

2018/19 Hong Kong Budget Summary

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Highlights

Profits Tax

- A one-off tax reduction of 75% of profits tax for 2017/18, subject to a ceiling of HK\$30,000

Salaries Tax

- A one-off tax reduction of 75% of salaries tax and tax under personal assessment for 2017/18, subject to a ceiling of HK\$30,000
- The marginal bands for salaries tax are widened from the current HK\$45,000 to HK\$50,000
- The number of tax bands is increased from four to five
- Husband and wife are given the option to decide whether to elect for personal assessment
- The following allowances / deduction are increased:
 - Child Allowance
 - Dependent Parent and Dependent Grandparent Allowance
 - Additional Dependent Parent and Dependent Grandparent Allowance
 - Elderly Residential Care Expenses
- Disabled Personal Allowance of HK\$75,000 is introduced

Other Levies

- Rates for all four quarters of 2018/19 to be waived, subject to a ceiling of **HK\$2,500 per quarter** for each rateable property
- The First Registration Tax ("FRT") of electric commercial vehicles, electric motor cycles and electric motor tricycles continues to be waived in full until 31 March 2021
- The FRT of electric private cars continues to be waived up to HK\$97,500 until 31 March 2021
- A "one-for-one replacement" scheme is launched to allow eligible private car owners who buy a new electric private car and scrap an eligible private car they own to enjoy a higher FRT concession of up to \$250,000

The Financial Secretary, the Honourable Paul M. P. Chan, delivered the 2018/19 budget speech of the Government in the Legislative Council on 28 February 2018.

Estimates for 2018/19

The Financial Secretary estimates that the total Government revenue to be HK\$604.5 billion and the overall expenditure to be HK\$557.9 billion including recurrent expenditure of HK\$406.5 billion for 2018/19. The Financial Secretary forecasts a surplus of HK\$46.6 billion in the Consolidated Account in the coming year. The fiscal reserves are estimated to be HK\$1,138.6 billion by the end of March 2019.

Taxes

Local tax reliefs

A summary of the major tax relief measures proposed by the Financial Secretary after taking into account the financial position and economic performance of Hong Kong is set out in the highlights table on the left.

Other potential tax-related developments

The Government is seeking to:

- continue to expand the network of Comprehensive Avoidance of Double Taxation Agreements with other jurisdictions
- introduce a 300% tax deduction for enterprises' first HK\$2 million qualifying research and development expenditure, with the remainder at 200%
- extend the scope of tax exemption from debt instruments with an original maturity of not less than seven years to instruments of any duration and provide tax concession for interest income and trading profits derived from a more diverse range of debt instruments for Hong Kong investors
- review the existing tax concession arrangements applicable to the fund industry with regard to international requirements on tax co-operation and examine the feasibility of introducing a limited partnership regime for private equity funds and the related tax arrangements

- extend the coverage of Profits Tax concession to specified treasury services provided by qualifying corporate treasury centres to all their onshore associated corporations
- enable all deferred annuity products available in the market meeting the guidelines to be issued by the Insurance Authority to enjoy tax concessions. Such tax concessions will also be applicable to the Mandatory Provident Fund voluntary contributions
- explore ways of enhancing Hong Kong's competitiveness as an insurance hub, including tax arrangements and other regulatory requirements, in collaboration with the industry
- allow tax deduction for capital expenditure incurred by enterprises in procuring eligible energy efficient building installations and renewable energy devices to be claimed in full in one year instead of the current time frame of five years
- introduce a tax deduction of HK\$8,000 per insured person for people who purchase eligible health insurance products for themselves or their dependants under the Voluntary Health Insurance Scheme

Profits Tax		Proposed 2018/19	2017/18
Standard Rate*	For corporations		
	<ul style="list-style-type: none"> • HK\$0 - \$2 million of profits • > HK\$2 million of profits 	<p>8.25%</p> <p>16.5%</p>	<p>16.5%</p> <p>16.5%</p>
	For persons other than corporations (Unincorporated business)		
	<ul style="list-style-type: none"> • HK\$0 - \$2 million of profits • > HK\$2 million of profits 	<p>7.5%</p> <p>15.0%</p>	<p>15.0%</p> <p>15.0%</p>

* The Inland Revenue (Amendment) (No. 7) Bill 2017 was gazetted to implement the two-tiered Profits Tax rates regime. Restrictions are proposed to limit the application to only one enterprise nominated from among those which are connected. The Bill is subject to the enactment of relevant legislation.

Property Tax		Proposed 2018/19	2017/18
Standard Rate		15%	15%

Salaries Tax		Proposed 2018/19	2017/18		
Standard Rate	On income after deduction of allowable outgoings and charitable donations but before personal allowances	15%	15%		
Progressive Rates	On net chargeable income (i.e. net income after deduction of allowable outgoings, charitable donations and personal allowances)				
		<p>2018/19</p> <p>HK\$</p>	<p>2017/18</p> <p>HK\$</p>		
	First	50,000	45,000	2.0%	2.0%
	Next	50,000	45,000	6.0%	7.0%
	Next	50,000	45,000	10.0%	12.0%
	Next	50,000	-	14.0%	-
	Remainder		17.0%	17.0%	

Salaries Tax – continued		Proposed 2018/19 HK\$	2017/18 HK\$
Allowances			
Basic Allowance		132,000	132,000
Married Person's Allowance		264,000	264,000
Single Parent Allowance	For divorced/ separated parent responsible for the sole or predominant care of his/her child(ren)	132,000	132,000
Disabled Personal Allowance		75,000	-
Child Allowance	First to ninth child (each)	120,000	100,000
	Additional allowance (for each child in the year of birth)	120,000	100,000
Dependent Parent and Dependent Grandparent Allowance	≥ 60 years old (or eligible to claim an allowance under the Government's Disability Allowance Scheme)		
<ul style="list-style-type: none"> - The parent must be an ordinarily resident in Hong Kong - Dependent Parent Allowance and Dependent Grandparent Allowance cannot be granted in the same tax year in respect of the same individual 	Basic allowance	50,000	46,000
	Additional allowance (residing with taxpayer continuously throughout the year)	50,000	46,000
	55 – 59 years old		
	Basic allowance	25,000	23,000
	Additional allowance (residing with taxpayer continuously throughout the year)	25,000	23,000
Dependent Brother or Sister Allowance	Each dependent	37,500	37,500
Disabled Dependant Allowance	Each dependent	75,000	75,000
Deductions			
Expenses of Self-Education	Maximum deduction	100,000	100,000
Home Loan Interest	Maximum deduction (Property in Hong Kong and used as principal place of residence, can be claimed for 20 years, whether continuous or not)	100,000	100,000
Mandatory Contributions to Recognised Retirement Schemes	Maximum deduction	18,000	18,000
Elderly Residential Care Expenses	Maximum deduction	100,000	92,000
Approved Charitable Donations	Maximum deduction (% of assessable income net of allowable expenses and depreciation allowances)	35%	35%

The information in this leaflet is based on the 2018/19 Budget Speech delivered by the Financial Secretary on 28 February 2018. Amendments after publication of this leaflet may lead to further changes.

Should you wish to discuss any relating matters, please contact us.

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