

Ernst & Young urges more help for small firms

Accountant looks to government to ward off crisis amid forecast of an HK\$58 billion budget surplus

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Hong Kong's government must do more to help smaller firms in the event of an economic downturn, given it is expected to unveil a budget surplus of up to HK\$58 billion, a top accounting firm says.

The financial secretary will review his forecasts for the 2011-12 financial year in his budget speech next week. Ahead of that, Ernst & Young called for more fiscal concessions and help for the city's 280,000 small and medium-sized enterprises, which look set to feel the pinch of the euro-zone debt crisis.

Among the measures it advocates is reviving a loan guarantee scheme the government introduced between 2008 and 2010 to ease liquidity pressures on smaller firms; suspending the requirement that businesses pay registration and licence fees; offering rent concessions; and reducing the corporate tax rate by half a percentage point to 16 per cent.

"The government should be more proactive in helping SMEs," Ernst & Young regional managing partner Agnes Chan said yesterday. "It will be too late to react if it sits and waits until the crisis comes."

Irons Sze, the president of the Chinese Manufacturers' Association of Hong Kong, said loan guarantees - similar to those offered by the government between 2008 and 2010 and which covered up to 70 per cent of bank loans to smaller firms - would be crucial to easing the impact of a credit squeeze.

"The loan scheme would help alleviate the liquidity crunch, while tax concessions would lower costs for smaller firms," Sze said. "A lack of financing is a big problem for SMEs."

Ernst & Young said there should be two profits tax bands for firms with annual turnover below HK\$5 million. They should pay 10 per cent tax on the first HK\$300,000

of assessable profits and the current higher rate on any profits over and above that.

As in past years, Financial Secretary John Tsang Chun-wah had forecast a budget deficit for the year to March 31, but the government's latest figures showed a surplus of HK\$21.2 billion in the eight months to November 30.

Ernst & Young estimates the full-year surplus will climb to HK\$58 billion, while Deloitte and PricewaterhouseCoopers put the number at HK\$60 billion and HK\$55 billion respectively.

Chan said most of the surplus would be accounted for by record income from land sales and lower-than-expected expenses.

Ernst & Young said it now expects a package of fiscal measures it proposed in November to cost the government HK\$37.4 billion, 62 per cent more than the price tag it estimated at the time.

The firm proposed the government use this year's surplus to offer one-off salaries-tax rebates of up to HK\$10,000 for individuals, a subsidy of HK\$1,800 on electricity bills and a waiver of property rates for the next financial year. However, Chan said she did not favour giving cash handouts to permanent residents, as the government did last year, because it was unfair to taxpayers.

She said the government could offer other relief measures. For example, inflation-linked bonds for public subscription could be issued.

A government spokesman yesterday declined to comment on the details of the coming budget.

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