

Budget Bulletin - Hong Kong 2008/09



Commitment to Society, Sustainability and Pragmatism

Hong Kong's Financial Secretary, John Tsang Chun-wah, issued his first Budget for 2008/09 on 27 February 2008.

Economic Outlook - Hong Kong's Positive Growth Story Continues

The Financial Secretary is optimistic about the economic prospect over the medium term. GDP in Hong Kong increased by 6.3% in 2007 and the economy has enjoyed an above-trend growth with the latest unemployment rate having fallen to 3.4%. Yet, the global trend of rising inflation is of concern and the inflation rate in 2008 is estimated to rise to 4.5%. However, upon implementation of the various one-off measures proposed in this Budget, the inflation rate is expected to fall to 3.4% in 2008.

Government revenue is far higher than expected, due to the strengthening economy and increased corporate profits and salaries. The strong stock market and property market have also contributed. The estimated figure for operating surplus after investment income has been significantly revised from HK\$7.3 billion to HK\$64 billion, while Stamp Duty on stock transfers and on property transactions, Profits Tax as well as Salaries Tax combined are about HK\$46 billion higher than the original estimates.

Hong Kong – Asia's World City

The Financial Secretary mentioned that the 30 years of reform and liberalisation of the Mainland have helped our economy shift towards higher value-added services, thereby supporting our economic growth. It is expected such trend will continue and we must further enhance our cooperation with the Mainland in promoting to local and overseas investors in coming to Hong Kong.

In addition, the Government is also making efforts to enhance our status as Asia's World City by promoting our role as an international financial centre and as a hub of business logistics and tourism in the Asia Pacific Region. The Government is also developing economic relations with emerging markets such as Russia, Vietnam, India and the Middle East.

Tax Concession and Other Measures to Promote Economic Development

With a record high surplus of HK\$115 billion, the Financial Secretary mentioned that the Government is committed to continue to implement its "small government" policy to enhance the development of the private sectors. For example, it will implement various infrastructure projects which as a result will create about 27,000 new construction jobs. It will increase land supply and study the relocation of three government office buildings at the Wanchai waterfront. It will also earmark an additional HK\$150 million to step up overseas promotion to enhance the appeal of Hong Kong as an international convention, exhibition and tourism centre. To enhance Hong Kong's competitiveness as a logistics hub, the Government will also study the site location for Container Terminal 10.

The Government has also launched a comprehensive rewrite of the Companies Ordinance and review of the Trustee Ordinance in order to increase the competitiveness of Hong Kong's professional service industry, particularly in the trust services sector.

Various tax concessions have also been announced in the Budget to benefit different sectors of the community. Please refer to this leaflet for further details.

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What he did do

For all Taxpayers

- to retain the “source” system of taxing both individual and corporate income
- to retain the exemption of tax on dividends, capital gains and interest from financial institutions
- to waive the business registration fee for 2008/09
- to waive rates for 2008/09, subject to a ceiling of HK\$5,000 per quarter for each rateable tenement
- to reduce the First Registration Tax for environment-friendly private cars and commercial vehicles
- to exempt the duties on wine, beer and all other alcoholic beverages except spirits with immediate effect
- to waive the Hotel Accommodation Tax
- to grant a one-off tax reduction of 75% of tax for 2007/08, subject to a ceiling of HK\$25,000 under Profits Tax, Property Tax, Salaries Tax and tax under Personal Assessment
- to raise the ceiling for tax deductible donations under Profits Tax, Salaries Tax and tax under Personal Assessment from 25% to 35% of assessable profits or income

For Corporate Taxpayers

- to lower the Profits Tax rate from 17.5% to 16.5%
- to provide a 100% Profits Tax deduction for capital expenditure on environment-friendly machinery and equipment in the first year of purchase
- to shorten the depreciation period for environment-friendly installations mainly ancillary to buildings from 25 years to 5 years

For Salaries Taxpayers

- to widen tax bands from HK\$35,000 to HK\$40,000
- to reduce standard rate from 16% to 15%
- to resume the basic allowance and the married person’s allowance back to 2002/03 level of HK\$108,000 and HK\$216,000 respectively
- to raise the single parent allowance from HK\$100,000 to HK\$108,000

For Property Taxpayers

- to lower the Property Tax rate from 16% to 15%

What he did not do

- to broaden the tax base

What he should have done

- announced a plan which will broaden the tax base
- eliminated the upper limit of the deduction for home mortgage interest payments and the limitation on the number of years deduction
- granted a deduction for personal allowances to standard rate taxpayers
- lowered the tax burden of the middle class group by reducing the progressive rates for Salaries Tax

Key points to note

Fiscal highlights

- a surplus of HK\$63.7 billion on Operating Account and a surplus of HK\$115.6 billion on Consolidated Account are forecast for 2007/08

Other proposals

- review the Trustee Ordinance in order to increase the competitiveness of Hong Kong's trust service industry
- launch a comprehensive rewrite of the Companies Ordinance
- implement a number of environmental protection measures
- develop trading, storage and distribution of quality table wine
- diversify research and development activities

The Government is also recommending:

- accessibility of Hong Kong's financial institutions and professionals to the Mainland market
- providing a global investment platform for Mainland funds
- working with the Mainland to establish appropriate channels to allow cross-border access to financial instruments issued in the two markets
- broadening the source of enterprises listing in Hong Kong
- tapping new markets
- environmental improvement
- developing human capital
- community building & supporting disadvantaged groups
- strengthening pillar industries
- promoting long term development by investing in infrastructure and efficient use of land resources

Profits Tax

The Financial Secretary proposed changes to the rates of tax as follows:

Tax rates

	<u>2007/08</u>	<u>2008/09</u>
Persons other than corporations	16.0%	15.0%
Corporations	17.5%	16.5%

Depreciation allowances

Proposed Profits Tax deduction:

- to provide 100% Profits Tax deduction for capital expenditure on environment-friendly machinery and equipment in the first year of purchase
- to shorten the depreciation period for environment-friendly installations mainly ancillary to buildings from 25 years to 5 years

Property Tax

Property Tax is charged on the owner of land or property situated in Hong Kong at the standard rate on the rent receivable less 20%. Property Tax is payable in addition to rates. The Property Tax rate will be lowered from 16% to 15%.

Corporations carrying on business in Hong Kong can elect to be exempt from Property Tax and be subject to Profits Tax.

Salaries Tax

Salaries Tax rates and charge

Salaries Tax is charged at the lower of:

- net assessable income less charitable donations at the standard rate or
- net assessable income less charitable donations and personal allowances, charged at progressive rates as follows:

	<u>2007/08</u>
Standard Rate	16.0%
Progressive Rates	
<i>First HK\$35,000</i>	2.0%
<i>Next HK\$35,000</i>	7.0%
<i>Next HK\$35,000</i>	12.0%
<i>Balance</i>	17.0%

	<u>2008/09</u>
Standard Rate	15.0%
Progressive Rates	
<i>First HK\$40,000</i>	2.0%
<i>Next HK\$40,000</i>	7.0%
<i>Next HK\$40,000</i>	12.0%
<i>Balance</i>	17.0%

Deductible items

A deduction for fees for training courses at approved institutions remains unchanged at HK\$60,000 in 2008/09.

The deduction for home mortgage interest payments of up to HK\$100,000 per year for ten years remains unchanged.

Personal allowances

Applicable to progressive rate taxpayers:

	<u>2007/08</u>	<u>2008/09</u>
	HK\$	HK\$
Personal allowance:		
- single	100,000	108,000
- married	200,000	216,000
Single parent allowance	100,000	108,000
Child allowances:		
1st to 9th child		
- Year of birth	100,000	100,000
- Other years	50,000	50,000
Dependent parent/grandparent allowances:		
Age 60 or above		
Basic	30,000	30,000
Additional allowance (for dependant living with taxpayer)	30,000	30,000
Age between 55 and 59		
Basic	15,000	15,000
Additional allowance (for dependant living with taxpayer)	15,000	15,000
Dependent Brother/Sister	30,000	30,000
Disabled dependant	60,000	60,000