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MANAGING PROSPERITY

Hong Kong's Financial Secretary, Sir Hamish Macleod, had the enviable task of delivering Hong Kong's 1994/95 budget under this title on Wednesday, March 2, 1994. Early on in his presentation he admitted that his 1993/94 forecasted HK\$3.4 billion deficit would not be realized, but rather that Hong Kong would see a HK\$15.5 billion budget surplus. The size of the surplus seems to have blunted any criticism of the forecasting techniques Sir Hamish used.

Of significance to those of us earning a salary, especially those who may be subject to tax on only part of their salary or who move to or from Hong Kong midway through a financial year, were the announced changes to the salaries tax system. Slightly fewer than half of all Hong Kong wage earners presently pay salaries tax, and the overall effective salaries tax rate is 8 per cent. From April 1, the basic allowance (personal exemption below which tax is not charged) will be increased from HK\$56,000 to HK\$72,000, and child allowances will be increased from HK\$17,000 to HK\$20,000. As a result of this largesse 420,000, or almost one-quarter of salaries taxpayers, will drop off the rolls. A single income family of four will need an income in excess of HK\$184,000 to pay any salaries tax.

Also of note was the reduction of Kai Tak's departure tax from its HK\$150 level, which made it one of the most

expensive departure points in Asia, to HK\$50 which now makes it one of the least expensive in the region. The standard company profits tax rate has also been reduced 1 per cent to 16.5 per cent of net profits.

Two other interesting facets of this budget concern the vehicle first registration tax and duty on cigarettes. Cars are very expensive in Hong Kong, primarily because of a first registration tax that doubles their price in an attempt to discourage the ownership of private vehicles which pollute the environment and crowd Hong Kong's already congested roads. Hong Kong is well known as a major market for luxury cars, and Sir Hamish admitted that car ownership is increasing far more quickly than estimated.

To alleviate at least one of the evils wrought by additional cars, Sir Hamish has made special provision for electric powered cars to be exempted from this first registration tax. Should Rolls Royce or Mercedes decide to make an electric powered car, they could find a ready market in Hong Kong.

On another point, Hong Kong officials may wish to confer with their Canadian counterparts to decide how best to tax cigarettes. Two years ago, alarmed at the health and other risks posed by cigarette smoking, Hong Kong dramatically increased duty on cigarettes, and last year that duty was increased in line with inflation. The Hong Kong government has found, to its surprise, that revenue from this duty decreased over the past year because the risks of smuggling cigarettes into Hong Kong are now outweighed by potential profits. They may wish to talk to their Canadian counterparts, who also

find that it is next to impossible to extract high cigarette duties when the large country next door does not.

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CANADIAN BUDGET HIGHLIGHTS

On February 22, 1994, the Finance Minister from the new Liberal government announced the 1994 federal budget. There are no new taxes, but some proposed changes will result in higher tax liabilities for some Canadian corporations and financial institutions.

Canadians are responsible for C\$510 billion of debt at the federal level and C\$185 billion at the provincial level. The total net government debt at the end of the 1993/94 fiscal year represents a debt to Gross Domestic Product (GDP) ratio of approximately 100 per cent. The government chose a two-stage approach to tackle the deficit problem - this budget laid out the plan for deficit reduction and started the process. Next year's budget will deliver the real attack on the structural deficit. Canadians must therefore wait for the results of the reform and restructuring of the major social programs.

Overall, the economy (GDP) is expected to grow at three per cent with low inflationary pressure. Unemployment is expected to remain at around 11 per