



## LEAVING WEALTH WITH THE PEOPLE

The Financial Secretary of the HKSAR, Mr. John Tsang Chun-wah, delivered his maiden budget speech at the Legislative Council on 27 February 2008.

With a significantly-higher-than-forecast fiscal surplus for 2007/08, the Government will give each of us a fat Year of the Rat "lai see" package by way of both one-off and ongoing tax relief.

The Hong Kong economy expanded briskly in 2007 with GDP accelerating to 6.3% growth in real terms, higher than the trend growth for the past 10 years. The labor market continued to improve along with the economic upturn. With the strengthening economy and financial markets, the Government is forecasting a consolidated surplus of HK\$115.6 billion for 2007/08, four and a half times last year's forecast. In the absence of unexpected serious incidents, Mr. Tsang forecasted the GDP to increase by 4 to 5 per cent in 2008.

The budget proposal reaffirms the Government's commitment to introduce and budget for measures proposed in the Chief Executive's 2007/08 Policy Address which includes lowering salaries and profits tax rates if fiscal conditions allow. Yet, Mr. Tsang reiterated the Government's objective to observe strict fiscal discipline and avoid substantially increasing expenditure and reducing taxes just because of the temporary improvements in our fiscal position.

## Highlights

### Salaries Tax

- Reduce Standard Tax rate from 16% to 15%
- Broaden tax bandwidth to HK\$40,000 on the progressive tax rates
- Increase basic and married person allowances to HK\$108,000 and HK\$216,000 respectively
- Waiver of 75% salaries tax assessed for 2007/08, capped at HK\$25,000

### Profits Tax

- Reduce Profits Tax rate from 17.5% to 16.5%
- Waiver of 75% profits tax assessed for 2007/08, capped at HK\$25,000

### Property Tax

- Reduce Property Tax rate from 16% to 15%
- Waiver of 75% property tax assessed for 2007/08, capped at HK\$25,000

# Highlights

## Rate

- Unchanged
- Waiver of rates for the four quarters of 2008/09, capped at HK\$5,000/quarter for each rateable tenement

## Hotel Accommodation Tax

- Waived after enactment of the budget proposal

## 2008/09 Business Registration Fee

- Waived

In order to show the Government's commitment to the society and to share the wealth with the community, certain one-off measures and tax waiver are proposed in the budget. It will be the second consecutive year for the Government to offer tax rebates.

Other key points mentioned in the budget speech are summarized here for quick reference.

### Salaries tax

- The marginal tax rates will remain the same but the tax bands will be increased from HK\$35,000 to HK\$40,000 and the standard tax rate lowered from 16% to 15%.
- The single and the married person allowances will go back to 2002/03 level of HK\$108,000 and HK\$216,000 respectively.

There will be a 75% tax waiver for salaries tax and tax under personal assessment assessed for 2007/08 subject to a ceiling of HK\$25,000 per case though the tax rebate will only be available when taxes for 2007/08 are paid in early 2009.

### Profits tax

- It is proposed to reduce profits tax rates from 17.5% to 16.5% in 2008/09 (15% for unincorporated business).
- A 100% profits tax deduction for capital expenditure on environment-friendly machinery and equipment in the first year of purchase is proposed. For environment-friendly installations mainly ancillary to buildings, the annual depreciation allowance will be increased from 4% to 20%.

There will be a 75% tax waiver for profits tax assessed for 2007/08 subject to a ceiling of HK\$25,000.

### Property tax

- The property tax rate will be reduced from 16% to 15%.

A 75% tax waiver for property tax assessed for 2007/08 subject to a ceiling of HK\$25,000 is also proposed.

### Stamp duty on property and stock transactions

- Remain unchanged

### Rates

- The rates charges for 2008/09 will remain unchanged at 5%.

It is proposed to waive the payment of rates for the whole year of 2008/09 subject to an upper limit of HK\$5,000/quarter for each rateable tenement.

### Other one-off measure

- It is proposed to grant each residential electricity account a one-off subsidy of HK\$1,800.

### The roads ahead

- The Government will continue to work closely with the Mainland authorities to ensure effective implementation of CEPA and the Pan-Pearl River Delta Regional Cooperation Framework Agreement in order to enhance its role in the development of our nations. It will also endeavor to attract investors from both the Mainland and overseas to use Hong Kong as a platform for developing regional and international business.

Various infrastructure projects, including the ten major projects announced in the Policy Address will be vigorously implemented.

The Government will also earmark HK\$50 billion from the fiscal reserves to promote healthcare reform.

Profits Tax Rates, Deduction and Allowances	2007/08	2008/09
<u>Tax rate</u>		
Corporation	17.5%	16.5%
Unincorporated business	16%	15%
Royalties to non-residents		
- Rate of deeming assessable profits	30% or 100%	30% or 100%
- Effective tax rate	5.25% or 17.5%	5.25% or 17.5%
<u>Deduction</u>		
Charitable donations	Up to 25% of assessable profits	Up to 35% of assessable profits
<u>Depreciation allowances</u>		
Allowances for plant and machinery		
- Initial allowance	60%	60%
- Annual allowance	10%, 20% or 30%	10%, 20% or 30%
Commercial building allowance	4%	4%
Industrial building allowance		
- Initial allowance	20%	20%
- Annual allowance	4%	4%
Manufacturing plant and machinery, and computer hardware and software	100% immediate write-off	100% immediate write-off
Environment-friendly machinery and equipment	-	100% immediate write-off in the first year of purchase
Environment-friendly installations mainly ancillary to buildings	4% annually	20% annually
Building refurbishment	20% write-off for 5 years	20% write-off for 5 years
Salaries Tax Rates, Deduction and Allowances	2007/08	2008/09
<u>Standard tax rate</u> *	16%	15%
<u>Progressive tax rates</u> *	First HK\$35,000 - 2% Next HK\$35,000 - 7% Next HK\$35,000 - 12% Remainder - 17%	First HK\$40,000 - 2% Next HK\$40,000 - 7% Next HK\$40,000 - 12% Remainder - 17%
<u>Personal allowances</u>		
- Single taxpayer	HK\$100,000	HK\$108,000
- Married couple	HK\$200,000	HK\$216,000
- First to ninth child	HK\$50,000 per head	HK\$50,000 per head
- New born baby	HK\$50,000 per head	HK\$50,000 per head
- Single parent	HK\$100,000	HK\$108,000
- Dependant parent/grandparent		
Aged 55 to 59		
- Basic	HK\$15,000	HK\$15,000
- Additional (for dependant living with taxpayer)	HK\$15,000	HK\$15,000
Aged 60 or above		
- Basic	HK\$30,000	HK\$30,000
- Additional (for dependant living with taxpayer)	HK\$30,000	HK\$30,000
- Disabled dependant	HK\$60,000	HK\$60,000
- Dependent brother/sister	HK\$30,000	HK\$30,000

<u>Deductions</u>		
<ul style="list-style-type: none"> <li>- Charitable donations</li> <li>- Self-education expenses</li> <li>- Home mortgage interest</li> <li>- Elderly residential care expenses</li> <li>- Contributions to recognized retirement schemes</li> </ul>	Up to 25% of assessable income Up to HK\$60,000 Up to HK\$100,000 ** Up to HK\$60,000 Up to HK\$12,000	Up to 35% of assessable income Up to HK\$60,000 Up to HK\$100,000 ** Up to HK\$60,000 Up to HK\$12,000
<b>Property tax</b>	<b>2007/08</b>	<b>2008/09</b>
	16%	15%
<b>Stamp duty</b>	<b>2007/08</b>	<b>2008/09</b>
<u>Stock transactions</u>		
<ul style="list-style-type: none"> <li>- Hong Kong stock</li> </ul>	0.2% per transaction (payable half by the vender and half by the purchaser)	0.2% per transaction (payable half by the vender and half by the purchaser)
<u>Property transactions</u>		
Property consideration / HK\$		
0 – 2,000,000	HK\$100	HK\$100
2,000,001 – 3,000,000	1.5%	1.5%
3,000,001 – 4,000,000	2.25%	2.25%
4,000,001 – 6,000,000	3%	3%
Over 6,000,000	3.75%	3.75%
<b>Capital duty</b>	<b>2007/08</b>	<b>2008/09</b>
	0.1% (Capped at HK\$30,000 per case)	0.1% (Capped at HK\$30,000 per case)
<b>Duty on alcoholic beverages</b>	<b>2007/08</b>	<b>2008/09</b>
(a) Wines and strong spirit	40% (include wines)	40% (exclude wines)
(b) Liquors with an alcoholic content of 30% and below	20%	Nil***
<b>Environment-friendly commercial vehicle</b>		
A reduction of 30%, 50% or 100% in the First Registration Tax will be offered to buyers of commercial vehicles meeting the Euro V Emissions Standards. Details to be announced by the Government.		

- \* Salaries tax is charged on net chargeable income at progressive rates. The tax charged however is limited to tax at the standard tax rate on the person's assessable income less concessionary deductions.
- \*\* The deduction is granted to each taxpayer for 10 years of assessment, whether continuous or not.
- \*\*\* It is proposed to exempt the duties on wine, beer and all other alcoholic beverages except spirits with immediate effect.

*The budget proposals do not generally become law until their enactment and may be modified by the Legislative Council before enactment.*

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