

2013/14 HONG KONG BUDGET HIGHLIGHTS



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Fiscal Measures

- ▶ Extend the 100% profits tax exemption for offshore funds to include transactions in certain private companies
- ▶ Reduce profits tax by 50% on offshore insurance business of captive insurance companies
- ▶ Reduce profits tax, salaries tax and tax under personal assessment for 2012/13 by 75%, capped at \$10,000
- ▶ Increase annual child allowance from \$63,000 to \$70,000; in year of birth from \$126,000 to \$140,000
- ▶ Raise deduction ceiling for self-education expenses from \$60,000 to \$80,000
- ▶ Waive business registration fees

Some Non-fiscal Measures

- ▶ Expand size of Government Bond Programme from \$100 to \$200 billion
- ▶ Further issuance of iBond
- ▶ SMEs
 - Extend application period for concessionary measures under SME Financing Guarantee Scheme for 1 year
 - Increase cumulative grant amount under the SME Export Marketing Fund
 - Introduce "Small Business Policy" scheme to provide insurance assistance
- ▶ Waive rates, capped at \$1,500/quarter
- ▶ Residential electricity subsidy of \$1,800
- ▶ Pay one extra month to recipients of CSSA/Old Age All'ce/Old Age Living All'ce/Disability All'ce
- ▶ Pay 2 months' rent for public housing
- ▶ Pay 2/3 of 2 month's rent for non-elderly tenants of HKHS's Group B estates
- ▶ Allocate \$100 million for food assistance if needed
- ▶ Defer student loan repayment date

Our Financial Secretary, Mr John Tsang, delivered his sixth Budget on 27 February 2013 against the backdrop of continued deteriorating external environment of US fiscal cliff/European debt crisis and repeated internal calls from all directions for more long-term effective relief measures.

With the consistent feature of huge under-estimation, the estimated consolidated budget for 2012/13 is expected to be a surplus of \$64.9 billion, instead of an original forecast deficit of \$3.4 billion. The forecast for 2013/14 remained to be conservatively at a small deficit of \$4.9 billion. Hong Kong's fiscal reserves will reach \$734 billion by 31 March 2013, equivalent to Government's expenditure for 23 months and 36% of GDP.

"The road ahead remains bumpy and as a politician once said: 'Keep your eyes on the stars, and your feet on the ground'" said Mr Tsang. He reminded us of the 5-year deficit between 1998 and 2004 where our fiscal reserves dropped from a 28-month equivalent government expenditure to a 13-month in 2004. He warned the challenges ahead eg in 20 years' time, our current elderly dependency ratio of 5 persons of working age (aged 15 to 64) supporting 1 dependent elderly person will drop to 2:1 due to our aging population; Government's revenue will substantially

drop resulting from reduction in the number of taxpayers.

He considered one-off measures are prudent financial management policy, can ease the community's burden from a micro perspective, and are counter-cyclical from a macro perspective for coping with short-term economic fluctuations, maintaining spending power and supporting the employment market. Measures in tax reduction and increases in tax allowance is a simple and direct response to various aspirations of our business sectors.

The Budget therefore contained few surprises when it continued to dash sweeteners which are largely similar to previous years. The usual one-off relief measures like tax rebates, waiver of rates & business registration fees, extra allowance, subsidies on residential electricity and public housing rent, food assistance, special concessions for SME continued.

It is worth noting the two new fiscal measures proposed for the financial services industry in attracting more private equity funds and captive insurance companies in Hong Kong. One is to extend the offshore funds' 100% profits tax exemption to private equity funds; another is to extend the 50% profits tax exemption on offshore reinsurance income of reinsurance companies to offshore insurance income of captive insurance companies.

Hong Kong, ranking second in Asia, has more than \$9 trillion total value of fund assets under management. The Budget has finally addressed, though partially, repeated calls to extend profits

tax exemption for offshore funds to private equity funds. The 100% tax exemption on offshore fund, effective since 1996/97, exempts non-resident persons from profits on "specified transactions" but excludes transactions in private companies. The Budget now proposed to extend this profits tax exemption to include transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong.

To attract large-scale captive insurers in Hong Kong, it is proposed to extend the 50% profits tax exemption on offshore reinsurance income of reinsurance companies to offshore insurance income of captive insurance companies. Since 1998/99, premiums from reinsurance of offshore risks and gains/profits from offshore reinsurance investments have only been taxed at 50% of the profits tax rate. The Budget proposed to extend this concession to offshore insurance business of captive insurance companies so as to attract more large enterprises to set up their own captive insurance companies in Hong Kong.

At end of 2012, our RMB deposits and outstanding CD stood at RMB 720 billion, making Hong Kong the world's largest and most efficient offshore RMB business hub. RMB trade settlement conducted through Hong Kong banks in 2012 exceeded RMB 2,600 billion, representing over 90% of Mainland China's cross border trade settled in RMB. The Government will continue the RMB Qualified Foreign Institutional Investors' expansion to further position Hong Kong as the leading offshore RMB business centre.

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Profits Tax Rates, Deductions and Allowances		2012/13	2013/14
Tax rate			
Corporations		16.5%	No change
Unincorporated businesses		15%	
Royalties to non-residents		30% or 100%	
- Deemed assessable profits rate		4.95% or 16.5%	
- Effective tax rate			
Deductions			
Charitable donations		Up to 35% of assessable profits	
Intellectual property rights		100% or 20% write-off for 5 years	
Depreciation allowances			
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	
Environmental protection installations		20% write-off for 5 years	
Environmental protection machinery		100% immediate write-off	
Environment-friendly vehicles		100% immediate write-off	

Salaries Tax Rates, Deductions and Allowances		2012/13	2013/14
Standard tax rate		15%	No change
Progressive tax rates		First \$40,000 - 2%	
		Next \$40,000 - 7%	
		Next \$40,000 - 12%	
		Remainder - 17%	
Personal allowances*			
Single taxpayer		\$120,000	No change
Married couple		\$240,000	
1st to 9th child (year of birth)		\$126,000 each	\$140,000 each
1st to 9th child (other years)		\$63,000 each	\$70,000 each
Single parent		\$120,000	No change
Dependent parent / grandparent			
Aged 55 to 59 - Basic		\$19,000	
- Additional, living with taxpayer		\$19,000	
Aged 60 or above - Basic		\$38,000	
- Additional, living with taxpayer		\$38,000	
Disabled dependent		\$66,000	
Dependent brother / sister		\$33,000	
Deductions			
Charitable donations		Up to 35% of assessable income	No change
Self education expenses		Up to \$60,000	Up to \$80,000
Home mortgage interest (up to 15 years)		Up to \$100,000	No change
Elderly residential care expenses		Up to \$76,000	
Contributions to recognised retirement schemes		Up to \$14,500	Up to \$15,000

* Personal allowances are only applicable to progressive tax rates calculation.

One-off measures	2012/13	2013/14
Types of tax	Salaries tax, tax under personal assessment and profits tax	Salaries tax, tax under personal assessment and profits tax
Amount waived	75% of tax for 2011/12, capped at \$12,000	75% of tax for 2012/13, capped at \$10,000
Cash handout	Nil	Nil

Property Tax	2012/13	2013/14
	15%	No change
Stamp Duty	2012/13	2013/14
<u>Stock Transactions</u>		
Hong Kong Stock	0.2% per transaction (payable half by vendor and half by purchaser)	No change
<u>Property Transactions (Table 1)</u>		
Property Consideration		
\$0 - 2,000,000	\$100	No change
\$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%	
<u>Property Transactions on or after 23 Feb 2013 (Table 2)*</u>		
Property Consideration		
\$0 - 2,000,000	1.5%	No change
\$2,000,001 - 2,176,470	\$30,000 + 20% of excess over \$2,000,000	
\$2,176,471 - 3,000,000	3.0%	
\$3,000,001 - 3,290,330	\$90,000 + 20% of excess over \$3,000,000	
\$3,290,331 - 4,000,000	4.5%	
\$4,000,001 - 4,428,580	\$180,000 + 20% of excess over \$4,000,000	
\$4,428,581 - 6,000,000	6%	
\$6,000,001 - 6,720,000	\$360,000 + 20% of excess over \$6,000,000	
\$6,720,001 - 20,000,000	7.5%	
\$20,000,001 - 21,739,130	\$1,500,000 + 20% of excess over \$20,000,000	
Above \$21,739,130	8.5%	

* Stamp duty in Table 1 (instead of Table 2) continues to apply to residential property and acquired by a Hong Kong Permanent Resident who does not own any other residential property in Hong Kong at the time of acquisition or fulfillment of other conditions.

Buyer's Stamp Duty ("BSD")	2012/13	2013/14
Residential Property Transactions on or after 27 Oct 2012 #	15%	No change

Upon enactment of the relevant legislation, Buyer's Stamp Duty is also imposed on acquisition of residential properties on or after 27 Oct 2012 by any person (including companies) except a Hong Kong Permanent Resident.

Special Stamp Duty ("SSD")	2012/13	2013/14
<u>Residential Property Transactions between 20 Nov 2010 and 26 Oct 2012[^]</u>		
Period of Ownership		
6 months or less	15%	No change
More than 6 months but for 12 months or less	10%	
More than 12 months but for 24 months or less	5%	
<u>Residential Property Transactions on or after 27 Oct 2012[^]</u>		
Period of Ownership		
6 months or less	20%	No change
More than 6 months but for 12 months or less	15%	
More than 12 months but for 36 months or less	10%	

[^] Upon enactment of the relevant legislation, Special Stamp Duty is also imposed on any seller (including companies) for disposal of residential properties acquired during the above relevant periods and resold within specific time limit of ownership.

Business Registration Fees	2012/13	2013/14
Fee		
Main business (1 year certificate)	Waived	No change
Branch business (1 year certificate)	Waived	
Levy		
Main business (1 year certificate)	\$450	
Branch business (1 year certificate)	\$450	

Rates	2012/13	2013/14
Percentage charge	5% on rateable value	5% on rateable value
One-off waiver		
Number of quarters	4 quarters	4 quarters
Ceiling	\$2,500/quarter/tenement	\$1,500/quarter/tenement

Duty on Alcoholic Beverage	2012/13	2013/14
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	2012/13	2013/14
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 cigar or 25 grams of other manufactured tobacco	

First Registration Tax on Vehicles	2012/13	2013/14
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 and subject to vehicle-class-specific caps per vehicle	
Electric vehicles (exemption to 31 Mar 2014)	Exempt	
Other private vehicles		
Taxable value	Rates	
First \$150,000	40%	
Next \$150,000	75%	
Next \$200,000	100%	
Remainder	115%	

The information contained in this publication is based on the Budget proposals announced by the Financial Secretary on Wednesday, 27 February 2013. The Budget proposals will be subject to review and modification by the Legislative Council prior to the enactment of the legislation.