



HONG KONG BUDGET 2013/14 SYNOPSIS

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Note:

The information contained in this synopsis is drafted based on the current tax laws and legislative proposals and measures contained in the 2013/14 Hong Kong Budget announced on 27 February 2013.

Legislative proposals do not become law until their enactment and may be modified by the Financial Secretary or Legislative Council before enactment.

BOARDROOM'S COMMENTARY

The Financial Secretary, Mr. John C Tsang, delivered the 2013/14 Budget Speech on 27 February 2013, which is his sixth, proposing the Government's revenue and expenditure for the year 2012/13.

The Hong Kong economy has seen only a tepid growth in 2012. This is mainly due to the unsettling eurozone sovereign debt crisis, the unsteady US economic recovery and the US fiscal cliff; as well as the slowdown of Asian economies. The lull in the US and European economies, and the negative spillovers to the Asian and other emerging economies have led to the modest growth in the Hong Kong economy in 2012. This is evident by the slow-down in economic growth in the 2012 (i.e. GDP real growth dropped from 5% in 2011 to 1.4% in 2012).

Hong Kong's fiscal reserves remain strong and are estimated to be HK\$729.1 billion by the end of March 2014, representing approximately 33.9% of GDP and equivalent to 20 months of government expenditure. In this Budget, the government did not propose to share the strong economic performance with the community, like year 2011/12, by one-off measure of handing out cash to Hong Kong permanent residents.

The government proposed various one-off relief measures for 2013/14. These measures include one-off reduction of both Salaries Tax and Profits Tax of 75% with a ceiling of HK\$10,000, a waiver of business registration fee, a waiver of rates capped at HK\$1,500 per quarter for each rateable property, a grant of HK\$1,800 to each residential electricity account. The Government also proposed some concessionary measures for the less privileged members of the community.

Anyone who has followed the headlines in Hong Kong over the last few months will know that homes in the city are blisteringly expensive. With abundant liquidity worldwide and persistently ultra-low interest rates, there is a huge amount of hot money flooding into Asia Pacific region, including Hong Kong. This has led to hefty increases in asset prices and overheated speculative activities. The local property market has become increasingly exuberant of late. To facilitate the stable development of the property market and meet the needs of Hong Kong's social and economic development, the Government continues to stabilize the land supply in 2012. Addressing to the grievances of the public about the unprecedented high property prices, the Government even takes a very proactive approach by introducing some tougher approaches to curb the speculative activities in the property market, including the Special Stamp Duty and Buyer's Stamp Duty introduced in late 2010 and late 2012 respectively, as well as a new measure introduced around a week ago of doubling of stamp duties on home and non-residential properties valued at more than HK\$2 million. We sincerely hope that these measures can effectively mitigate the property market bubble risk which has already spread from residential apartments to parking spaces, shops and office premises.

As in previous years, the Government realizes Hong Kong, as a small and open economy, can hardly be unscathed from the sluggishness of the advanced economies. The Government re-affirmed in this Budget its strategy to ride on the growing economic prowess of the Asian region and foster overseas linkages to build on Hong Kong's competitive edge as a global financial centre and regional business hub as well as the gateway to the Mainland. However, it seems that the Government lacks a central theme to this year's Budget to support this motive.

The 2013/14 Budget is a very cautious one in many ways, while, on the whole, it is broadly in line with the expectation of the public. The proposed measures are actually a continuation of what we have seen in previous years and this Budget is, perhaps, unsurprising given the current social differentiation in the Hong Kong community as well as the gloomy economic outlook for 2013.

27 February 2013

Profits Tax

Current

Persons carrying on a trade, profession or business in Hong Kong are liable to Hong Kong Profits Tax in respect of the profits (excluding profits that are capital in nature) arising in or derived from Hong Kong (i.e. sourced in Hong Kong) from such trade, profession or business.

The key profits tax rates and depreciation allowances are summarized as follows:

Tax Rate

Corporation	16.5%
Unincorporated business	15%

Depreciation Allowances

Plant and Machinery

Initial allowance:	60% of qualifying expenditure incurred in the basis period
Annual allowance:	Varies as 10%, 20% or 30% of written down value depending on the nature of the asset
100% write-off:	Prescribed plant and machinery, certain environmental protection facility, computer hardware and software (excluding hire-purchased assets)

Industrial Building

Initial allowance:	20% of qualifying expenditure
Annual allowance:	4% of qualifying expenditure

Commercial Building

Annual allowance:	4% of qualifying expenditure
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Refurbishment

Annual allowance:	20% of qualifying expenditure (excluding domestic building or structure)
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Proposed

Although the profits tax rates have not been reduced, the Government proposed, similar to 2011/12, to reduce profits tax payment for 2012/13 by 75%, subject to a ceiling of HK\$10,000. This reduction will be reflected in the taxpayers' final tax payable in 2012/13.

Comments:

- *Tax Rate*
Although there was no proposal to reduce the profits tax rate, Hong Kong still remains as one of the lowest tax rate jurisdictions in Asia with profits tax rate at 16.5%, in comparison with 17% for Singapore and Taiwan, and 25% for Malaysia and Mainland China.
- *Tax Incentive*
Unfortunately, no incentives (e.g. concessionary tax rates to special industries, SMEs, low profits enterprises, etc) have been introduced. We believe that incentives will put Hong Kong into a more level playing field compared with country, like Singapore.

Salaries Tax

Current and Proposed

a) Changes on personal allowances are as follows:

	Current (i.e. 2012/13) (HK\$)	Proposed (i.e. 2013/14) (HK\$)	Increase (%)
Basic	120,000	120,000	-
Married	240,000	240,000	-
Single parent	120,000	120,000	-

b) Changes on child allowances are as follows:

	Current (i.e. 2012/13) (HK\$)	Proposed (i.e. 2013/14) (HK\$)	Increase (%)
The 1st to the 9th child			
Year of birth	126,000	140,000	11.1
Other years	63,000	70,000	11.1

c) Changes on dependent parent/ grandparent allowances are as follows:

	Current (i.e. 2012/13) (HK\$)	Proposed (i.e. 2013/14) (HK\$)	Increase (%)
Aged 60 or above			
Basic	38,000	38,000	-
Additional allowance (for a dependant living with the taxpayer)	38,000	38,000	-
Aged 55 to 59			
Basic	19,000	19,000	-
Additional allowance (for a dependant living with the taxpayer)	19,000	19,000	-

d) Change on dependent brother/ sister allowance is as follows:

	Current (i.e. 2012/13) (HK\$)	Proposed (i.e. 2013/14) (HK\$)	Increase (%)
Allowance	33,000	33,000	-

e) Change on disabled dependant allowance is as follows:

	Current (i.e. 2012/13) (HK\$)	Proposed (i.e. 2013/14) (HK\$)	Increase (%)
Allowance	66,000	66,000	-

f) Change on elderly residential care expenses deduction ceiling is as follows:

	Current (i.e. 2012/13) (HK\$)	Proposed (i.e. 2013/14) (HK\$)	Increase (%)
Deduction ceiling	76,000	76,000	-

Salaries Tax (Cont'd)

g) Change on contributions to recognised retirement schemes deduction ceiling is as follows:

	Current (i.e. 2012/13) (HK\$)	Proposed (i.e. 2013/14) (HK\$)	Increase (%)
Deduction ceiling	14,500 ¹	15,000	-

h) Change on home loan interest deduction ceiling is as follows:

	Current (i.e. 2012/13) (HK\$)	Proposed (i.e. 2013/14) (HK\$)	Increase
Number of years of deduction	15	15	-
Deduction ceiling	100,000	100,000	-

i) Details on self-education expenses deduction ceiling are as follows:

	Current (i.e. 2012/13) (HK\$)	Proposed (i.e. 2013/14) (HK\$)	Increase (%)
Deduction ceiling	60,000	80,000	33.3

j) Details on approved charitable donation deduction ceiling are as follows:

	Current (i.e. 2012/13)	Proposed (i.e. 2013/14)	Increase (%)
Deduction ceiling ²	35%	35%	-

A proposal was also made on tax reduction of 75% in salaries tax and tax under personal assessment for 2012/13, subject to a ceiling of HK\$10,000. This reduction will be reflected in the taxpayers' final tax payable in 2012/13. The current progressive salaries tax rates are as follows³:-

Net chargeable Income (in HK\$)	Tax rate	Tax (HK\$)
First \$40,000 at	2%	800
Next \$40,000 at	7%	2,800
Next \$40,000 at	12%	4,800
On the remainder	17%	Depends on the amount of assessable income

Comments:

- The proposed changes intend to alleviate the people's burden in raising their children and to encourage self-education and lifelong learning.
- There is no further extension on the entitlement period for tax deduction for home loan interest as demanded and expected by the general public.

¹ The maximum level of relevant income under the Mandatory Provident Fund Schemes Ordinance was increased to HK\$25,000 with effect from 1 June 2012. Hence, the maximum amount of deductible contributions is HK\$14,500 for the year of assessment 2012/13 and HK\$15,000 for the year of assessment 2013/14 onwards.

² Based on the assessable income for the subject year of assessment.

³ The maximum tax payable is limited to tax at the standard rate of 15% on the person's income from employment less allowable deductions and charitable donations, but without a deduction for personal allowances.

Property Tax

Current

Property tax is charged on the owner of any land or building in Hong Kong at a standard rate of 15% on the net assessable value of such land or building.

Proposed

No changes were proposed.

Stamp Duty - Immovable Property: Conveyance on Sale

Amount or value of the consideration		Before 23 February 2013
<i>Exceeds (HK\$)</i>	<i>Does not exceed (HK\$)</i>	
	Up to \$2,000,000	HK\$100
\$2,000,000	\$2,351,760	HK\$100 + 10% of excess over HK\$2,000,000
\$2,351,760	\$3,000,000	1.5%
\$3,000,000	\$3,290,320	HK\$45,000 + 10% of excess over HK\$3,000,000
\$3,290,320	\$4,000,000	2.25%
\$4,000,000	\$4,428,570	HK\$90,000 + 10% of excess over HK\$4,000,000
\$4,428,570	\$6,000,000	3%
\$6,000,000	\$6,720,000	HK\$180,000 + 10% of excess over HK\$6,000,000
\$6,720,000	\$20,000,000	3.75%
\$20,000,000	\$21,739,120	HK\$750,000 + 10% of excess over HK\$20,000,000
\$21,739,120		4.25%

Amount or value of the consideration		On or after 23 February 2013 ⁴
<i>Exceeds (HK\$)</i>	<i>Does not exceed (HK\$)</i>	
	Up to \$2,000,000	1.5%
\$2,000,000	\$2,176,470	HK\$30,000 + 20% of excess over HK\$2,000,000
\$2,176,470	\$3,000,000	3.0%
\$3,000,000	\$3,290,330	HK\$90,000 + 20% of excess over HK\$3,000,000
\$3,290,330	\$4,000,000	4.5%
\$4,000,000	\$4,428,580	HK\$180,000 + 20% of excess over HK\$4,000,000
\$4,428,580	\$6,000,000	6.0%
\$6,000,000	\$6,720,000	HK\$360,000 + 20% of excess over HK\$6,000,000
\$6,720,000	\$20,000,000	7.5%
\$20,000,000	\$21,739,130	HK\$1,500,000 + 20% of excess over HK\$20,000,000
\$21,739,130		8.5%

Special Stamp Duty (SSD) Rates on Disposal of Residential Properties⁵

The SSD is calculated based on the stated consideration for the transaction or the market value of the property, whichever is higher, at the following rates for different holding periods by the seller before the transaction:

- a) 15% if the vendor has held the property for 6 months or less;
- b) 10% if the vendor has held the property for more than 6 months but for 12 months or less;
- c) 5% if the vendor has held the property for more than 12 months but for 24 months or less.

⁴ On 22 February 2013, the Financial Secretary announced that the Government would amend the Stamp Duty Ordinance to adjust the ad valorem stamp duty (AVD) rates and to advance the charging of AVD on non-residential property transactions from the conveyance on sale to the agreement for sale. Any residential property and non-residential property acquired on or after 23 February 2013, either by an individual or a company, will be subject to the new rates of AVD upon the enactment of the relevant legislation. Transactions which took place before 23 February 2013 will be subject to the original stamp duty regime. However, the New AVD does not apply to an agreement/conveyance for a residential property where the purchaser/transferee is a Hong Kong permanent resident acting on his own behalf and he does not own any other residential property in Hong Kong at the time of acquisition; only the old AVD rates will apply to such agreement/conveyance.

⁵ A Bill adjusting the current SSD rates (i.e. increasing each of the existing 3 levels of regressive rates by 5%) and extending its coverage period to 36 months (i.e. imposing a 10% SSD on residential properties held for more than 12 months but less than 36 months) was gazette in December 2012. The Bill is currently under the consideration of the Legislative Council and has not yet been enacted into law. The proposed adjustments, once enacted into law, will have retrospective effect from 27 October 2012.

Stamp Duty - Immovable Property: Conveyance on Sale (Cont'd.)

Buyer's Stamp Duty (BSD) Rate on Acquisition of Residential Properties

Residential property acquired on or after 27 October 2012 by any person (including limited company), who is not a Hong Kong Permanent Resident, is subject to a flat rate charge of 15% of BSD on the stated consideration or the market value of the property (whichever is higher), on top of the existing stamp duty and the special stamp duty.

Comments:

- The introduction of doubling the ad valorem stamp duty on properties should somehow be able to curb the speculative activities on residential property market, as it sets higher barrier for non-first-time home buyers to purchase their property.
- SSD and BSD were introduced in November 2010 and October 2012 respectively as a cooling measure to curb the overheated residential property market. These measures did not effectively stop the property market bubble risk. Instead, such risk spreads from residential apartments to parking spaces, shops and office premises. A new measure was, thus, introduced in February 2013, which doubles the ad valorem stamp duty on both home and non-residential properties valued at more than HK\$2 million. The effect of this newly implemented measure still needs to be observed.
- Apart from actively curbing speculative activities, the Government stays mindful of the property market bubble risk and continues to stabilize the land supply of private housing and commercial sites.

Land Supply

- Increasing land supply for private housing by including 46 residential sites (amongst these site, 28 are new sites) in the 2013/14 Land Sale Program.
- Including 9 sites for commercial/business use and one "hotel only" site in the 2013/14 Land Sale Program which provide a total floor area of 330,000 square meters and some 300 hotel rooms respectively.
- Expediting the development of the Kowloon East core business district.
- Continuing to relocate government departments from Central Business District to release more Grade A office space to the market.

Stamp Duty - Immovable Property: Leasing

Current

Lease period	Rates for 2012/13 and 2013/14
Where the lease term is not defined or is uncertain	0.25%
Not more than 1 year	0.25%
More than 1 year but does not exceed 3 years	0.50%
More than 3 years	1.00%

Proposed

No changes were proposed.

Rates

Current

Rates on properties are charged at 5% of the rateable value.

Proposed

A one-off waiver of rates for 2013/14⁶ for each rateable property, capped at HK\$1,500 per quarter, is introduced.

⁶ Comprehensive Social Security Assistance recipients who do not have to bear rates and public housing rents will not obtain any pecuniary advantage from waiving rates.

Excise Duty

Current

	2012/13 and 2013/14 (HK\$)
Motor spirit (leaded petrol) per litre	6.82
Motor spirit (unleaded petrol) per litre	6.06
Light diesel oil per litre	2.89
Aircraft fuel per litre	6.51
Ultra low sulphur diesel	2.89
Cigarette per 1,000 sticks	1,706
Cigars per kilogram	2,197
Chinese prepared tobacco per kilogram	419
Other manufactured tobacco not intended for cigarette manufacture per kilogram	2,067
Methyl alcohol and any admixtures	
• per 100 litres	840
• For every 1% by which the alcoholic content by volume exceeds 30% per 100 litres	28.1
Liquor (calculated as a % of the value)	
• With alcoholic content above 30%	100%
• With alcoholic content not exceeding 30%	0
• Wine	0

Proposed

No changes were proposed.

Other Proposals

The followings are also made by the Financial Secretary in the 2013/14 Budget:

Managing risk of asset-price bubbles

Stabilizing land supply

- Increase land supply for private housing by including 46 residential sites (amongst these sites, 28 are new sites) in the 2013/14 Land Sale Program.
- Include 9 sites for commercial/business use and one “hotel only” site in the 2013/14 Land Sale Program which provide a total floor area of 330,000 square meters and some 300 hotel rooms respectively.
- Expedite the development of the Kowloon East core business district.
- Continue to relocate government departments from Central Business District to release more Grade A office space to the market.

Introducing relief Measures for enterprises and individuals

Reduction on operation costs of enterprises and subsidies

- Waive the business registration fees for 2013/14 to benefit all business operators.
- Extend the application period for the special concessionary measures under the Small and Medium Enterprises (SME) Financing Guarantee Scheme for one year.
- Increase the cumulative amount of the grant under the SME Export Marketing Fund from HK\$150,000 to HK\$200,000.

Inflation Bond (“iBond”)

- Launch a further issuance of Hong Kong-dollar inflation-linked retail bonds or “iBond” worth up to HK\$10 billion with a maturity of three years to Hong Kong residents under the Government Bond Program. Interest will be paid to bond holders once every six months at a rate linked to the inflation of the previous half-year period.

Electricity Subsidy

- Grant each residential electricity account a subsidy of HK\$1,800 (one-off measure).

Public Housing Tenants

- Pay two months’ base rent for public housing tenants (excluding Comprehensive Social Security Assistance (“CSSA”) recipients who do not have to bear public housing rents); and pay two-thirds of rent for two months for non-elderly tenants of the Hong Kong Housing Society’s Group B estates.

Social Welfare

- Provide an extra allowance to CSSA recipients, equal to one month of the standard rate CSSA payments; and an extra allowance to Old Age Allowance, Old Age Living Allowance and Disability Allowance recipients, equal to one month of the allowances.

Other Proposals (Contd.)

Introducing relief Measures for enterprises and individuals (cont'd)

Short-Term Food Assistance Services

- Extend and improve short-term food assistance services through the additional funding of HK\$100 million made in the last Budget.

Option for Student Loan Repayment

- Allow all student loan borrowers who complete their studies in 2013 to start repaying their student loans a year after completion of studies to alleviate the financial burden of fresh graduates.

Promoting the 4 pillar industries

Trading and logistics industry

- Build dedicated facilities to help the development of high value-added logistics services in Tsing Yi and Tuen Mun West. Upon completion of the logistics facilities in Tsing Yi and Tuen Mun West, more than 300,000 square meters of floor area and 7,500 new jobs in various trades will be provided, yielding over HK\$3 billion worth of economic benefits annually.

Tourism industry

- Offer loan to further enhance the facilities of Ocean Park.
- Launch new attractions by Hong Kong Disneyland under its own operating surplus.
- Work closely with Hong Kong Tourism Board to promote cruise tourism and collaborate with the travel trade and neighboring ports on itinerary development and regional co-operation.
- Extend the operation of the Mega Events Fund and seek to host more mega events.

Financial services industry

- Attract more private equity fund to domicile in Hong Kong by way of extending the Profits Tax exemption for offshore funds to include transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong.
- Explore the feasibility of arrangement with Mainland authorities for mutual recognition of funds.
- Enhance Hong Kong's competitiveness in the development of Islamic finance and facilitate the development of trusts services industry in Hong Kong.
- Attract more captive insurance companies in Hong Kong by reducing Profits Tax on the offshore insurance business of captive insurance companies.

Business and professional services

- Assist the sector to solve problem they encounter in gaining access to Mainland market under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA).

Other Proposals (Contd.)

Developing the Economy

Support to Small and Medium Enterprises ("SME")

- Extend the application period for the special concessionary measures under the Small and Medium Enterprises (SME) Financing Guarantee Scheme for one year; and
- Increase the cumulative amount of the grant under the SME Export Marketing Fund from HK\$150,000 to HK\$200,000.
- Introduce a small business policy scheme to be run by the Hong Kong Export Credit Insurance Corporation.

Nurturing emerging industries

- Foster the development of visual arts and nurture local talent in the field by proposing the conversion of the club house of the former Royal Hong Kong Yacht Club in Oil Street, North Point, into a visual arts exhibition and activity center.
- Provide a subvention of up to HK\$12 million through the Innovation and Technology Fund for a period of 3 years from 2013/14 onwards to 6 local universities to facilitate technology transfer and the realization of R&D results.

Nurturing Talents

Education

- Inject HK\$480 million to set up scholarship for 20 outstanding students to pursue studies overseas and the awardees must undertake to be teachers upon graduation.
- Inject HK\$5 billion into the Language Fund.
- Inject HK\$40 million to establish scholarships to give recognition to outstanding students with special education needs.
- Allocate HK\$12 million to Vocational Training Council to support students with special education needs.

Taking Care of the Elderly

Increase Elderly Health Care Coverage

- Allocate additional HK\$8.3 billion in 2013/14 for payment of the Old Age Living Allowance to elderly people aged 65 or above who are in need of financial support.
- Allocate HK\$9 million to add 100 day care places and extend the service hours of new day care centers and units for elderly.
- Increase recurrent funding by HK\$73 million for the additional provision of some 600 subsidized residential care places for the elderly through the construction of 3 contract residential care homes for the elderly, purchase of additional EA1 places under the Enhanced Bought Places Scheme and better use of space in subvented homes.

Other Proposals (Contd.)

Improving Medical and Healthcare Services

Rehabilitation Services for Persons and Disabilities

- Expense up to HK\$4.4 billion in 2013/14 to introduce new services in respect of rehabilitation services for persons with disabilities.

Healthcare services

- Expense up to HK\$49 billion in 2013/14 for new recurrent allocation to the Hospital Authority to enhance and expand appropriate public medical services.

The content of this synopsis is for general guidance only and is not intended to address the circumstances of any particular individual or entity. Readers are advised to consult their tax advisors before acting on any information contained in this synopsis.

This synopsis has been prepared by the tax division of **Boardroom Corporate Services (HK) Limited (BCS)**, a member of the Boardroom Group of Companies. BCS provides services to both companies and individuals in the areas of tax consulting and compliance, including tax incentive applications, etc.

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