

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

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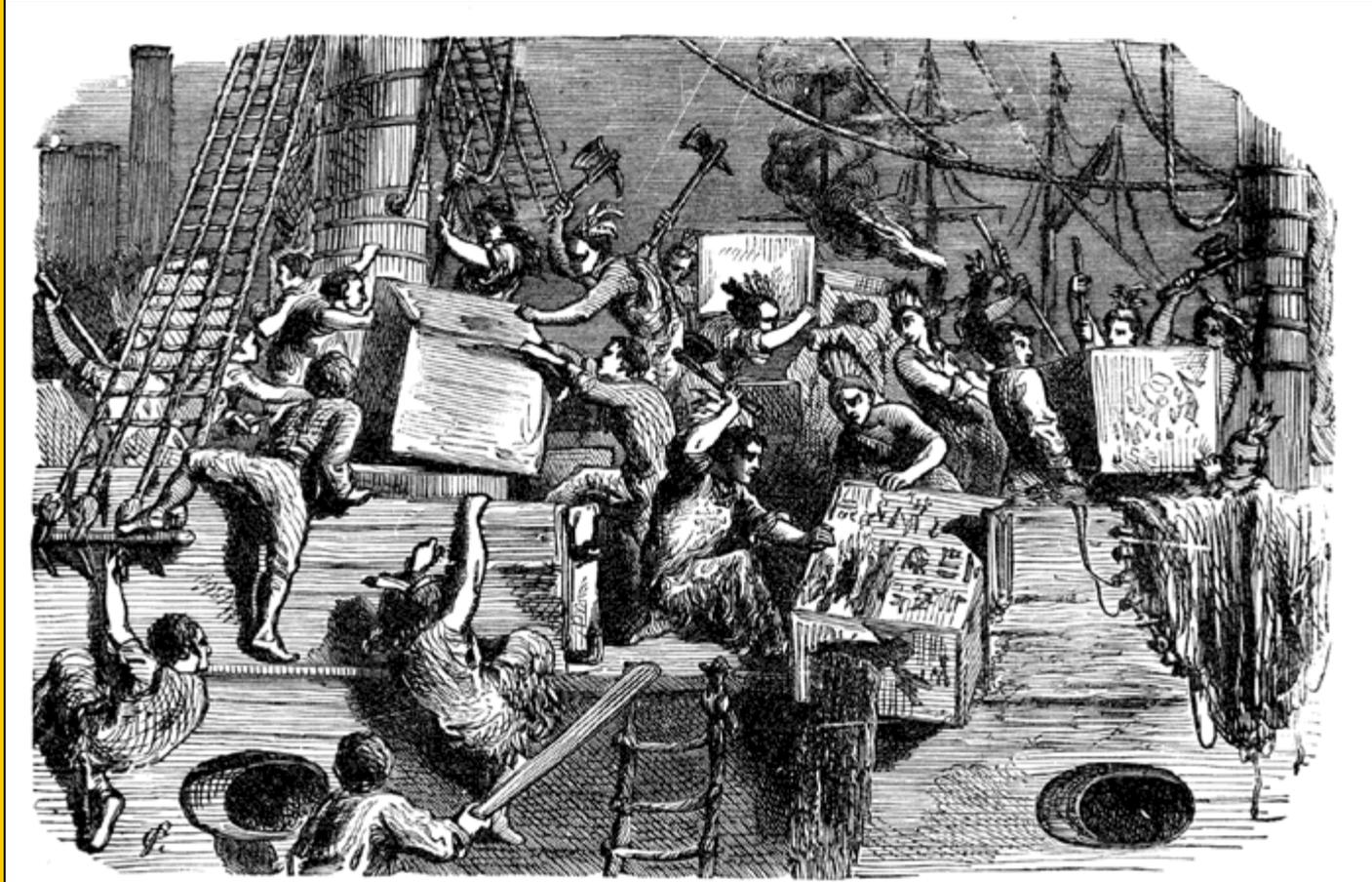
THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

LECTURE OUTLINE

- **Hong Kong Revenue System**
 - **Origins**
 - **Overview**
 - **Relevance**
- **Housing in Hong Kong**
 - **Emergencies**
 - **Challenges**
 - **Solutions**
- **Conclusion**

**HOW WE GOT FROM
THIS**

BOSTON TEA PARTY



AND THIS

BRITISH HONG KONG 19th CENTURY TRADING PORT



TO THIS



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

ADDITIONAL REFERENCE

Cullen, Richard and Tso, Kevin,
*USING OPIUM AS A PUBLIC REVENUE SOURCE – NOT AS EASY AS IT LOOKS:
THE BRITISH HONG KONG EXPERIENCE*
(2012) British Tax Review, 226

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

BRITISH COLONIAL EMPIRE

MOST SUCCESSFUL OF ALL IN THE COLONIAL ERA

MAJOR SETBACK – AMERICA COLONIES – GEO III

1770 - BOSTON MASSACRE

1773 – BOSTON TEA PARTY – AMERICAN REVOLUTIONARY WAR

1783 – TREATY OF PARIS – UK LOSES / USA CREATED

LESSONS LEARNED

TAXATION – REVENUE RAISING

HMMM....LAND.....

COLONIAL OFFICE

BRITISH EMPIRE BOUNCE-BACK

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

BRITISH COLONIAL EMPIRE

**HONG KONG ESTABLISHED AS BRITISH CROWN
COLONY – 1841-1842
(SEE ALSO: 1860 AND 1898)**

DRIVING FORCES

**BRITISH EAST INDIA COMPANY
OPIUM TRADE
OPIUM WARS**

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BRITISH HONG KONG

ORIGINAL FISCAL FOUNDATIONS

FREE-TRADE PORT

OPIUM RELATED REVENUES

LAND TRANSACTION REVENUES

OTHER REVENUES

SAVINGS – 1880S – 1 YEAR'S SPENDING!

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BRITISH HONG KONG

Nevertheless, in spite of this poor showing, in spite of the decrease in opium importation as compared with the balmy days, all is not lost. The Crown Colony of Hong Kong still continues to do an active trade. In the Colonial Office List for 1917, on page 218, we read:

Hongkong. Revenue: About one-third of the revenue is derived from the Opium Monopoly.

THE OPIUM MONOPOLY
(MACMILLAN, NEW YORK, 1920)
BY ELLEN N. LA MOTTE

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

BRITISH HONG KONG POLITICAL FOUNDATIONS

THE GEORGE III POLITICAL MODEL



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

BRITISH HONG KONG POLITICAL FOUNDATIONS

FROM 1841 – 1997
HONG KONG RETAINED THE
COLONIAL (NON-WHITE)
BRITISH EMPIRE CONSTITUTIONAL SYSTEM
BASED ON THE GEORGE III MODEL



GOVERNOR

POWERFUL EXECUTIVE GOVERNMENT

*COMPARATIVELY WEAK LEGISLATURE
(100% APPOINTED – UNTIL 1985)*

INDEPENDENT JUDICIARY



GEORGE III

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

BRITISH HONG KONG: 1841 - 1941

HONG KONG EXPANDS
OPIUM TRADE FADES
LAND REVENUES REMAIN
WAR THREATENS
INCOME TAX AT LAST
WAR REALLY ARRIVES - 1941

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BRITISH HONG KONG
POLITICAL FOUNDATIONS

POST WORLD WAR II

CREATION OF PRC: 1949

KOREAN WAR

MIGRATION FROM MAINLAND CHINA

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BRITISH HONG KONG
POLITICAL FOUNDATIONS

POST WORLD WAR II

WORLD BANK ASSISTANCE – NO THANK YOU

**NO DEMOCRATIC REFORM in BHK
BUT CONSULTATIVE *AUTHORITARIAN LEGALITY***

ICAC - 1974

**INDEPENDENT COMMISSION
AGAINST CORRUPTION**

***TRANSPARENCY INTERNATIONAL INDEX - 2020:
HONG KONG 11 / 180 - AHEAD OF JAPAN & USA***

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BRITISH HONG KONG POLITICAL FOUNDATIONS

MASSIVE SPENDING ON PROVISION OF BASIC
HOUSING – HEALTH SERVICES – EDUCATION

MASSIVE INFRASTRUCTURE DEVELOPMENT
TRANSPORT & COMMUNICATIONS

BANK RESCUES

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

BRITISH HONG KONG

POST WAR - 1947

INCOME TAX APPLIED

TRADE TAKES OFF

ECONOMIC TAKE-OFF

1945 HK-GDP PERCAPITA BELOW INDIA

1992 HK-GDP PER CAPITA ABOVE UK

2004 HK-GDP PER CAPITA ABOVE CANADA

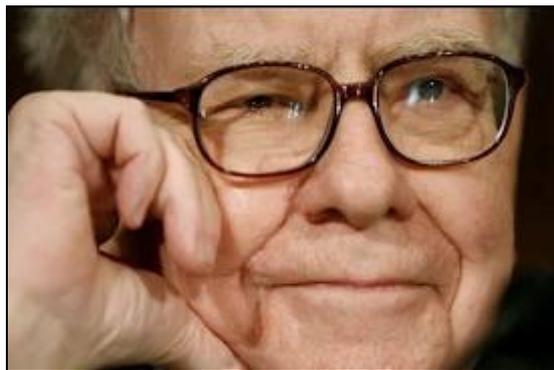
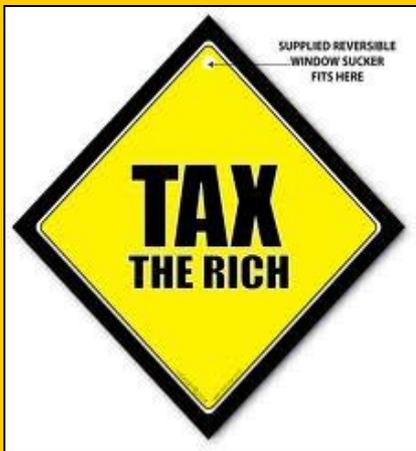
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July 1, 1997
BRITISH HONG KONG
becomes the
HKSAR

Taxation System / Revenue Regime Retained
Fiscal Firewall
Separated from Mainland Tax System



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING



WEALTHY MAN



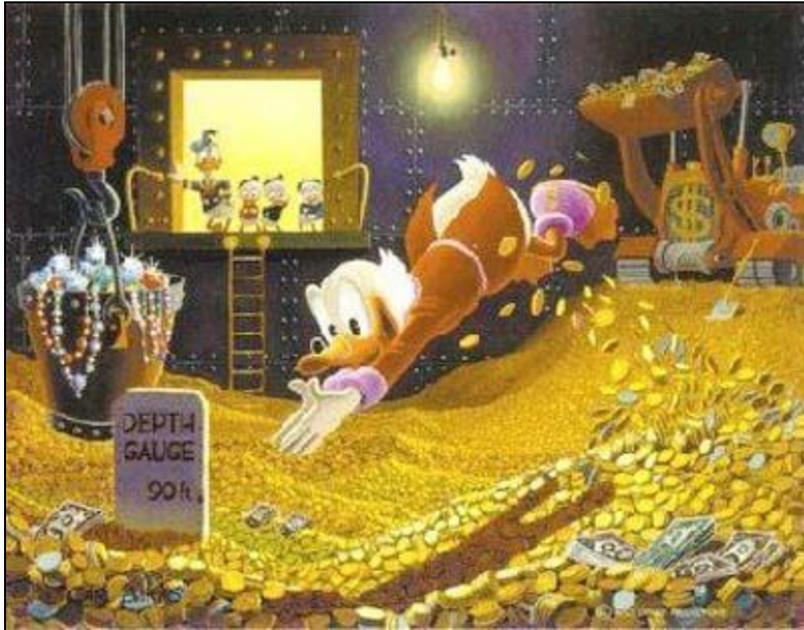
TAXING CELEBRITIES



TAX POLICY ACADEMIC

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

TAXING WEALTH



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

TAXING WEALTH AN ALTERNATIVE APPROACH



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

REVENUE REGIME DISCUSSION

- 1.0 INTRODUCTION
- 2.0 THE ORIGINS OF REVENUE POLICY IN HONG KONG
- 3.0 PROFILE OF THE CURRENT REVENUE REGIME
- 4.0 TAX POLICY LESSONS GOOD AND BAD

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

“BLACK CAT – WHITE CAT”

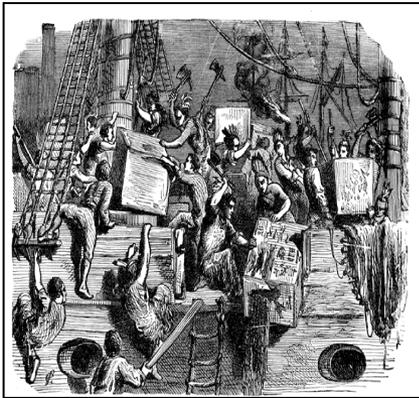
2.0 THE ORIGINS OF REVENUE POLICY IN HONG KONG



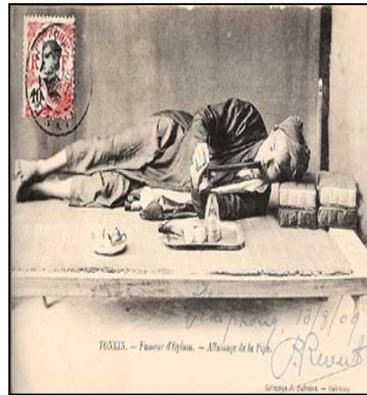
THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

“BLACK CAT – WHITE CAT”

2.0 THE ORIGINS OF REVENUE POLICY IN HONG KONG



TEA PARTY



OPIUM \$\$\$



LAND \$\$\$\$\$\$

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

3.0 PROFILE OF THE CURRENT REVENUE REGIME (INCOME TYPE TAXES)

3.1 A Turning Point (1941-1947)



3.2 The Current System

3.3 The Fiscal Firewall (1997)



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

3.2 The Current System

- A narrow taxation base;
- Low taxation rates;
- Separate schedules applying separately identified taxes to different classes of income – no general income tax.

Profits Tax;
Salaries Tax; and
Property Tax

- No taxation of income derived from outside of Hong Kong regardless of the residence status of the taxpayer (source-based taxation).
- Simple and relatively stable taxation laws;

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

3.2 The Current System (Cont'd)

- Retention of Stamp Duties in the system;
- Until fairly recently almost no use of Double Taxation Treaties (DTTs);
- Comparatively constrained government spending;
- Very little government borrowing;
- Infrequent deficit budgeting; and
- Massive accumulated Fiscal Reserves.

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

3.2 The Current System (Cont'd)

WHAT IS *MISSING* ?

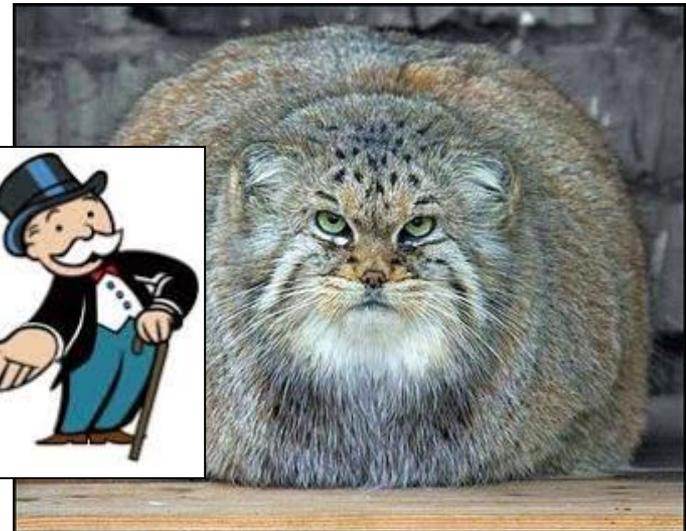
TAX ON DIVIDENDS

TAX ON INTEREST

CONSUMPTION TAX

CAPITAL GAINS TAX

RESIDENCE-BASED TAXATION



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

3.2 The Current System (Cont'd)

Q: A NARROW TAX BASE?

A: SURELY YES.



SEE ABOVE – PLUS:

**ABOUT 60% OF WAGE AND SALARY EARNERS
& MANY SMEs HAVE INCOMES LOWER THAN
THE TAXABLE THRESHOLD.**

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3.2 The Current System (Cont'd)

BUT A RATHER WIDE REVENUE BASE....



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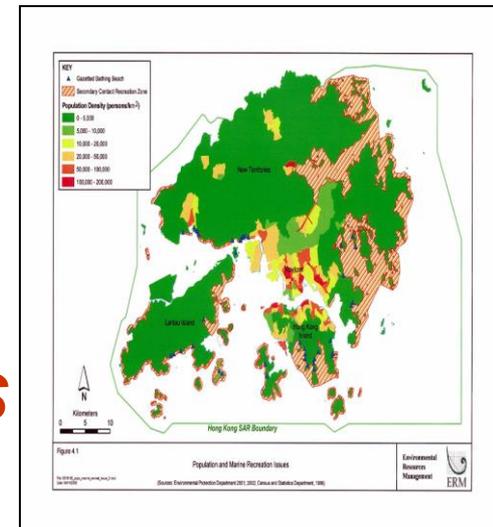
4.0 TAX POLICY LESSONS GOOD AND BAD

- 4.1 Introduction**
- 4.2 Land-Related Revenues**
- 4.3 Simple, Low Rate Tax System**
- 4.4 The Bad Examples**
- 4.5 The Residual Welfare State**

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

4.2 Land-Related Revenues

- 1842 – 2023 & CONTINUING..
- **LEASEHOLD – TIGHTLY DRAWN**
- **LAND SUPPLY CONTROL**
 - 1,000 SQUARE Ks (approx.)
 - 75% LOW DENSITY or GREEN
- **LEASE MODIFICATION PREMIUMS**



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

GOVERNMENT CORE PROPRIETARY INTEREST



Land-Related Revenues

- 1842 – 2023 & CONTINUING..
- **LEASEHOLD – TIGHTLY DRAWN**
- **LEASE RENEWAL – UNMODIFIED - SIMPLE**
- **LEASE MODIFICATION - PREMIUMS APPLY**

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

GOVERNMENT CORE PROPRIETARY INTEREST



“LARVOTTO”

AP LEI CHAU – LOT 129

180,000 SQUARE FEET

“INDUSTRIAL” -1995

SALE: US\$30 MILLION

RESALE: US\$74 MILLION

“RESIDENTIAL” - 2005

LEASE MODIFICATION

PREMIUM: US\$504 MILLION



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

4.0 TAX POLICY LESSONS GOOD AND BAD

4.1 Introduction

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4.3 Simple, Low Rate Tax System

4.4 The Bad Examples

4.5 The Residual Welfare State

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

Simple, Low Rate Tax System

SCHEDULAR TAX IMPOSITION

LOW RATES

SOURCE BASED TAXATION

SIMPLE STABLE INLAND REVENUE ORDINANCE

NO:

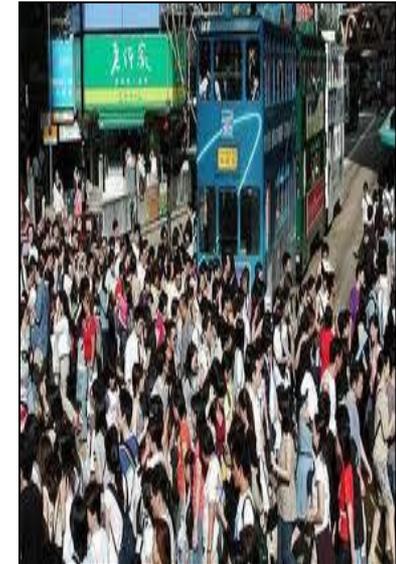
TAX ON DIVIDENDS

TAX ON INTEREST

CONSUMPTION TAX

CAPITAL GAINS TAX

RESIDENCE-BASED TAXATION



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

MAJOR HOUSING CRISIS – 1953

SHEK KIP MEI

GOV. GRANTHAM

RESETTLEMENT BLOCKS



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING CRISIS

MAJOR HOUSING CRISIS – CONTINUED

GOV. MACLEHOSE -1971 +

Public Rental Housing (PRH)



HOME OWNERSHIP SCHEME (HOS)



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

MAJOR HOUSING CRISIS – CONTINUED: 1971

Public Rental Housing (PRH)

OVER 800,000 PRH FLATS



HOME OWNERSHIP SCHEME (HOS)

OVER 400,000 HOS FLATS



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

MAJOR HOUSING CRISIS – CONTINUED: 1971

**KEY TO THIS REMARKABLE
PRH – HOS ACCOMPLISHMENT:**

**Retention of Land Ownership
across all of Hong Kong by:**

Hong Kong Government

Ample Land Supply

**Ample Funding from
Land-Related Revenues**

Reliable Tenants (PRH)



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

4.0 TAX POLICY LESSONS GOOD AND BAD

4.1 Introduction

4.2 Land-Related Revenues

4.3 Simple, Low Rate Tax System

4.4 The Bad Examples

4.5 The Residual Welfare State

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

The Bad Examples

THE ON-COST IMPACT:

- ***ACCESS TO HOUSING***
- ***PURCHASE / RENTING
BUSINESS COSTS***
- ***DE FACTO CONSUMPTION TAX***



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

The Bad Examples ?

**THE REVENUE POLICY DEFICIT:
“SCROOGE MC DUCK”
FORWARD PLANNING**

BY 1880S- 1 YEAR’S SPENDING SAVED

BY 2019:

TOTAL RESERVES: US\$440 BILLION +

**FISCAL RESERVES: US\$150 BILLION +
(AROUND 2 YEARS OF TOTAL SPENDING)**



***BUT – 2020: COVID PANDEMIC- 30% of Fiscal Reserves Spent – Zero Debt
Still Around US100 BILLION Retained***

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

**HKSAR BUDGET – 2020
(*APPROXIMATE FIGURES*)**

TOTAL PUBLIC EXPENDITURE - *US\$80 BILLION*

23% OF GDP

GDP - *US\$350 BILLION*

DEFICIT – *US\$18 BILLION*

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

MAJOR CHALLENGES

HOUSING

POVERTY GAP (GINI FIGURES)

CARE FOR THE AGED

ENVIRONMENTAL CONDITIONS



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

MAKING THE **LAND-REVENUE-SYSTEM** WORK

ACCESS TO HOUSING

“ICAC”

SERVICES THAT WORK

**HEALTH / EDUCATION / TRANSPORT /
COMMUNICATIONS / ETC**

A SAFE CITY

SIMPLE, LOW RATE TAX SYSTEM

HONG KONG JOCKEY CLUB



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

The Bad Examples

THE ON-COST IMPACT:

ACCESS TO HOUSING



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

MAKING THE **LAND-REVENUE-SYSTEM** WORK

ACCESS TO HOUSING (POP: 7.5 Million)

PUBLIC RENTAL HOUSING

OVER 800,000 FLATS

NEW FLATS: 20,000 PA

ANNUAL BUDGET: US\$1.5 Billion

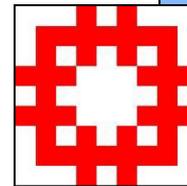
RESERVES: US\$8 Billion

SUBSIDIZED OWNER-OCCUPIED

OVER 400,000 FLATS

AROUND 50% OF ALL RESIDENCES

(FINANCING – LAND / BUILDING)



**HONG KONG
HOUSING SOCIETY**

香港房屋協會

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

MAKING THE **LAND-REVENUE-SYSTEM** WORK
THE RESIDUAL WELFARE STATE

PRH – SUBSIDIZED (*POP: 7.5 Million – 50%*)

HOSPITALS / HEALTH CARE

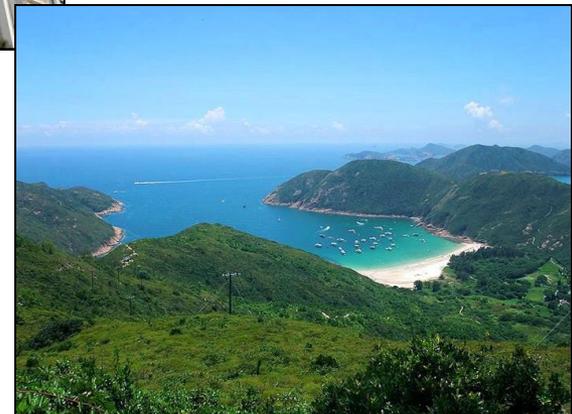
EDUCATION SERVICES

SUBSIDIZED PUBLIC TRANSPORT

RECREATION / GREEN-PARK ACCESS

BUT

LOW LEVEL TRANSFER PAYMENTS



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

HOUSING DEMAND PRESSURES

- **Over 200,000 Living in Sub-Divided Units**
- **Over 50,000 Regular Family Reunion Migrants from Mainland per Year –**
 - **Under British Negotiated Scheme**
 - **1 Million New Residents Every 20 Years**
- **Hong Kong Residents Setting Up Own Home**
- **Investors**

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

SOLUTION: 1950s and After

**Retention of Land Ownership
across all of Hong Kong by:**

Hong Kong Government

Ample Land Supply

**Ample Funding from
Land-Related Revenues
For PRH & HOS Flats**

Reliable Tenants - PRH



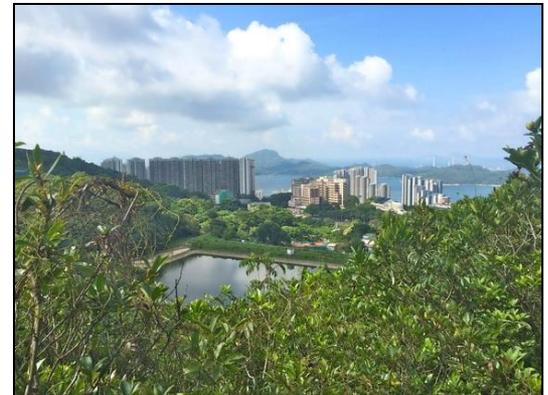
THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

SERIOUS PROBLEM:

- British Hong Kong Era
- Demand Always Exceeds Supply

SERIOUS PROBLEM NOW MORE SERIOUS:

- **Major Land Supply Problems**
 - Reclamation Reduction
 - **Green Zones / Country Parks**
 - HONG KONG: 40% Country Parks (70% Non-Urban) – 7% Housing
 - SINGAPORE: 10% Parks & Nature Reserves – 14% Housing
 - Developer “Land Banks”

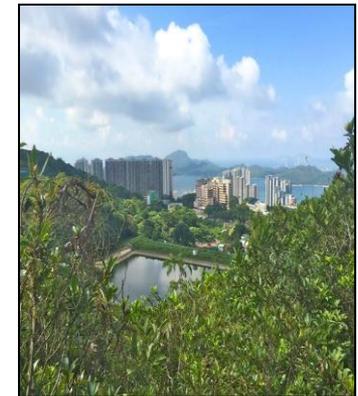


THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

FUTURE SOLUTIONS

Increasing Land Supply

- Reclamation - Large Scale
- Green Zones / Country Parks
 - HONG KONG:
 - 40% Country Parks (70% Non-Urban) – 7% Housing
 - SINGAPORE:
 - 10% Parks & Nature Reserves – 14% Housing
- Developer “Land Banks”

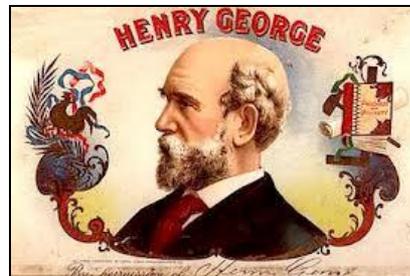
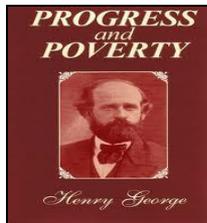


THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

HONG KONG & BEYOND

LAND AS THE COMMON HERITAGE OF HUMANITY

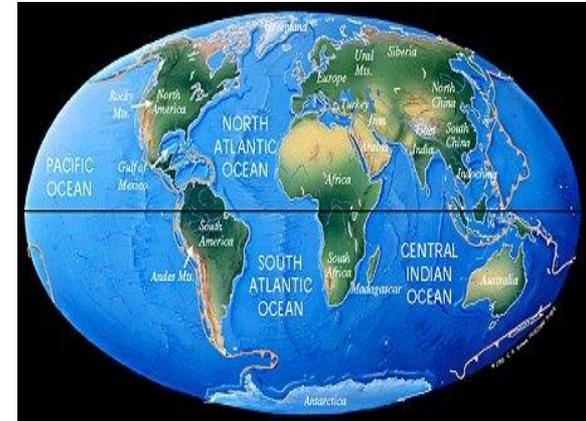
HENRY GEORGE



PROF. GREGORY ALEXANDER



THE SOCIAL-OBLIGATION NORM



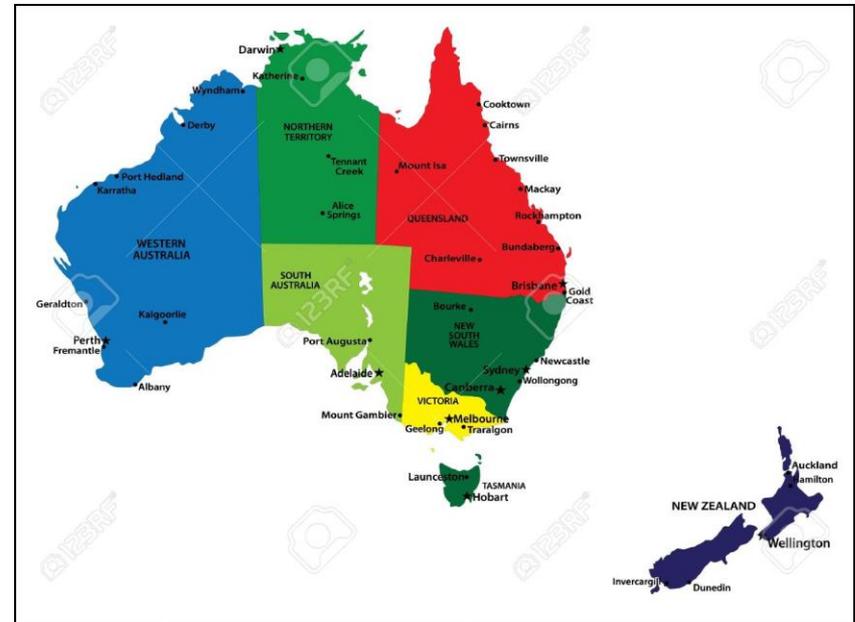
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SOME COMPARISONS

PUBLIC RENTAL HOUSING UNITS / TOTAL POPULATION

Australia:	1.7%
New Zealand:	1.3%
Hong Kong:	11.4%

6 – 8 Times More PRH in Hong Kong Per Capita



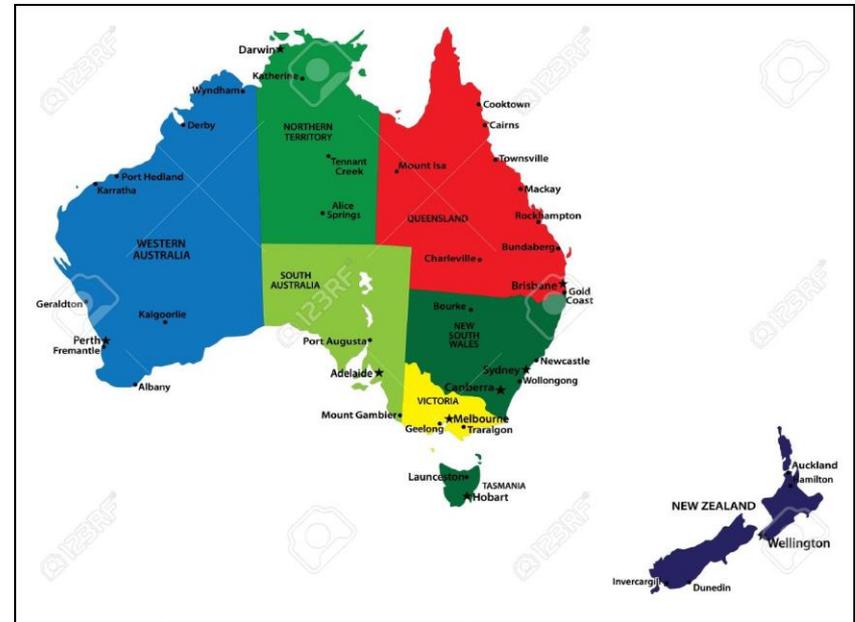
THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

SOME COMPARISONS

HOMELESSNESS

(% of Homeless / Total Population)

Australia:	.46%
New Zealand:	.85%
Hong Kong:	.026%



15-30 times more Homelessness in Australia & NZ

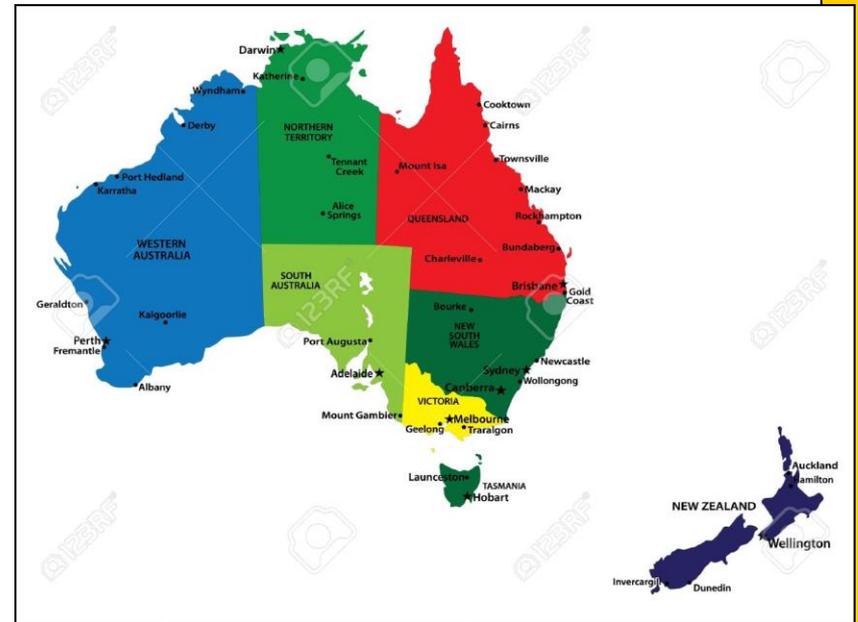
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SOME COMPARISONS

RENTAL COSTS - PRH

Percentage of Total Income

Australia:	25%
New Zealand:	25%
Hong Kong:	10%-15%



PRH Rental Cost in Aust. & NZ (After Tax) Double PRH Cost in HK

THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

SOME COMPARISONS

SINGAPORE

**HDB – Subsidized Purchase-Housing
Over 80% of Population**

**Larger size than Hong Kong
Well Run & Located (MRT)**

99 Years – Times Up!



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

HONG KONG & BEYOND

LAND AS THE COMMON HERITAGE OF HUMANITY

PEOPLE'S REPUBLIC
OF CHINA (1949)
LAND OWNERSHIP



“OPENING UP”

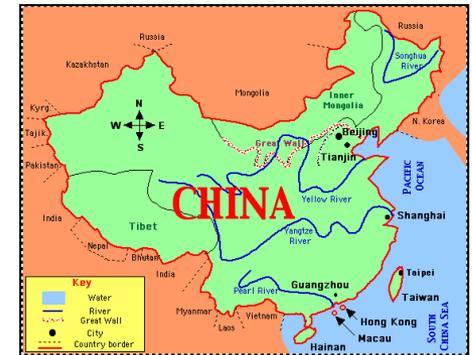
LAND-USE RIGHTS: 40-70 YEARS

URBANIZATION:

11%-1949; 19%-1979; 50%-2013

2030 – 1 BILLION

CHINA: 1.4 BILLION



THE PUBLIC REVENUE REGIME IN HONG KONG: LAND & HOUSING

THANK YOU