



The Association of Hong Kong Accountants (“AHKA”) forecasts a HK budget surplus of HK\$36.9 billion in FY2014/15. But Can Surplus Sustain?

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Record-High Stamp Duty... Can Surplus Sustain?

“The Hong Kong budget surplus is expected to hit HK\$36.9 billion in the fiscal year 2014/15, after (1) transfer of the HK\$27 billion investment income to the newly set up Housing Reserve Fund and (2) government bond redemption of HK\$9.8 billion. This surplus far exceeds the Government’s original estimate of HK\$9.1 billion announced in February 2014,” said Mrs. Jennifer HY Wong, Co-Convenor of the Taxation Working Committee of AHKA. “This was primarily attributable to the record-high stamp duty revenue and temporary under-spending on capital works, which AHKA expects would not sustain.”

The FY2015/16 budget proposal is slated to be presented to the Legco by the Financial Secretary on 25 February 2015. Contrary to the Government’s original deficit estimate of HK\$28 billion, AHKA expects a balanced budget for FY2015/16.

Revenue receipts from stamp duties would reach a record-high of HK\$85 billion, almost double the Government’s initial estimates, primarily due to the buoyant property market and equity trading activities in 2014. At the same time, capital expenditure is expected to be HK\$10 billion less than the initial budgeted amount. While income tax is expected to rise, such increase would be offset by sluggish land revenue, which is HK\$10 billion lower than the original forecast.

“However, we have strong reservations about the sustainability of the budget surplus.” Mrs. Wong cautioned. Buyer’s Stamp Duty, Double Stamp Duty and Special Stamp Duty were legislated and enacted after the delivery of the FY2014/15 Budget and were not accounted for in that Budget. These duties received in FY2014/15, including those levied on property transactions executed before enactment of the relevant legislations, amounted to HK\$59 billion. AHKA expects that these special measures may be withdrawn once the property market stabilises. Additionally, the delayed capital works and substantial capital commitments are expected to be crystallised in future years at inflated costs.

AHKA identified the following areas for consideration in fiscal policies going forward:

1. Ageing population and shrinking workforce present sustained challenges

The ageing population and shrinking workforce are structural issues presenting continuing challenge to economic growth and tax revenues. To address this, AHKA suggests the Government to provide one month extra allowance to certain special needs groups. Mrs. Wong added, “Providing a HK\$4.50 wage subsidy per hour (effectively lowering the minimum hourly wage to HK\$28) to qualified employers would encourage employment of non-working population.”



2. Support for small and medium enterprises (SMEs) and start-up companies crucial to job creation

Employing half the employees in the private sector, SMEs play a major role in job creation. However, spectacular rental and labour cost pressures are holding back start-ups and growing SMEs.

“To support the SMEs as well as young or retired people starting their own businesses, we suggest the Government and volunteer corporations to offer specific areas and facilities at competitive rentals.” Mrs. Wong said.

AHKA also proposes extending the application period for special concessionary measures under SME Financing Guarantee Scheme for another year until February 2016. Mrs. Wong said, “The Government should consider offering reduced profits tax rates of 8% to 12% to enterprises with annual turnover of less than HK\$5 million.” To spur research and development activities, AHKA also proposes providing 150% super tax deduction on expenditure for qualifying projects and waiver of tax on income from technical know-how developed in but used outside Hong Kong.

3. Targeted relief measures for individuals to enhance social stability

Against the backdrop of rising rental and living costs for middle-class, AHKA proposes the introduction of tax deduction for private residence rental expenses of up to HK\$100,000 each year for 15 years. To cope with increasing economic dependency of the elderly and low birth rate, AHKA suggests increasing the tax allowances for dependent parents, grandparents and children.

4. Broadening and stabilizing Government revenue base to withstand economic volatility

“For years Hong Kong’s finances have been overly dependent on a few volatile, cyclical revenue sources. The push for a broad tax base is necessary to enhancing Hong Kong’s ability to withstand economic cycles and ageing population issues. In light of the rising rate hike potential in the United States in 2015 following the full exit of the quantitative easing program in late 2014, Hong Kong’s small-and-open economy and narrow income streams look set to face challenges and uncertainties. We observed a trend of increasing Government revenue and expenditure. However, the revenue growth is vulnerable under fluctuating economic conditions. Therefore, the introduction of a broad and stable tax revenue with a corresponding reduction in income tax may be considered. AHKA recommends allocating the resultant additional tax revenue to the needed groups.” Mrs. Wong said.



Appendix 1. Schedule of Surplus/Deficit and Fiscal Reserves

	Estimate 2014-15 (AHKA) HK\$ million	Estimate 2015-16 (AHKA) HK\$ million
Surplus/(Deficit) (Government Budget 2014-15)	9,134	(28,280)
Adjustment/Increase/(Decrease) in Income Tax	13,600	15,000
Adjustment/Increase/(Decrease) in Stamp Duty	41,150	36,300
Adjustment/Increase/(Decrease) in Land Premium sales	(10,000)	12,000
Adjustment/Increase/(Decrease) in Investment Income	-	(17,000)
Total Increase/(Decrease) in Revenue	44,750	46,300
Adjustment/Under/(Over) spending of expenditure	10,000	10,000
Reversal of Healthcare Reform expenditure	-	45,500
Provision for Retirement Protection Scheme	-	(50,000)
Total Under/(Over) spending	10,000	5,500
Surplus/(Deficit) after repayment of government bonds and notes	63,884	23,520
Transfer of Investment Income to Housing Reserve Fund	(27,000)	-
Provision for CE Policy Address Measures	-	(8,000)
Proposed Relief Measures	-	(15,400)
Surplus/(Deficit) after proposed relief measures	36,884	120
Government Revenue (Government Budget 2014-15)	430,047	462,299
Adjustment/Increase/(Decrease) in Revenue	44,750	46,300
Government Expenditure (Government Budget 2014-15)	474,797	508,599
Adjustment/Increase/(Decrease) in Expenditure	(411,163)	(490,579)
	10,000	5,500
	(401,163)	(485,079)
Repayment of government bonds and notes	73,634	23,520
	(9,750)	-
Transfer of Investment Income to Housing Reserve Fund	63,884	23,520
Provision for Relief Measures	(27,000)	-
Provision for CE Policy Address Measures	—	(15,400)
	—	(8,000)
Surplus/(Deficit)	36,884	120
Consolidated Fiscal Reserves		
Balance at beginning of period	755,717	819,601
Surplus/(Deficit) for the period	36,884	120
Housing Reserve Fund	27,000	-
Balance at end of period	819,601	819,721
Fiscal reserve in terms of		
no. of months of government expenditure	25	20
percentage of GDP	36.9%	35.1%

Source: AHKA, 2014/15 Government Budget



Appendix 2. Proposed Fiscal Measures Summary

	2014/15	2015/16 (Proposed)	Est. Revenue/(Cost) (HK\$)
Fiscal Measures			
One-off Relief Measures			
Reduce salaries tax and tax under personal assessment	75%, subject to a ceiling of \$10,000	50%, subject to a ceiling of \$8,000	(\$6 billion)
Reduce Profits Tax	75%, subject to a ceiling of \$10,000	50%, subject to a ceiling of \$8,000	(\$0.6 billion)
Waive rates	A ceiling of HK\$1,500 per quarter for 2 quarters	A ceiling of HK\$1,500 for the first quarter	(\$3 billion)
Provide extra allowances for CSSA, Old Age Allowance, Old Age Living Allowance and Disability Allowance	1 month of the respective allowances	1 month of the respective allowances	(\$2.7 billion)
Pay rent on behalf of public housing tenants	1 month for all tenants	1 month, except for “well-off tenants”	(\$1 billion)
Other Fiscal Measures			
Increase child allowance	—	\$140,000 => \$180,000 (1st child borne in 2015/16); \$70,000 => \$90,000	(\$4 billion)
Increase dependent parents or grandparents allowances	Age 60: \$38,000 => \$40,000; Age between 55 and 59: \$19,000 => \$20,000; Additional allowance for living together, Age 60: \$38,000 => \$40,000; Age between 55 to 59: \$19,000 => \$20,000	Age 60: \$40,000 => \$44,000; Age between 55 and 59: \$20,000 => \$22,000; Additional allowance for living together, Age 60: \$40,000 => \$44,000; Age between 55 to 59: \$20,000 => \$22,000	(\$0.4 billion)
Increase tobacco duty		20%	\$1.5 billion
Increase vehicle license fee		20%	\$0.8 billion
Measures Targeting SME/Middle Class (Cost Impact Not Quantifiable)			
Lower Profits Tax rates for SME — 8% for turnover of no more than HK\$2 million and 12% for turnover of more than \$2 million upto \$5 million.			
Increase the Continue Education Fund from HK\$10,000 to HK\$20,000 and strengthen the regulations on the approved institutions			
Provision of specific locations/low-rental facilities to help SME/start-up businesses			
Deduction of rental expenses for personal residence, capped at HK\$100,000 per year for 15 years (Introduction of rental deduction for personal residence is in line with deduction of mortgage interest)			
Extend SME Financing Guarantee Scheme for another year (Feb 2015 => Feb 2016)			
Measures in Response to CE Policy Address (Cost Impact Not Quantifiable)			
Salary subsidy of HK\$4.5 per hour to encourage employers to employ non-working population (e.g. youth/housewife/disabled/retirees) — to increase workforce. This measure has the effect of reducing the minimum hourly wage to HK\$28.			
Promote Research & Development (R&D) in Hong Kong by (i) offering 150% super deduction on actual R&D expenditure; and (ii) waiver of tax on income derived from technical know-how developed in Hong Kong but used outside Hong Kong			
Deduction of medical insurance premium for the taxpayer and his dependents at HK\$3,000 per person per year.			
Measures to Support Long Term Development (Cost Impact Not Quantifiable)			
Strengthen tax enforcement and collection. In particular, strengthen the enforcement of the PSBE (Profit Shifting Base Erosion) program to identify total-no-tax payment cases and enter into more DTA/TIEAs with overseas jurisdictions to provide tax protection to Hong Kong taxpayers (e.g. to avoid double taxes).			
Identify and implement, as far as possible, broad and stable income streams to reduce negative fiscal impacts arising from aging population/economic cycles and maintain a low and simple tax regime.			
Enforce user-pay/cost recovery principles			

Source: AHKA

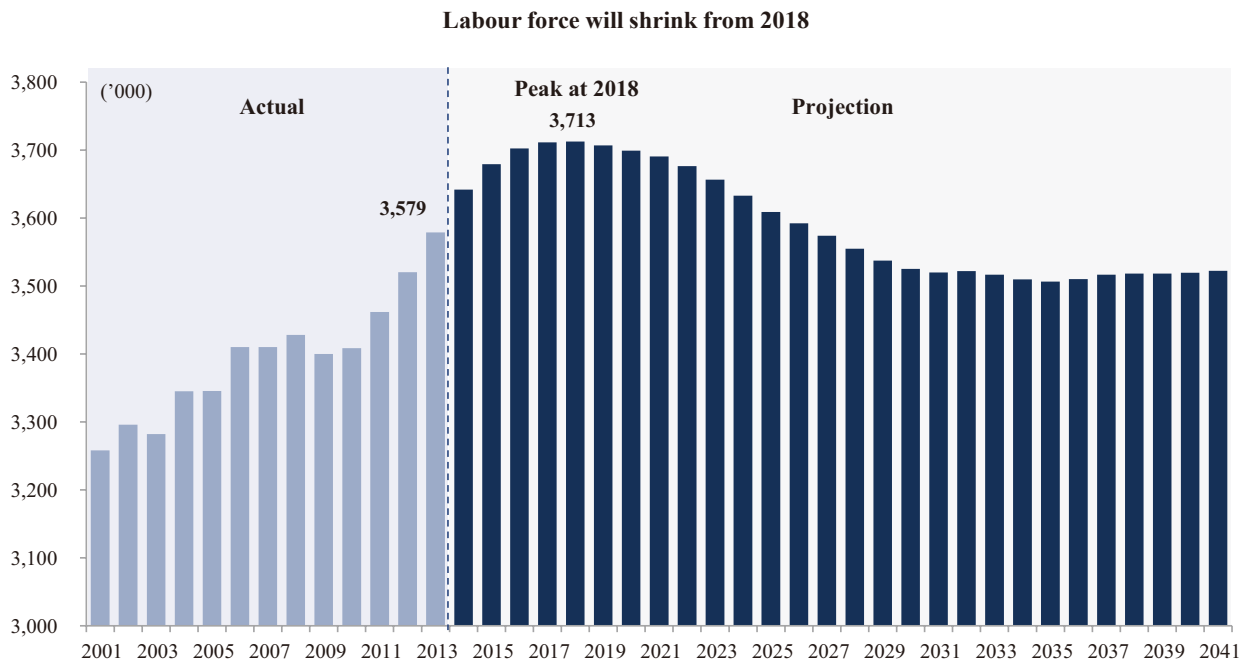
Appendix 3. Other Statistics and Information

Figure 1. Proposed Pension Scheme to Weigh on Government Finance

	2016	2021	2031	2041
Population Aged Over 65 (thousand people)	1,165	1,451	2,160	2,558
As a % of Total Population	16%	19%	26%	30%
Proposed Pension (HK\$ per month)	HK\$3,000			
Total Pension Burden (HK\$ billion per year)	42	52	78	92
2018-19 Operating Revenue Forecast	HK\$467 billion			
Proposed Pension (as % of 2018-19 Operating Rev.)	9.0%	11.2%	16.6%	19.7%

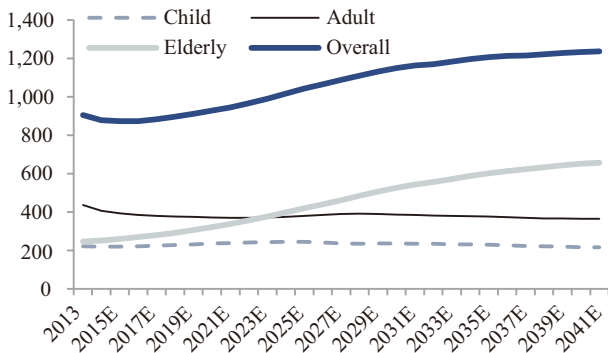
Source: Census Department Statistics, AHKA

Figure 2. Labour Force to Peak in 2018



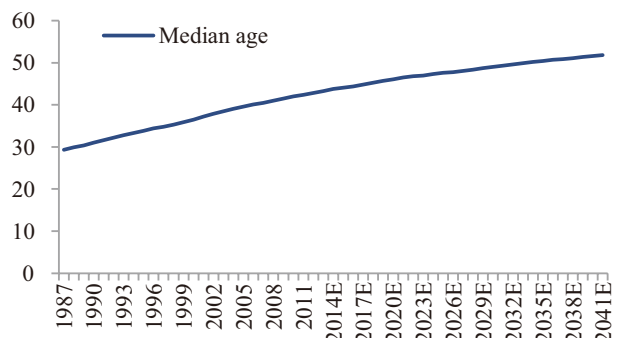
Source: Census Department Statistics, AHKA

Figure 3. Overall Economic Dependency to Rise



Source: Census Department Statistics, AHKA

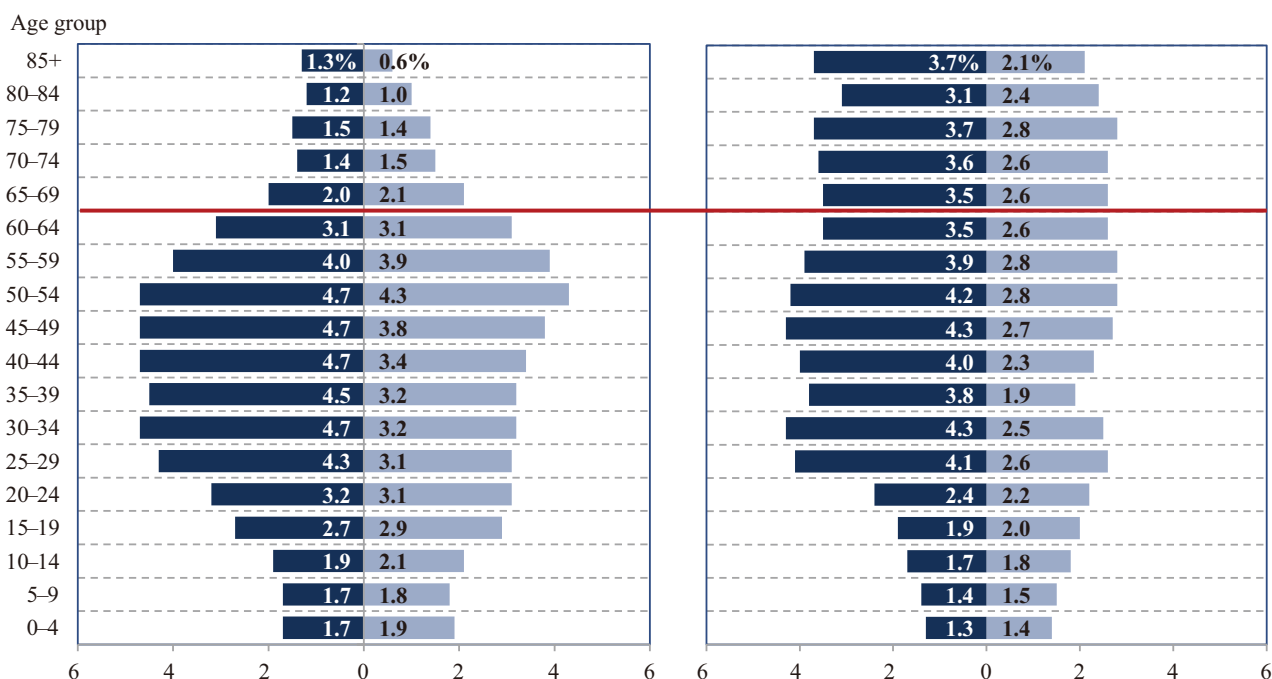
Figure 4. Increasing Median Age



Source: Census Department Statistics, AHKA

Figure 5. Ageing Population

The population aged 65 or above will surge significantly by 2041



Source: Census Department Statistics, AHKA

About AHKA

The Association of Hong Kong Accountants (“AHKA”) was established in January 2014. Our founding members are passionate to promote continuing professional development amongst its members and associates, not only in accounting knowledge but also in a wider scope of areas where our members and associates are interested and beneficial to their career development.

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