



HONG KONG BUDGET SYNOPSIS 2015-16

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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 2015-16 Hong Kong Budget announced on 25 February 2015.

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 2015-16 Budget Speech on 25 February 2015, which is his eight, presenting the estimates of the Government's revenue and expenditure for the years ending 31 March 2015 and 2016.

The Hong Kong economy expanded slowly in 2014. Despite the solid growth of the Mainland economy which is a crucial stabilizing force for Hong Kong's merchandise trade performance, Eurozone's weakening economy and Japan's relapse into recession hindered Hong Kong's economic growth. On the other hand, the prolonged political bickering and demonstrations in the 3rd and 4th quarters in 2014 also beset Hong Kong's economy. As a whole, Gross Domestic Product (GDP) only increased by 2.3% in 2014 which was lower than the average of 3.9% in the past decade.

Hong Kong's fiscal reserves remain strong and are estimated to be HK\$819.5 billion by the end of March 2015, contributed by an under-estimated "double stamp duty" revenue and a significant delay in government expenditure. The occupy movement affected tourism, hotel, catering, retail and transport industries, etc. to vary degrees. To offset the impact on economic confidence, the Government will implement an array of support measures targeting affected industries and launch a new round of efforts to promote Hong Kong. The Government is also negotiating with business partners, such as Macau, to build up new relations and opportunities by value adding the existing resources.

When you look at how Hong Kong's Government expenditure since the handover has outpaced its economic growth, many economists anticipate that the days of an "overload government" might not be far away. The concept of "overload government" is a situation in which a country's economy grows more slowly than its spending on public policy and welfare mainly due to the ageing population. The Government will face a structural fiscal problem in 10 years time if there is no new source of income. Mr. Tsang, in the Budget, emphasized that the Government must develop the economy, and align the growth rates of the economy, government revenue and government expenditure. To this end, he proposed several measures to avert the risk of the Government incurring a structural deficit in the medium-to-long term in three main areas, namely containing expenditure growth, preserving the revenue base and saving for the future. A reconsideration of indirect tax (Goods and Services Tax) at the right time is a feasible choice for stabilizing the revenue base.

All along, the Government realizes, as a small and open economy, Hong Kong is vulnerable to external shocks and can hardly be unscathed from the unsteady economic performance of the advanced economies. Especially, uncertainties in the external economical and political environment remain remarkable, the 2015-16 Budget was prepared in a vigilant manner and intends to take pre-emptive measures to defend against any adverse impact that could result from the worsening of external economic and political situations.

Government expenditure has soared up by 124.2% since 1997-98, while the nominal GDP increases merely by 54.6% over the same period of time. The Government has pursued expansionary policies since 2008. Fiscal stimulus measures worth more than HK\$200 billion have been rolled out since 2008 (including HK\$33 billion worth of one-off budget relief measures). Moreover, the government surplus for current financial year (i.e. 2013-14) is estimated to be HK\$12 billion, compared with HK\$64.8 billion in 2012-13. It is even anticipated that government expenditure might surpass government revenue in 10 years. At this stage of economic cycle, a key question is how to make efficient use of the fiscal resources to promote long term prosperity of Hong Kong. As such, Mr. Tsang has pointed out in the Budget that recurrent measures and one-off relief measures serve different objectives and purposes. The former addresses recurrent needs of community, while the latter serves counter-cyclical objectives to provide cushioning effects for the economy and alleviate imminent economic hardships. They are not interchangeable.

Similar to the last few years, the 2015-16 Budget remains a prudent or pragmatic one in many ways, while, on the whole, it is broadly in line with the expectation of the public. It has also raised the issue on broaden the tax basis issue which has been remained silence since 2006. It is anticipated that the Government will continue to uphold fiscal discipline and will put in place a more vigorous monitoring mechanism for assessing and prioritizing competing funding priorities. Yet without a strong mandate and a reliable governing coalition, the Government needs luck to survive a possible political backlash from different sectors of the community displeased by the Budget as there is no "big surprise" or "huge candy".

25 February 2015

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% |

Tax Relief for Capital Expenditure

1. *Plant and Machinery*

- Initial allowance: 60% of capital expenditure incurred in the basis period
- Annual allowance: Prescribed rates at 10%, 20% or 30% on the reducing value depending on the nature of the plant and machinery
- 100% write-off: Capital expenditure incurred on prescribed plant and machinery, environmental protection machinery or environment-friendly vehicle, computer hardware and software (excluding hire-purchase assets)
- 20% deduction: 20% of capital expenditure incurred on environment protection installation over a 5 consecutive years (excluding hire-purchase assets)

2. *Industrial Building*

- Initial allowance: 20% of capital expenditure
- Annual allowance: 4% of capital expenditure

3. *Commercial Building*

- Annual allowance: 4% of capital expenditure

4. *Refurbishment*

- 20% deduction: 20% of capital expenditure over a 5-year period (excluding domestic building or structure)

5. *Intellectual Property Rights*

- 100% deduction Purchase cost of certain patent rights or rights to know-how used in the production of taxable profits
- 20% deduction 20% of capital expenditure incurred on the purchase of specified intellectual property rights (i.e. copyright, registered designs, registered trademarks) used in the production of taxable profits over 5 consecutive years (excluding purchases wholly or partly from associate)

Proposal in the 2015-16 Budget

Although the profits tax rates have not been reduced, the Government proposed to reduce profits tax payment for 2014-15 by 75%, subject to a ceiling of HK\$20,000 per case. This reduction will be reflected in the taxpayers' final tax payable in 2014-15.

Our Comments

1. *Tax Rate*

- Although there was no proposal to further 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 25% for Malaysia and Mainland China.

2. *Tax Incentive*

- The Government did not propose any tax incentives in this Budget (e.g. concessionary tax rates to special industries, SMEs, low profits enterprises, super-deduction, etc.). We believe tax incentives will put Hong Kong into a more level playing field compared with countries, like Singapore.

SALARIES TAXⁱ

Current and Proposed

The amount of tax that a taxpayer should pay for 2014-15 and 2015-16 is the lower of:-

- The taxpayer's income from employment less allowable deductions and approved charitable donation at the standard rate of Salaries Tax of 15%; OR
- The taxpayer's income from employment less allowable deductions, approved charitable donation and personal allowances at the following progressive rates:-

Net chargeable Income	Tax rate	Tax ⁱⁱ
First HK\$40,000 at	2%	800
Next HK\$40,000 at	7%	2,800
Next HK\$40,000 at	12%	4,800
On the remainder	17%	

The personal allowances and allowable deductions for 2014-15 and 2015-16 (in HK\$) are set out below:-

Personal Allowances and Allowable Deductions

1. Personal allowances are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
Basic	120,000	120,000	-
Married	240,000	240,000	-
Single parent	120,000	120,000	-

2. Child allowances are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
The 1st to the 9th child			
➤ Year of birth	140,000	200,000	42%
➤ Other years	70,000	100,000	42%

3. Changes on dependent parent/grandparent allowances (per dependent) are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
Aged 60 or above			
➤ Basic	40,000	40,000	-
➤ Additional allowance (for a dependant living with the taxpayer)	40,000	40,000	-
Aged 55 or above but below 60			
➤ Basic	20,000	20,000	-
➤ Additional allowance (for a dependant living with the taxpayer)	20,000	20,000	-

4. Dependent brother/sister allowances (per dependent) are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
Allowance	33,000	33,000	-

ⁱ All figures in this section are in Hong Kong Dollars, unless stated otherwise.

ⁱⁱ A one-off tax reduction of 75% in Salaries Tax and tax under personal assessment for 2014-15, subject to a ceiling of HK\$20,000, was proposed by the Financial Secretary in the 2015-16 Budget. This reduction will be reflected in the taxpayers' final tax payable in 2014-15.

SALARIES TAX (CONTINUED)

5. Disabled dependant allowances (per dependent) are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
Allowance	66,000	66,000	-

6. Change on elderly residential care expenses deduction ceiling are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
Deduction ceiling	80,000	80,000	-

7. Change on contributions to recognised retirement schemes deduction ceiling are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
Deduction ceiling ⁱⁱⁱ	17,500	18,000	2.8%

8. Home loan interest deductions^{iv} ceiling are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
Deduction ceiling	100,000	100,000	-

9. Self-education expenses deduction ceiling are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
Deduction ceiling	80,000	80,000	-

10. Approved charitable donation deductions ceiling are as follows:

	Current (2014-15)	Proposed (2015-16)	Increase (%)
Deduction ceiling ^v	35%	35%	-

Proposal in the 2015-16 Budget

A proposal was also made on a one-off tax reduction of 75% in Salaries Tax and tax under personal assessment for 2014-15, subject to a ceiling of HK\$20,000. This reduction will be reflected in the taxpayers' final tax payable in 2014-15.

Our Comments

1. *Basic and additional child allowances*

- The proposed changes intend to alleviate the burden of families in supporting their children and to encourage giving birth to resolve the ageing population and reduction in workforce in the future.

2. *Tax Incentives*

- There is no further increase in the amount of basic/married/single parent allowances as demanded and expected by the general public.

ⁱⁱⁱ The maximum level of relevant income under the Mandatory Provident Fund Schemes Ordinance will be increased to HK\$30,000 with effect from 1 June 2014. The maximum amount of deductible contributions will be HK\$17,500 for the year of assessment 2014-15 and HK\$18,000 for the year of assessment 2015-16 onwards.

^{iv} The number of years of deduction for home loan interest is 15 years of assessment.

^v The deduction of approved charitable donations shall not exceed 35% of assessable income.

PROPERTY TAX

Current

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

The net assessable value is calculated as the amount of rent (in money or money's worth) payable to the owner of such land or buildings less irrecoverable rent, rates paid by the owner and a 20% statutory allowance of this net figure for repairs and outgoings. The 20% is an all-inclusive element. No deductions should not be separately claimed for government rent, decoration fees, rent-collection fees, building management fees, insurance and mortgage interests.

Proposal in the 2015-16 Budget

No changes were proposed.

STAMP DUTY - CONVEYANCE ON SALE OF IMMOVABLE PROPERTY

Current and Proposed

The stamp duty, ad valorem stamp duty, special stamp duty, and buyer's stamp duty rates on the sale or transfer of immovable property in Hong Kong are summarised below:-

Ad Valorem Stamp Duty (AVD)

The banding of the standard rates of Stamp Duty is set out below:-

Property consideration		Duty rates applicable BEFORE 23 February 2013 (HK\$)
Exceeds (HK\$)	Does not exceed (HK\$)	
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%

Property consideration		Duty rates applicable ON OR AFTER 23 February 2013 ^{vi} (HK\$)
Exceeds (HK\$)	Does not exceed (HK\$)	
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%

^{vi} 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 (except that acquired by a Hong Kong Permanent Resident who does not own any other residential property in Hong Kong at the time of acquisition) and non-residential property acquired on or after 23 February 2013, either by an individual or a company, will be subject to the special rates of AVD. Transactions which took place before 23 February 2013 will be subject to the original stamp duty regime.

STAMP DUTY (CONTINUED)
- CONVEYANCE ON SALE OF IMMOVABLE PROPERTY

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

Any residential property acquired on or after 20 November 2010, either by an individual or a company (regardless of where it is incorporated), and resold will be subject to SSD. The SSD is calculated based on the stated consideration or the market value of the property, whichever is higher, at the following regressive rates shown below:-

Holding period	Any residential property acquired <u>BWTEEN</u> 20 November 2010 and 26 October 2012	Any residential property acquired <u>ON OR AFTER</u> 27 October 2012
6 months or less	15%	20%
More than 6 months but for 12 months or less	10%	15%
More than 12 months	5% (more than 12 months but for 24 months or less)	10% (more than 12 months but for 36 months or less)

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

Any residential property acquired on or after 27 October 2012 by any person (including companies incorporated in Hong Kong or overseas) other than a Hong Kong Permanent Resident will be subject to a flat rate charge of 15% on the stated consideration or the market value of the property, whichever is the higher, in respect of all residential properties on top of the existing AVD and the SSD.

Our Comments

- | | |
|---|---|
| <p>1. <i>Measures for curbing speculative activities</i></p> <ul style="list-style-type: none"> ➤ SSD and BSD were introduced 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 spread from residential apartments to parking spaces, shops and office premises. Another measure was, thus, introduced in February 2013, which doubles the AVD on both home and non-residential properties valued. ➤ The introduction of doubling the AVD on properties was drastic, but remarkably effective in curbing the speculative activities on residential property market, as it sets higher barrier for non-first-time home buyers to purchase their property. | <p>2. <i>Stabilizing land supply</i></p> <ul style="list-style-type: none"> ➤ 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. ➤ A HK\$27 billion of housing reserve fund is make available for future property development usage. |
|---|---|

STAMP DUTY (CONTINUED)
- LEASE OF IMMOVABLE PROPERTY

The stamp duty for the leasing of immovable property is calculated at a prescribed rate of the annual rental depending on the term of the lease as shown below:-

Current and Proposed

Lease term	Rates for 2014-15 & 2015-16
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%

Proposal in the 2015-16 Budget

No changes were proposed.

RATES

Current

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

Proposal in the 2015-16 Budget

A one-off waiver of rates for the first two quarters of 2015-16^{vii} for each rateable property, capped at HK\$2,500 per quarter, is introduced.

^{vii} 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 and Proposed

Dutiable commodities	Current (2014-15) HK\$	Proposed (2015-16) HK\$
1. Motor spirit (leaded petrol)	6.82 / litre	6.82 / litre
2. Motor spirit (unleaded petrol)	6.06/litre	6.06/litre
3. Light diesel oil	2.89 / litre	2.89 / litre
4. Aircraft fuel	6.51 / litre	6.51 / litre
5. Ultra low sulphur diesel	2.89 / litre	2.89 / litre
6. Cigarette	1,906 / 1000 sticks	1,906 / 1000 sticks
7. Cigars	2,455 / kilogram	2,455 / kilogram
8. Chinese prepared tobacco	468 / kilogram	468 / kilogram
9. All other manufactured tobacco not intended for cigarette manufacture	2,309 / kilogram	2,309 / kilogram
10.Methyl alcohol and any admixtures	840 / hectolitre	840 / hectolitre
11.Liquor (calculated as a percentage of the value)		
➤ With alcoholic content above 30%	100%	100%
➤ With alcoholic content not exceeding 30%	0%	0%
➤ Wine	0%	0%

Proposal in the 2015-16 Budget

No changes were proposed.

OTHER PROPOSED MEASURES

In the Budget, Mr. Tsang also proposed other measures in compensating the affected sectors under the occupying movement, supporting the SMEs, diversifying Hong Kong's development, investing in education and human capital, augmenting competitiveness, stabilizing the land and housing supply, and resolving ageing populations.

I. Targeted Support Measures

- Waiving the licence fees for 1,800 travel agents for six months.
- Waiving the licence fees for 2,000 hotels and guesthouses for six months.
- Waiving the licence fees for restaurants and hawkers and fees for restricted food permits for six months.
- Waiving the fees for vehicle examination once for the renewal of vehicle licences of taxis, light buses, franchised and non-franchised buses, goods vehicles, trailers and special purpose vehicles within a year.

II. Support for Small and Medium Enterprises (SMEs)

- Extending the application period for special concessionary measures under the SME Financing Guarantee Scheme to 29 February 2016.
- Injecting HK\$1.5 billion into the SME Export Marketing and Development Funds.
- Increasing the maximum amount of funding support for each project under the SME Development Fund from HK\$2 million to HK\$5 million.
- Expanding the scope of the SME Export Marketing Fund.

III. Diversifying Development

- Injecting a further HK\$400 million into the CreateSmart Initiative.
- Deploying HK\$5 million to promote Hong Kong's fashion designers and brands.
- Injecting a further HK\$2 million into Film Development Fund.
- Launching a HK\$3 million matching fund to support local arts groups.
- Rolling out a new phase of the Enhancing Self-Reliance Through District Partnership Programme (HK\$150 million).
- Setting-up a co-investment matching fund for Since Park (HK\$50 million).

IV. Investing in education and human capital

- Subsidizing 1,000 students per cohort to pursue designated self-financing degree programmes from 2015/16 academic year (HK\$960 million).
- Nurturing talent for insurance and wealth management services including those working in middle and back offices (HK\$100 million).
- Supporting Construction Industry Council to train more skilled workers (HK\$100 million).
- Increasing government internship places to 3,000 and providing 250 places under the ASEAN internship scheme.

V. Augmenting Competitiveness

- Seizing the opportunities created by “One Belt One Road” and expanding into new markets.
- Promoting the liberalization of trade with Guangdong and Macau.

VI. Stabilizing land and housing supply

- Making available for sale 29 residential sites capable of providing 16,000 units.
- Making available for sale 4 commercial/business sites capable of providing 180,000 m² of floor area.
- Setting-up a Housing Reserve of HK\$27 billion to support the Public Housing Programme.
- Enhancing market circulation of HOS unities by using Mortgage Corporation to provide loans for HOS unit owners to pay premium.

VII. Resolving Ageing Population

- Encourage labour participation by strengthening child care services (HK\$130 million).
- Extending the Integrated Employment Assistance Programme for Self-reliance (HK\$220 million).
- Improving retirement protection by providing better retirement protection for elderly in need (HK\$50 billion).
- Enhancing healthcare services by adding 2,800 hospital beds (HK\$81 billion) and supporting public-private partnership initiatives (HK\$10 billion).

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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