

Budget Summary – 2012/13

1 February 2012



2012/13 BUDGET:

A repetition of prior year's pathway

Earlier today, the Financial Secretary of the HKSAR Government, Mr. John Tsang Chun Wah, JP, delivered the 2012/13 budget speech.

Comprehensive measures have been released to stabilize and maintain the equilibrium of aggregation demand in the economy in response to the dynamic fluctuation of economic changes. These measures extensively cover individuals in different strata and business in different sectors, notwithstanding that the approaches have been commonly adopted in prior years and, in themselves, lack of innovation.

Tax measures addressed in the 2012/13 Budget are emphasized on direct relief on tax burden in form of tax reduction for 2011/12 (75% reduction in Profits Tax & Salaries Tax / Personal Assessment, limited to \$12,000) and adjustment on statutory allowances and deductions. Yet focus has not been made to address the issues repeatedly alerted in this sector on narrow tax base, both in terms of number of taxpayers and types of tax. We believe that exhaustive review on current tax regime should be conducted in the future budget or policy address for deriving more progressive tax reform for the contemporary economic environment.

The current forecast on the 2011/12 operating and consolidated accounts surplus is \$38.2 billion and \$66.7 billion respectively. This is again well beyond the original forecast made in last year budget for same year. It is believed that with the excessive balance budget surplus, more pressure will be observed from open public demanding extra spending to relieve economic and inflationary issues confronted in the society.

Highlights

Profits Tax

- Reducing profits tax for 2011-12 by 75%, subject to a ceiling of \$12,000.

Salaries Tax

- Reducing salaries tax and tax under personal assessment for 2011-12 by 75%, subject to a ceiling of \$12,000
- Raising basic allowance and single parent allowance from \$108,000 to \$120,000
- Raising married person's allowance from \$216,000 to \$240,000
- Raising dependent parent or grandparent allowance aged 60 or above from \$36,000 to \$38,000, whereas that for aged between 55 and 59 from HK\$18,000 to HK\$19,000
- Raising additional allowance for residing with parent or grandparent aged 60 or above continuously throughout the year from \$36,000 to \$38,000, whereas that for aged between 55 and 59 from HK\$18,000 to HK\$19,000
- Raising deduction ceiling for elderly residential care expenses from current \$72,000 to \$76,000
- Raising child allowance from \$60,000 to \$63,000 for each child; and additional one-off child allowance in the year of birth from \$60,000 to \$63,000 for each child
- Raising dependent brother/sister allowance from \$30,000 to \$33,000
- Raising disabled dependant allowance from \$60,000 to \$66,000
- Extending the entitlement period for deduction of home loan interest from 10 years to 15 years at a deduction ceiling of \$100,000 a year
- Raising the maximum annual deduction of mandatory contributions to MPF from \$12,000 to \$15,000

One-off measures caring for people's livelihood (other than tax as previously highlighted) proposed in the budget are as follows:

Rates

- Waiver of rates for the year 2012-13, capped at \$2,500 per quarter for each rateable tenement

CSSA payment

- Provision of one more month of CSSA payment, Old Age Allowance and Disability Allowance

Electricity subsidy

- Granting of electricity subsidy of \$1,800 to each residential electricity account

Enhanced short-term food assistance services

- Provide a wider variety of foods
- Reservation of an additional \$100 million for making injection to the short-term food assistance services when necessary

Rental concession for public housing tenants

- Waiver of two months rental for public housing tenants
- Waiver of two-thirds of rent of non-elderly tenants of the Hong Kong Housing Society's Group B estates

Student loan repayment schedule

- Option given to student loan borrowers completing their studies in 2012 to start repaying their student loans one year after the completion of studies

Government fees and levies

- Waiver of business registration fees for 2012-13
- Halving the import and export declarations charges
- Abolishing capital duty on share capital levied on local companies

The following summarize other key points mentioned in the budget speech for easy reference:

Supporting enterprises

- Continue the Special Loan Guarantee Scheme with a market-oriented sustainable SME Financing Guarantee Scheme
- Increase maximum loan guarantee ratio from 70% to 80%
- Provide a total guarantee commitment of \$100 billion
- Reduce the annual guarantee fee from 32%-35% to 10%-12%
- Introduce new and special concessions for insurance policy of SMEs by Hong Kong Export Credit Insurance Corporation
- Waive the business registration fees for 2012-13
- Reduce profits tax for 2011-12 by 75 per cent, subject to a ceiling of \$12,000
- Reduce by half the import and export declarations charges
- Abolish capital duty levied on share capital levied on local companies
- Setting up of a dedicated fund of \$1 billion to help Hong Kong enterprises tap the Mainland market by restructuring and upgrading their operations, developing their brands and expanding domestic sales in the Mainland

Preserving employment

- Earmark a further \$220 million to support the Construction Industry Council in enhancing construction industry manpower training
- Set up an International Cuisine College by The Vocational Training Council
- Inject \$100 million into the Enhancing Employment of People with Disabilities

- Continue the Youth Pre-employment Training Programme and Youth Work Experience and Training Scheme, Employment Programme for the Middle-aged, and Work Orientation and Placement Scheme to facilitate the employment of young people, the middle-aged and the disabled
- Offer 130,000 training places in 2012-13 by Employees Retraining Board, and allocate additional resources for the provision of placement-tied courses for the unemployed and people seeking employment

Caring for people

- Earmarking \$1 billion to implement a new programme under the new senior secondary academic structure modelled on Project Yi Jin
- Allocating \$2.5 billion to launch the sixth Matching Grant Scheme (MGS) in the post-secondary education sector
- Making two separate injections of \$1 billion each, bringing the total to \$2 billion, into the HKSAR Government Scholarship Fund and Self-financing Post-secondary Education Fund
- Increase expenditure on public health, construction and redevelopment of public hospitals
- Injecting HK\$10 billion into The Samaritan Fund to assist patients in need by providing full or partial subsidies for self-financed drugs and medical items
- Increase the recurrent funding for Dementia Supplement and allocate \$900 million under the Lotteries Fund to improve the physical setting and facilities of district elderly community centres, neighborhood elderly centres and social centres

Stabilising the financial system

- Enhance the resilience of the financial system by strengthening banks' credit and liquidity risk management, increasing the level of banks' regulatory reserve, and introducing four rounds of prudential regulatory requirements on mortgage loans
- Regulators will continue to ask banks, securities brokers and insurance companies to strengthen their risk management
- Foreign currency reserves to serve as a buffer against the risk of an abrupt reversal in capital flows, and help maintain the stability of the Hong Kong dollar exchange rate and avoid excessive interest rate volatility

Strategy for fighting inflation

- launch a further issuance of iBond worth not more than \$10 billion under the Government Bond Programme
- Interest will be paid to bond holders once every six months at a rate linked to the inflation of the last half-year period

Increasing land supply

- To increase office gross floor area in Kowloon from 1.4 million square meters to 5.4 million square meters
- To free Grade A office space currently taken up by the Government for commercial use
- Identify the West Rail Kam Sheung Road Station and Pat Heung Depot and the adjacent rural area as having enormous potential for providing more housing land to provide about 8,700 flats
- The number of residential sites sold and to be sold by the Government, including those in the land sale programme for the fourth quarter already announced, amounts to 27 and can provide about 7,900 flats in total
- West Rail property projects at the three sites at Nam Cheong, Tsuen Wan West TW5 (Cityside) and Tsuen Wan West TW5 (Bayside) will provide not less than 6,600 flats in total
- Continue to increase land supply to include in the Application List 47 residential sites

Strengthening our social capital

- Inject an additional \$200 million into The Community Investment and Inclusion Fund
- HKMC to introduce a three-year pilot microfinance scheme to assist people to start their own businesses or take self-enhancement training

Cross-regional cooperation

- The Hong Kong Economic, Trade and Cultural Office in Taiwan commenced operation in December 2011 in fostering the co-operation between Hong Kong and Taiwan on economic, cultural and other fronts
- The Government has conducted business delegations to the BRICS countries, South East Asia, South America, etc., and signed tax arrangements, investment promotion and protection agreements and free trade agreements (FTAs) with a number of trading partners
- The Government has also started negotiations with Chile on a bilateral FTA
- Actively pursuing to join the China-ASEAN Free Trade Area
- To align Hong Kong's exchange of tax information arrangements with international standards

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Salaries Tax	2011/12	2012/13
<u>Standard tax rate</u> * ¹	15%	15%
<u>Progressive tax rates</u> * ¹	First HK\$40,000 - 2% Next HK\$40,000 - 7% Next HK\$40,000 - 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\$108,000	HK\$120,000
- Married couple	HK\$216,000	HK\$240,000
- First to ninth child (each)	HK\$60,000	HK\$63,000
- Additional for new born baby (each)	HK\$60,000	HK\$63,000
- Single parent	HK\$108,000	HK\$120,000
- Dependant parent/grandparent (each)		
Aged 55 to 59		
- Basic	HK\$18,000	HK\$19,000
- Additional		
(for dependent living with taxpayer)	HK\$18,000	HK\$19,000
Aged 60 or above		
- Basic	HK\$36,000	HK\$38,000
- Additional		
(for dependent living with taxpayer)	HK\$36,000	HK\$38,000
- Disabled dependent (each)	HK\$60,000	HK\$66,000
- Dependent brother/sister (each)	HK\$30,000	HK\$33,000
<u>Deductions</u>		
- Charitable donations	Up to 35% of assessable income	Up to 35% of assessable income
- Self education expenses	Up to HK\$60,000	Up to HK\$60,000
- Home loan interest	Up to HK\$100,000 * ²	Up to HK\$100,000 * ³
- Elderly residential care expenses	Up to HK\$72,000	Up to HK\$76,000
- Contributions to recognized retirement schemes	Up to HK\$12,000	Up to HK\$15,000 * ⁴

(Source: The 2012-13 Budget Speech)

- *¹ 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.
- *² Deduction is granted to each taxpayer for 10 years of assessment, whether continuous or not.
- *³ Deduction is granted to each taxpayer for 15 years of assessment, whether continuous or not.
- *⁴ The maximum level of relevant income under the Mandatory Provident Fund Schemes Ordinance will be increased to \$25,000 with effect from 1 June 2012. Hence, the maximum amount of deductible contributions is \$14,500 for the year of assessment 2012/13 and \$15,000 for the year of assessment 2013/14 onwards.

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Profits Tax	2011/12	2012/13
<u>Tax rate</u>		
Corporation	16.5%	16.5%
Unincorporated business	15%	15%
Royalties to non-residents (non-associate corporation)		
- Rate of deeming assessable profits	30% or 100%	30% or 100%
- Effective tax rate	4.95 % or 16.5%	4.95 % or 16.5%
<u>Deduction</u>		
Charitable donations	Up to 35% 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
Building refurbishment	20% write-off for 5 years	20% write-off for 5 years
Environment-friendly machinery and equipment	100% immediate write-off	100% immediate write-off
Environment-friendly installations mainly ancillary to buildings	20% write-off for 5 years	20% write-off for 5 years
Property tax	2011/12	2012/13
Tax rate	15%	15%
Stamp duty	2011/12	2012/13
<u>Stock transactions</u>		
Hong Kong stock	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>		
Up to HK\$2,000,000	HK\$100	HK\$100
HK\$2,000,001 – HK\$3,000,000	1.50%	1.50%
HK\$3,000,001 – HK\$4,000,000	2.25%	2.25%
HK\$4,000,001 – HK\$6,000,000	3.00%	3.00%
HK\$6,000,000 – HK\$20,000,000	3.75%	3.75%
Above HK\$20,000,000	4.25%	4.25%
Special stamp duty	2011/12	2012/13
<u>Property transactions</u>		
Property held for 6 months or less	15%	15%
Property held for more than 6 months but for 12 months or less	10%	10%
Property held for more than 12 months but for 24 months or less	5%	5%

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	2011/12	2012/13
Capital duty	0.1% (Capped at HK\$30,000 per transaction)	Abolish
Duty on alcoholic beverages	2011/12	2012/13
- Wine and strong spirit	40%	40%
- Liquors with an alcoholic content below 30%	Nil	Nil

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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