management) to qualify for the favourable tax regime for family offices. This approach, mirroring successful practices in Singapore, would attract more private capital into government-led projects, foster economic growth, and strengthen Hong Kong's global competitiveness.

#### *Enhance Climate Change Resilience*

- 5.10 In light of the escalating extreme weather events, it is imperative for the Government to upgrade public infrastructure, reinforce coastal defences, enhance flood resilience, and maintain slope stability throughout the city. Achieving these objectives requires close coordination between the Government, private sector, and residents as well as ensuring that suitable regulation, incentives and education are in place to address these challenges.

- 5.11 For private developments that take place in areas close to the sea or waterfront, it is suggested for the Government work closely with the owners/developers in the implementation of appropriate measures on flood prevention and drainage system upgrades, especially during the planning and development stage.
- 5.12 It is also recommended for the Government to better align and integrate Geographic Information Systems (GIS) for each of the 18 District Council areas with the recent technologies introduced across different Government entities which can complement each other - including but not limited to the “Flood Line System Real-Time Monitoring” from the Drainage Department, the “Storm Early Warning System” by the Guangdong-Hong Kong-Macao Greater Bay Area Sea Level Centre, and the “Intelligent Water Network” from the Water Supplies Department. If these and other similar innovative tools – that enhance the accessibility of climate related data - can be made available to the public in one easy-to-access portal, this would enable property developers, owners and managers to better adopt appropriate measures and enhance climate resiliency.

### *Incentivise Energy Management*

- 5.13 The Government should continue developing and driving initiatives to improve energy efficiency and carbon reduction measures which can be applied in both new and existing building stock. As part of this process, an adequate power supply (for example three-phase supply) designed into and made available in all new private and public residential buildings allows full electrification to take place to facilitate deeper electrification and carbon reduction over the long term. Government grants could be made available to incentivise building owners to retrofit existing residential building electrical systems to provide three-phase power.
- 5.14 To receive GFA concessions, higher standards for energy and waste management should be required (best in class energy efficiency, life cycle carbon assessment, zero waste building design and facilitating better waste separation and sorting in buildings) and there should be more flexibility in the building regulations to allow the use of innovative/sustainable materials. For buildings in general, further efforts should be provided to facilitate waste separation and proper recycling in major property developments.
- 5.15 To foster innovative building technologies, it is recommended that the Government update Building regulations to support sustainable building design and construction techniques, which are instrumental in reducing waste and carbon intensity of buildings. This initiative is essential for achieving carbon neutrality. The Government should continue advancing innovation in construction by increasing the adoption of technologies such as Building Information Modelling (BIM), Design for Manufacture and Assembly (DfMA), and Modular Integrated Construction (MiC).

## **6 Catch the AI Boom**

- 6.1 AI offers immense potential to drive productivity gains by enhancing efficiency and streamlining operations across sectors. While the Innovation and Technology (I&T) Development Blueprint sets out Hong Kong’s strategic direction for the next 5–10 years, the rapid pace of technological advancement has rendered parts of the Blueprint outdated. To keep Hong Kong competitive, we recommend that the Government build on the existing Blueprint and formulate a dedicated AI strategy and roadmap focused on responsible implementation. This will enable the city to move beyond pilot projects and scale AI adoption across industries.

### *Encourage Local R&D Activities*

- 6.2 To incentivise businesses in Hong Kong to increase R&D activities, companies are currently allowed to claim a 300% tax deduction for the first \$2 million of eligible R&D expenses and 200% for the remaining amount, with no cap on the 200% deduction, provided that the qualifying R&D activities are conducted within Hong Kong.
- 6.3 While Hong Kong offers a super tax deduction for R&D expenses, the requirement that qualifying activities be conducted locally presents significant challenges due to the persistent shortage of talent and facilities compared to other GBA cities such as Shenzhen. We reiterate our call to extend the super tax deduction to include R&D activities conducted within the GBA. This would allow companies to leverage Hong Kong's unique advantages—such as its close connection with the Mainland—and better contribute to the nation's goal of becoming an innovation and technology superpower.
- 6.4 Hong Kong also has an opportunity to enhance its attractiveness to foreign investors by fostering R&D investments and providing greater tax certainty. We propose expanding the scope of the current super deduction to include R&D services provided in Hong Kong to other parties, aligning Hong Kong's practice with leading jurisdictions such as France, the UK, the Netherlands, Spain, and Ireland. Additionally, tax rulings in Hong Kong are currently limited and only available before a transaction occurs. Allowing rulings for already completed transactions—where tax positions are uncertain—would help businesses comply with tax rules and mitigate litigation risks, as is common in jurisdictions such as the UK, Singapore, Italy, France, Spain, and the UAE.
- 6.5 The appeal of Hong Kong's R&D super deduction may be eroded by the implementation of the OECD Pillar Two minimum tax. To maintain Hong Kong's competitiveness and foster an innovative ecosystem, we recommend introducing a Qualified Refundable Tax Credit for MNEs engaged in qualifying R&D activities. Unlike non-refundable credits, these would be treated as Pillar Two GloBE income and likely subject to a lower effective tax rate, offering a more favourable option for promoting R&D without negatively impacting the overall tax position of multinational enterprises.

### *Build an AI-ready Workforce*

- 6.6 Talent development is critical to driving AI adoption and enabling businesses to integrate digital solutions that align with their models and enhance operational efficiency. However, the shortage of technical talent remains a major challenge for businesses—large and small—in advancing digitalisation. According to a recent survey conducted by the Chamber, lack of technical talent is the biggest barrier to digital transformation.
- 6.7 With the average half-life of skills now less than five years—and as short as two and a half years in some tech fields—the pace at which skills become obsolete is accelerating, widening the skills gap. The Government should take the lead in assessing current skillsets and readiness by conducting a large-scale market survey to accurately identify gaps and formulate targeted policies. Additionally, an AI preparedness assessment tool should be developed to help companies evaluate their capabilities and pinpoint areas for improvement.

- 6.8 To support workforce upskilling, the Government should introduce tax incentives for employers, such as a 120% tax deduction for AI-related training expenses, and provide individual subsidies of \$5,000 under the Continuing Education Fund to offset fees for a wide range of AI courses.
- 6.9 Beyond financial incentives, the Government should launch a skills programme offering AI training and short courses to equip people of all ages and backgrounds with essential digital skills. This should include hands-on training across the AI development lifecycle, covering data management, model training, and deployment.
- 6.10 Finally, Hong Kong must cultivate a deeper pool of AI talent by supporting universities to expand AI-related programs and increase graduate output. Currently, the number of graduates in AI disciplines from Hong Kong's eight major universities falls far short of market demand. The Government should encourage universities to co-design new courses with industry partners and increase teaching capacity, ensuring the next generation is equipped with cutting-edge AI skills.

### *Accelerate AI Adoption*

- 6.11 As a service-based economy, Hong Kong should prioritise AI adoption as a strategic enabler of efficiency and business transformation. The city can serve as a testing ground for AI applications, demonstrating how AI can optimise operations and reshape business models across sectors.
- 6.12 To foster a healthy AI ecosystem, the Government should conduct a comprehensive regulatory impact assessment, a practice widely recognised by OECD countries as a key tool for improving regulatory decision-making. This approach would provide an objective cost-benefit analysis of AI regulations, helping to reduce compliance costs—particularly for SMEs and startups—while mitigating risks and unintended consequences.
- 6.13 We recommend introducing a cross-sector AI sandbox scheme to enable pilot trials across industries. While we commend the HKMA and Cyberport for launching the Generative AI Sandbox for banking, a broader sandbox covering multiple sectors would lower regulatory barriers and allow companies to test AI solutions in a controlled environment. This framework should also extend to emerging industries such as the low-altitude economy, ensuring innovation is not hindered by outdated regulations.
- 6.14 Enterprises face high upfront costs when adopting AI, which is especially burdensome for SMEs. The Government should provide funding support for responsible AI adoption, with streamlined procedures and upfront subsidy to help companies acquire software, hardware, and access high-performance AI tools and cloud computing resources. This will enable businesses to develop advanced AI solutions, including agentic AI systems.
- 6.15 The AI boom will drive demand for AI-ready data centre capacity. To support this growth, the Government should streamline procedures for setting up supporting infrastructure and utilities (e.g., power, telecommunications, water) to reduce construction time and costs. For example, optimizing approval processes for road excavation permits—which currently take months and involve stringent conditions—would significantly accelerate project timelines. Additionally, given the high energy and cooling requirements of data centres, the Government should promote the development of net-zero, green data centres to align with sustainability goals.

- 6.16 A well-defined digital transformation framework can serve as a valuable guide, providing solid governance and a clear structure for prioritising objectives. The Government plays a crucial role in fostering a thriving digital economy through establishing policies and strategic direction. To develop a holistic framework for digital transformation, we suggest that the Government take a “wait and see” approach to AI regulation, taking into account concerns related to AI, such as privacy, and the challenges posed by the common law system in addressing new technologies.
- 6.17 Hong Kong has the opportunity to become a regional leader in Advanced Air Mobility (AAM) infrastructure consultancy, engineering, and technology export by leveraging expertise developed through local implementation. We suggest the Government to accelerate the planning and construction of dedicated infrastructure for AAM, including vertiports, charging infrastructure, and air traffic management systems. Integrating AAM infrastructure with existing transport nodes is essential to enable seamless multi-modal connectivity.

## **7 Get Ahead of Ageing**

- 7.1 Hong Kong’s population is ageing rapidly. The number of people aged 65 and above is projected to rise from 1.45 million (20% of the population) in 2021 to 2.75 million (33.5%) by 2046. The proportion of the “old-old” (aged 80 and above) will also surge from 0.4 million (5%) in 2021 to 1.2 million (15%) in 2046. This demographic shift poses significant social and economic challenges. It is imperative for the Government to formulate a comprehensive population strategy to maintain economic competitiveness and ensure long-term growth sustainability.
- 7.2 We applaud the Government’s proposal of 30 measures in May 2025 to promote the silver economy, with a focus on active ageing. However, addressing the broader implications of an ageing population requires a comprehensive and integrated policy response. This should include promoting higher birth rates through family-friendly policies, preparing the labour market for demographic shifts, improving elderly care services and housing solutions, and implementing measures to mitigate economic impacts. A holistic approach will ensure Hong Kong remains competitive and socially sustainable in the face of rapid demographic change.

### *Encourage Childbearing*

- 7.3 Consideration should be given to implementing caregiver tax credits. For example, allow a tax deduction for expenses incurred in employing one domestic helper or caregiver per year of assessment, subject to a cap of \$30,000. This measure would provide meaningful support to low- and middle-income families, assist those who require help in caring for dependents, and incentivize parents—particularly mothers—to re-enter the workforce.
- 7.4 The Government should also promote family-friendly workplace policies, including flexible working hours, remote work options, return-to-work support, and childcare assistance, alongside improved maternity and paternity leave provisions. Consideration should be given to increasing paternity leave and introducing shared parental leave, comprising an additional four weeks of paid leave to be shared between parents, to encourage greater involvement of both parents in childcare.

### *Boost Labour Supply*

- 7.5 Hong Kong's labour force participation rate remains critically low at around 57%, lagging behind regional peers such as Singapore and Tokyo. With an ageing population reshaping the labour market, urgent measures are needed to expand the workforce and maintain economic competitiveness.
- 7.6 One key opportunity lies in tapping into latent labour supply by supporting women to rejoin the workforce. The Government should provide career guidance, skills training, and onboarding assistance for women returning to work, similar to Singapore's successful herCareer initiative.
- 7.7 The care sector faces acute manpower shortages. Globally, a shortfall of at least 10 million healthcare workers is expected by 2030, and Hong Kong is no exception. As the demand for elderly care surges, the number of local care workers continues to decline. While importing care workers can provide short-term relief, this is not a sustainable solution.
- 7.8 A more sustainable approach is to develop a local talent pool for elderly and rehabilitation care services. The Government should introduce measures to attract and retain young people in the sector, and provide workforce readiness training and employment opportunities for low-income women. These initiatives would not only address labour shortages but also create inclusive job opportunities.

### *Improve Healthcare Services*

- 7.9 With Hong Kong's population ageing rapidly, demand for healthcare services will surge. The healthcare system must shift from a hospital-centric, curative model to an integrated, preventive, and community-based approach. Key strategies include empowering primary care, promoting preventive health, leveraging digital tools, and ensuring holistic, person-centered support.
- 7.10 The Government should actively pursue collaboration with the private sector in delivering primary healthcare programmes. Consideration should be given to PPP, which could take the form of central procurement or grant-based models to enhance efficiency and accessibility. By pairing public investment with private capital, we can develop research, pilot-scale manufacturing, and commercialisation platforms supported by clear, well-structured arrangements that ensure broad participation and public benefit. This approach allows Hong Kong to leverage private-sector innovation and resources, while maintaining a focus on outcomes that contribute to long-term economic growth.
- 7.11 Consideration should be given to developing the skills and capabilities needed to support Hong Kong's growing bioeconomy, particularly in healthcare and aging. This includes training more doctors and strengthening applied biomedical expertise. Expanding medical and biomedical training pathways will help Hong Kong meet future demographic needs while building the talent base required for emerging health-technology industries.

- 7.12 Leveraging digital tools is essential to improve the efficiency and quality of medical services. We have previously recommended that the Government adopt AI in diagnostics and oncology management, as outlined in our earlier submission to the Policy Address. Integrating AI-driven life-sciences research and advanced biomedical technologies into Hong Kong's innovation ecosystem is crucial. Strengthening capabilities in data-driven drug discovery, diagnostics, and clinical innovation will help position Hong Kong as a competitive hub for next-generation health technologies.
- 7.13 The Government should develop a health-technology cluster in the Northern Metropolis that supports the full bioeconomic value chain. With coordinated planning and targeted infrastructure, this area can host research, testing, pilot production, and commercialization activities, enabling Hong Kong to capture opportunities in regional and global health-technology markets.
- 7.14 An increasing number of senior residents are seeking elderly care options in the Mainland. To support this trend, the Government should facilitate medical data exchange within the GBA to enable cross-border healthcare integration. This would allow senior residents to receive treatment most suited to their health conditions in the GBA, reducing pressure on Hong Kong's healthcare system while improving patient outcomes.

#### *Reform the MPF System*

- 7.15 Consideration should be given to converting the current mandatory 5% MPF contribution into a split structure, such as 4% for MPF and 1% for a Mandatory Health Insurance Fund or Mandatory Health Savings Fund. This would encourage citizens to pre-save for healthcare costs, reducing future financial burdens as the population ages.
- 7.16 The Government should broaden the range of investment vehicles available under MPF, including alternative investments. This would not only improve flexibility in asset allocation within MPF portfolios but also stimulate the development of Hong Kong's financial markets, making the system more attractive to those with the means to increase contributions.
- 7.17 To achieve universal retirement protection, we recommend introducing tax concessions for employees who contribute to retirement accounts of family members not covered by the employment-based MPF system (such as homemakers), subject to a cap of \$30,000. This measure would strengthen financial security for non-working family members and promote inclusivity in retirement planning.

#### *Enhance Land Use Planning*

- 7.18 The Government should establish long-term, forward-looking planning practices, including regular reviews of strategies under HK2030+, supported by business surveys and public infrastructure blueprints to ensure alignment with evolving economic and social needs.
- 7.19 It is imperative to formulate a senior housing policy to address the growing demand for elderly-friendly accommodation. While the Hong Kong Housing Society's Senior Citizen Residences Scheme, launched in 1999, provides 888 units under a "lease-for-life" arrangement, supply remains far behind the pace of population ageing. Consideration should be given to offering bonus plot ratios and land premium vouchers to incentivise senior housing development.

7.20 The Government should provide subsidies to retirement homes to enhance affordability and accessibility for elderly residents, ensuring adequate care and housing options for Hong Kong's ageing population. For instance, support could be directed toward integrating digital technologies such as IoT-enabled health monitoring and emergency response systems.

HKGCC Secretariat

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