

2012/13 HONG KONG BUDGET HIGHLIGHTS



Our Financial Secretary, Mr John Tsang, delivered his fifth and farewell Budget on 1 February 2012.

Under the government's habitual prudent approach in estimating its annual budget, a consolidated budget surplus of \$66.7 billion instead of an original forecast deficit of \$8.5 billion is expected for 2011/12. As for the coming year, the government still conservatively forecast a small deficit of \$3.4 billion in consolidated account. With a fiscal reserves of about \$662.1 billion in Hong Kong by 31 March 2012, equivalent to the government's expenditure for 22 months and 35% of GDP, the urge from different sectors for more long-term and effective relief measures are widely expected.

With the increasing belief of an upcoming global economic recession caused by the European debt crisis, the Budget aims to strike a balance between increasing government expenditure and maintaining a low tax regime, upholding a prudent financial management policy for adequate fiscal reserves to cope with economic contingencies while reducing the burden of taxpayers and operating costs of businesses.

HIGHLIGHTS

Fiscal Measures

- ▶ Reduce profits tax, salaries tax and tax under personal assessment for 2011/12 by 75%, capped at \$12,000
- ▶ Increase various personal allowances including basic/ married person/ child allowances
- ▶ Extend entitlement period for home loan interest deduction from 10 to 15 years
- ▶ Increase maximum annual tax deduction for MPF mandatory contributions from \$12,000 to \$15,000
- ▶ Waive business registration fees
- ▶ Abolish capital duty

Some Non-fiscal Measures

- ▶ SMEs
 - Increase maximum loan guarantee ratio to 80% under SME Financing Guarantee Scheme and reduce annual guarantee fee
 - Offer special concessions on insurance policy
 - Increase R&D cash rebate
- ▶ Halve import & export declarations charges
- ▶ Further issuance of iBond
- ▶ Waive rates, capped at \$2,500/quarter/rateable property
- ▶ Residential electricity subsidy of \$1,800
- ▶ Pay one extra month to recipients of CSSA, Old Age Allowance and Disability Allowance
- ▶ Pay 2 months' rent for public housing tenants
- ▶ Pay 2/3 of 2 month's rent for non-elderly tenants of HKHS's Group B estates
- ▶ Extend short-term food assistance services
- ▶ Set up a fund of \$1 billion to help Hong Kong enterprises tap the Mainland market

Though the fiscal relief measures introduced in this Budget continued to have many one-off concessions, the number of varieties are comparatively more. In addition, fiscal relieves in the last past 5 to 6 years are predominately for individuals. This Budget proposed more concessions for entrepreneurs - profits tax rebates, waiver of business registration fees, increase in government loan guarantee ratio granted to/ reduce annual guarantee fees/offer special concession on insurance policy/increase R&D cash rebate for SME, abolition of capital duty, and halve import and export declaration charges.

As for individuals, common relieves proposed are tax rebates on salaries and tax under personal assessment, raising child allowance/dependent parent/grandparent allowances, waiver of property rates, residential electricity subsidy, rental waiver for public housing/Group B estates, and extra payments for social security assistance recipients/old age/disable. Other less commonly-found concessions benefiting individuals proposed are increase in allowance for single/married person/single parent/dependent brother and sister/disabled dependent, increase in tax deduction for annual MPF mandatory contributions and extension of home loan interest deduction entitlement period.

The Budget also emphasised the importance of maintaining a simple and low tax regime in Hong Kong which is the key favourable factor for positioning Hong Kong as a location for setting up

regional headquarters, regional offices or local offices. Hong Kong was ranked among the top in the world for the ease of paying taxes in the "Paying Taxes 2012 - The Global Picture" published by the World Bank. The repeated calls from public to broaden Hong Kong tax base by introducing GST therefore has continued not been addressed in this Budget.

To enhance the competitiveness of Hong Kong as an international financial, investment and commercial hub, the government will continue efforts to expand Hong Kong's treaty network. Currently, Hong Kong has signed 22 Avoidance of Double Taxation Agreements.

The four pillar industries, namely trading and logistics, financial services, business and professional services, and tourism have been engines powering Hong Kong's economic development for years, generating 58% of GDP in 2010. Regarding financial services, as a fund-raising platform, Hong Kong was ranked first worldwide for the third consecutive year in terms of total amount of funds raised through public offering, amounting to \$33 (USD) billion in 2011. Not only has cross-border trade settlement in renminbi (RMB) conducted through Hong Kong been expanded to cover the entire China, Hong Kong is the first place outside China to develop an RMB bond market. To promote the development of retail bond market in Hong Kong and to cope with inflation, a further issuance of Government iBond will be launched shortly.

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Profits Tax Rates, Deductions and Allowances		2011/12	2012/13
<u>Tax rate</u>			
Corporations		16.5%	} No change
Unincorporated businesses		15%	
Royalties to non-residents			
- Deemed assessable profits rate		30% or 100%	
- Effective tax rate		4.95% or 16.5%	
<u>Deductions</u>			
Charitable donations	Up to 35% of assessable profits		} No change
Intellectual property rights (patent rights, rights to any know-how, copyrights, registered designs and registered trademarks)	100% immediate write-off		
<u>Depreciation allowances</u>			
Allowances for plant and machinery			
- Initial allowance	60%		
- Annual allowance	10%, 20% or 30%		
Commercial building allowance	4%		
Industrial building allowance			
- Initial allowance	20%		
- Annual allowance	4%		
Manufacturing plant and machinery, and computer hardware and software	100% immediate write-off		
Building refurbishment	20% write-off for 5 years		
Environment-friendly installations mainly ancillary to buildings	20% write-off for 5 years		
Environment-friendly machinery and equipment	100% immediate write-off		
Environment-friendly vehicles	100% immediate write-off		
Salaries Tax Rates, Deductions and Allowances		2011/12	2012/13
<u>Standard tax rate</u>		15%	} No change
<u>Progressive tax rates</u>			
	First \$40,000 - 2%		
	Next \$40,000 - 7%		
	Next \$40,000 - 12%		
	Remainder - 17%		
<u>Personal allowances *</u>			
- Single taxpayer	\$108,000	\$120,000	
- Married couple	\$216,000	\$240,000	
- 1 st to 9 th child (year of birth)	\$120,000 each	\$126,000 each	
- 1 st to 9 th child (other years)	\$60,000 each	\$63,000 each	
- Single parent	\$108,000	\$120,000	
- Dependent parent / grandparent			
Aged 55 to 59 - Basic	\$18,000	\$19,000	
- Additional, living with taxpayer	\$18,000	\$19,000	
Aged 60 or above - Basic	\$36,000	\$38,000	
- Additional, living with taxpayer	\$36,000	\$38,000	
- Disabled dependent	\$60,000	\$66,000	
- Dependent brother / sister	\$30,000	\$33,000	
<u>Deductions</u>			
- Charitable donations	Up to 35% of assessable income		} No change
- Self-education expenses	Up to \$60,000		
- Home mortgage interest	Up to \$100,000		
- Elderly residential care expenses	Up to \$72,000		
- Contributions to recognised retirement schemes	Up to \$12,000		

* Personal allowances are only applicable to progressive tax rates calculation

** Extend the deduction period by a further 5 years to a total of 15 years, whether continuous or not, to all owner-occupiers with a mortgage

One-off Measures	2011/12	2012/13
- Types of tax	Salaries tax and tax under personal assessment	Salaries tax, tax under personal assessment and profits tax
- Amount waived	75% of tax for 2010/11, capped at \$6,000	75% of tax for 2011/12, capped at \$12,000
- Cash handout	\$6,000	Nil

Property Tax	2011/12	2012/13
	15%	No change

Stamp Duty	2011/12	2012/13
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Stock Transactions

Hong Kong Stock	0.2% per transaction (payable half by the vendor and half by the purchaser)	} No change
Property Transactions		
Property Consideration	Rate	
\$0 - \$2,000,000	\$100	
\$2,000,001 - \$2,351,760	\$100 + 10% of excess over \$2,000,000	
\$2,351,761 - \$3,000,000	1.5%	
\$3,000,001 - \$3,290,320	\$45,000 + 10% of excess over \$3,000,000	
\$3,290,321 - \$4,000,000	2.25%	
\$4,000,001 - \$4,428,570	\$90,000 + 10% of excess over \$4,000,000	
\$4,428,571 - \$6,000,000	3%	
\$6,000,001 - \$6,720,000	\$180,000 + 10% of excess over \$6,000,000	
\$6,720,001 - \$20,000,000	3.75%	
\$20,000,001 - \$21,739,120	\$750,000 + 10% of excess over \$20,000,000	
Above \$21,739,120	4.25%	

Special Stamp Duty	2011/12	2012/13
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Property Transactions *

Period of ownership		} No change
0-6 months	15%	
6-12 months	10%	
12-24 months	5%	

* Special Stamp Duty on top of the current ad valorem property transaction stamp duty is imposed on disposal of residential properties acquired on or after 20 November 2010, either by an individual or a company and resold within 24 months.

Capital Duty	2011/12	2012/13
	0.1% (Capped at \$30,000 per case)	Abolished

Business Registration Fee	2011/12	2012/13
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Fee

- Main business (1 year certificate)	\$2,000 *	Waived
- Branch business (1 year certificate)	\$73 *	Waived

Levy

- Main business (1 year certificate)	\$450	} No change
- Branch business (1 year certificate)	\$450	

* Fee in respect of business registration certificates and branch registration certificates with commencement date falling within the period from 1 August 2010 to 31 July 2011 was waived.

Rates		2011/12	2012/13
Percentage charge		5% on rateable value	5% on rateable value
One-off waiver			
- Number of quarters		4 quarters	4 quarters
- Ceiling		\$1,500/quarter/tenement	\$2,500/quarter/tenement
Duty on Alcoholic Beverage		2011/12	2012/13
- Liquor with an alcoholic strength of more than 30% by volume		100%	No change
- Liquor with an alcoholic strength of not more than 30% by volume (except wine)		0%	
- Wine		0%	
- Duty-free concessions		1 litre of alcoholic beverages	
Duty on Tobacco		2011/12	2012/13
- Cigarettes		\$1,706/1,000 sticks	No change
- Cigars		\$2,197/kg	
- Chinese prepared tobacco		\$419/kg	
- All other manufactured tobacco except those intended for the manufacture of cigarettes		\$2,067/kg	
- Duty-free concessions		19 cigarettes or 1 cigars or 25 grammes of other manufactured tobacco	
First Registration Tax on Vehicles		2011/12	2012/13
- Environment-friendly petrol private cars		45% tax reduction, capped at \$75,000/car *	No change
- Environment-friendly commercial vehicles meeting the Euro V emissions standards		30%, 50% or 100% tax reduction, depending on types of vehicles	
- Electric vehicles (exemption extended to 31 March 2014)		Exempt	
- Other private cars			
<i>Taxable value</i>		<i>Rate</i>	
First \$150,000		40%	
Next \$150,000		75%	
Next \$200,000		100%	
Remainder		115%	
* Effective from 17 June 2011			
Hotel Accommodation Tax		2011/12	2012/13
		Waived	No change

Other Taxes, Duties, Fees and Charges

No change on other taxes, duties, fees and charges including vehicle licence fees, on-street parking meter charges, air passenger departure tax, betting duty, duty on hydrocarbon oil / methyl alcohol and any admixture.

The information contained in this publication is based on the Budget proposals announced by the Financial Secretary on Wednesday, 1 February 2012. The Budget proposals will be subject to review and modification by the Legislative Council prior to the enactment of the legislation.