

SHARING THE FRUITS OF STRONG ECONOMY REBOUND

As a result of the Hong Kong economy resuming strength and vitality in 2006, the Financial Secretary, Mr Henry Tang, announced a number of good news to the public during his 2007/08 budget speech. These measures include, broadening of tax bandwidth, lowering of marginal tax rates on progressive tax rates of salaries tax; increase the child allowance and deduction ceiling for self education expenses; tax rebate on the 2006/07 tax paid under salaries tax or personal assessment; reduction of stamp duty of property transfer transaction where the consideration of the property is lower than HK\$2m, rate relief for the first 2 quarters of 2007.

Despite the above, Mr Tang had reiterated that the Hong Kong tax base is too narrow such that the Government's recurring income level would be highly vulnerable to economy downturn. As to the broadening of the tax base, a new proposal will be passed to the Government for consideration after 31 March 2007 despite of the fact that the Government had already decided to abandon the introduction of the Goods and Services Tax.

Again, as a result of the strong economy rebound, the Government reserve level had restored to a very healthy level. Nevertheless, this would not give an excuse for Mr Tang to allow overspending on the public. Mr Tang advised that the Government will make reference to the IMF suggested reserve level in formulating policies on the Government reserve.

Similar to previous year, the Government will stick to the "polluter pays" principle in formulating the so-called green tax strategies. Levies on plastic bags will be released shortly and the Environmental Protection Department ("EPD") is studying on other means to levy fees on polluters.

On the expenditure side, Mr Tang had addressed the needs of the disadvantaged, how to assist the local industries. Mr Tang had also touched briefly on funding of public medical expenses.

In all, we consider that the budget speech is a well balanced one and we should appreciate the fact that Mr Tang had not made the future government overcommitted on any tax cut. As a matter of fact, the vast majority of salaries taxpayers in Hong Kong would be benefited by the proposed salaries tax rebate policy. The budget speech would for sure be much more welcoming than the previous budget speeches for the last 6 years by Mr Tang and his predecessors.

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28 February 2007