



## 2011/12 BUDGET:

### DIVERSIFIED MOVES EXCEPT TAX POLICIES

Today, the Financial Secretary of the HKSAR Government, Mr. John Tsang Chun-wah, JP, delivered the 2011/12 budget speech.

In response to the popular requests on alleviating the economic and inflationary issues confronted with different strata in society, measures released in the 2011/12 budget are diversified and comprehensive. Yet the approach in itself is lack of innovation. Immediate measures, including the electricity subsidy, waiving rates, paying 2 months rent for public housing tenants and providing extra one month allowance to Comprehensive Social Security Assistance (CSSA), etc. are continuation of prior years framework, without gaining impressive responses from open public.

Tax measures in the 2011/12 budget are even only restrictive to the increment of 20% dependent parents / grandparents, child allowances and elderly residential care expenses. In last year budget we welcomed the extension of tax deduction of expenditure on the purchase of registered trademark, copyrights and registered designs. Yet similar new tax policy has not been observed in the current 2011/12 budget speech. We believe that more progressive tax policies can be considered in future budget.

The current estimation on the 2010/11 consolidated account surplus is HK\$71.3 billion (deficit of HK\$25.2 billion forecasted in last year budget for same year). The HKSAR government may consider putting a range of budget surplus / deficit in formulating the future budget as a response to the uncertainties arising from extrinsic and intrinsic economic sentiments.

## Highlights

### Salaries Tax

- Increase of child allowance and additional one-off child allowance in the year of birth by 20% to HK\$60,000/child
- Increase of dependent parent/grandparent allowances by 20% to HK\$18,000 for each parent/grandparent aged 55 to 59 and to HK\$36,000 for each parent/grandparent aged 60 or above
- Increase of deduction ceiling for elderly residential care expenses by 20% to HK\$72,000

### Electricity subsidy

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

### Rates

- Waiver of rates for the year of 2011/12, capped at HK\$1,500 per quarter for each ratable tenement

### Rental concession for public housing tenants

- Waiver of two months rental for public housing tenants

### CSSA payment

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

### Injection into Mandatory Provident Fund (MPF) accounts

- One-off injection of HK\$6,000 into MPF accounts

### Tobacco control

- Increase of duty on cigarettes by \$0.5 per stick or 41.5%
- Duties on other tobacco products will also be increased by the same percentage

### Easing traffic congestion

- Increase of the rate of each tax band for the First Registration Tax for private cars by about 15%

With an estimated consolidated budget surplus of HK\$3.9 billion for 2011/12, a few one-off measures and tax waivers are proposed in the budget.

### Salaries tax

- Increase of child allowance and additional one-off child allowance in the year of birth by 20% to HK\$60,000/child
- Increase of dependent parent/grandparent allowances by 20%:
  - Aged 55 to 59: HK\$18,000 per parent/grandparent
  - Aged 60 or above: HK\$36,000 per parent/grandparent
- Increase of deduction ceiling for elderly residential care expenses by 20% to HK\$72,000
- No change in tax bands, personal allowances and tax rates

### Profits tax

- No change in standard and corporate tax rates

### Rates

- Waiver of rates for the year of 2011/12, capped at HK\$1,500 per quarter for each ratable tenement

### Electricity subsidy

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

### Rental concession for public housing tenants

- Waiver of two months rental for public housing tenants

### CSSA payment

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

### Injection into Mandatory Provident Fund (MPF) accounts

- One-off injection of HK\$6,000 into MPF accounts to increase the retirement savings of MPF scheme members

### Short-term food assistance services

- Reservation of an additional HK\$100 million for making injection to the short-term food assistance services as and when needed

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

## Risk of Property Bubble

- To mitigate the possible risk of a property bubble posed by excessive liquidity and exceptionally low interest rates, the government proposes measures to prevent creating of property bubble as follows:
  - Specify in the Application List four residential sites for government-initiated sale by open auction or tender.
  - Put up for sale by tender five residential sites in addition to those sites on the Application List, and restrict their use for construction of about 3,000 small and medium-sized flats.
  - A total of 52 residential sites will be available for sale in 2011/12.
  - Identify more suitable sites for My Home Purchase Plan.
  - Allocate about HK\$300 million to explore the feasibility of reclamation on an appropriate scale outside Victoria Harbor and rock cavern development to increase the supply of land.

## Strategy for Fighting Inflation

- Fighting inflation is the Government's major task in 2011/12. To combat the threat of inflation posed by rising pressures from both domestic and imported sources, several measures are proposed in the budget, including:
  - Aim at issuing HK\$5 billion to HK\$10 billion worth of Hong Kong-dollar "iBond" under the Government Bond Programme to provide the Hong Kong residents with another investment option for coping with inflation while promoting the development of the local retail bond market.
  - Propose a preliminary plan to issue iBond with a maturity of three years to Hong Kong residents. Interest will be paid to bond holders once every six months at a rate linked to the inflation of the last half-year period.

## Enhancing Business Environment

- To maintain the competitive edge of Hong Kong's business environment, several measures are proposed in the budget, including:
  - Headquarters Economy: step up promotion efforts and take the initiative in approaching overseas enterprises, as well as providing aftercare services and support to foreign companies already established in Hong Kong.
  - Small and Medium Enterprises (SMEs): propose to increase the total guarantee commitment under the SME Loan Guarantee Scheme substantially from HK\$20 billion to HK\$30 billion.
  - Promoting brands of Hong Kong: continue to stage large-scale branding conferences and seminars, organize delegations for business matching and promotion, hold exhibitions and trade fairs on Hong Kong brands in various Mainland provinces and municipalities, etc.

## Furthering Regional Co-operation between Pearl River Delta, Taiwan, and Hong Kong

- The Framework Agreement for Hong Kong-Guangdong co-operation signed last year has provided a clearer agenda for Hong Kong-Guangdong co-operation in various respects and set out six long-term development positions. The Government is actively working with Guangdong Province in taking forward various policies and measures in the Framework Agreement, formulating the 2011 Work Plan, and implementing the initiatives therein such as plans for building "quality living circle" and "infrastructure development".
- The Government is working closely with Taiwan on the development of Hong Kong-Taiwan relations. Offices will be set up in Taipei by the Government and the Hong Kong Tourism Board respectively with a view to enhancing the co-operation and communication between both sides.

Salaries Tax	2010/11	2011/12
<u>Standard tax rate</u> * <sup>1</sup>	15%	15%
<u>Progressive tax rates</u> * <sup>1</sup>	First HK\$40,000 - 2%	First HK\$40,000 - 2%
	Next HK\$40,000 - 7%	Next HK\$40,000 - 7%
	Next HK\$40,000 - 12%	Next HK\$40,000 - 12%
	Remainder - 17%	Remainder - 17%
<u>Personal allowances</u>		
- Single taxpayer	HK\$108,000	HK\$108,000
- Married couple	HK\$216,000	HK\$216,000
- First to ninth child (each)	HK\$50,000	HK\$60,000
- New born baby (each)	HK\$50,000	HK\$60,000
- Single parent	HK\$108,000	HK\$108,000
- Dependant parent/grandparent (each)		
Aged 55 to 59		
- Basic	HK\$15,000	HK\$18,000
- Additional (for dependant living with taxpayer)	HK\$15,000	HK\$18,000
Aged 60 or above		
- Basic	HK\$30,000	HK\$36,000
- Additional (for dependant living with taxpayer)	HK\$30,000	HK\$36,000
- Disabled dependent (each)	HK\$60,000	HK\$60,000
- Dependent brother/sister (each)	HK\$30,000	HK\$30,000
<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 * <sup>2</sup>	Up to HK\$100,000 * <sup>2</sup>
- Elderly residential care expenses	Up to HK\$60,000	Up to HK\$72,000
- Contributions to recognized retirement schemes	Up to HK\$12,000	Up to HK\$12,000

\*<sup>1</sup> 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.

\*<sup>2</sup> Deduction is granted to each taxpayer for 10 years of assessment, whether continuous or not.

Profits Tax	2010/11	2011/12
<b>Tax rate</b>		
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%
<b>Deduction</b>		
Charitable donations	Up to 35% of assessable profits	Up to 35% of assessable profits
<b>Depreciation allowances</b>		
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
<b>Property tax</b>	<b>2010/11</b>	<b>2011/12</b>
Tax rate	15%	15%
<b>Stamp duty</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Stock transactions</b>		
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)
<b>Property transactions</b>		
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\$6,000,001 – HK\$20,000,000	3.75%	3.75%
Above HK\$20,000,000	4.25%	4.25%
<b>Special stamp duty (proposed and subject to legislation, effective from 20 November 2010)</b>	<b>2010/11</b>	<b>2011/12</b>
<b>Property transactions</b>		
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%

<b>Capital duty</b>	<b>2010/11</b>	<b>2011/12</b>
	0.1% (Capped at HK\$30,000 per transaction)	0.1% (Capped at HK\$30,000 per transaction)
<b>Duty on alcoholic beverages</b>	<b>2010/11</b>	<b>2011/12</b>
- Wine and strong spirit	40%	40%
- Liquors with an alcoholic content below 30%	Nil	Nil
<b>Duty on tobacco</b>	<b>2010/11</b>	<b>2011/12</b>
- For every cigarette <sup>*3</sup>	HK\$1.206	Increased by HK\$0.5 per stick or 41.5%

*The budget proposals do not generally become law until their enactment and may be modified by the Legislative Council before enactment*

- \*3 Duties on other tobacco products will also be increased by the same percentage. The above adjustment takes immediate effect by way of a Public Revenue Protection Order gazetted on 23 February 2011.

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