

HKSAR Budget Summary 2018 - 2019

(28 February 2018)



2018-19 HKSAR Budget

Mr. Paul Chan Mo-po, GBS, MH, JP, the Financial Secretary of the Hong Kong SAR Government delivered the 2018-19 Budget Speech today.

Building on the better economic performance of Hong Kong over the past year, the development and refinement of the Belt and Road Initiative of China, the opportunity brought by the Bay Area, and the policy focus in the Chief Executive's policy address in last October, we welcome that the Budget Speech has provided a more comprehensive coverage, both in terms of quantum and scope, on casting the better future of Hong Kong.

The Speech acknowledges the impact of the unstoppable wave of innovation and technology (I&T) in driving our future economy growth and building a more ideal and smart living environment. It drew the linkages and coherence of various support components from supplying land, soliciting new capital, fostering flexible financing market, reforming tax regime, enriching our infrastructure, developing and providing better medical and social support for the general public, to address the conflicting demands within the community.

Hong Kong has always been an ideal location for nurturing innovation and technology given our high people density and close people relationship that enhances exchange of ideas and draws rapid response from the market. However, positioning ourselves as the "users" has been decreasing our ability in being the "innovators and leaders". We have seen the scale and diversifications by our neighbors. The prominent contributions to building the Hong Kong-Shenzhen Innovation and Technology Park is greatly welcomed, together with the various schemes in enriching the I&T foundations of the existing research clusters.

The Financial Secretary has also chaired The Financial Leaders Forum and has laid down the general principles on developing Hong Kong into a preferred listing platform for emerging and innovative enterprises. The development brought by this change is comparable to the establishment of the Growth Enterprise Market, opened in 1999. Not only benefiting emerging and innovative enterprises, other professional parties could also share the contribution role in developing a more comprehensive and flexible market in Hong Kong. Together with the measures in building the various bonds scheme and enhancing the qualifying debt instrument scheme, the Financial Secretary has made clear steps to building Hong Kong a much bigger financing platform linking up China and the rest part of the world.

Hong Kong has always been an externally-oriented economy, driven by the impact of China and global economic activities. The territorial tax regime has earned us great results in the past. An area of concern among tax professionals is how this concept would be put forward when Hong Kong collaborates with the Bay Area where Hong Kong enterprises could explore developments for long-lasting growth. Similar to the introduction to the change in Listing Rules, we envisage and look forward to seeing that the tax policy unit would propose fundamental steps to cater future taxing needs of Hong Kong amid this centurial geographical breakthrough.

Tax Highlights

Profits Tax

- Reducing profits tax for 2017-18 by 75%, subject to a ceiling of \$30,000
- Allowing 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 1 year instead of the current time frame of 5 years

Salaries Tax

- Reducing salaries tax and tax under personal assessment for 2017-18 by 75%, subject to a ceiling of \$30,000
- Widening the tax bands for salaries tax from the current \$45,000 to \$50,000, increasing the number of tax bands from 4 to 5
- Raising the basic and additional child allowances from \$100,000 to \$120,000
- Raising allowance for dependent parent or grandparent aged 60 or above from \$46,000 to \$50,000, whereas that for aged between 55 and 59 from \$23,000 to \$25,000
- Raising additional allowance for taxpayers residing with parent or grandparent aged 60 or above continuously throughout the year from \$46,000 to \$50,000, whereas that for aged between 55 and 59 from \$23,000 to \$25,000
- Introducing a personal disability allowance of \$75,000
- Allowing the husband and wife the option to decide whether to elect for personal assessment
- Providing a tax deduction (at ceiling of \$8,000) for people who purchase eligible health insurance products for themselves or their dependants

The following summarize other key points mentioned in the budget speech (other than tax as previously highlighted) for easy reference:

Rates

- Waiving the rates for four quarters of 2018-19, subject to a ceiling of \$2,500 per quarter for each rateable property

Comprehensive Social Security Assistance (“CSSA”)

- Provision of extra allowance to recipients of CSSA, Old Age Allowance, Old Age Living Allowance or Disability Allowance, equal to 2 months of the standard rate, similar arrangements will apply to recipients of Low-income Working Family Allowance and Work Incentive Transport Subsidy
- Providing a one-off grant of \$2,000 to each student in need to support learning

Helping Small and Medium Enterprises (“SME”)

- Extending the geographical scope of the Enterprise Support Programme under the Dedicated Fund on Branding, Upgrading and Domestic Sales from the Mainland to include the ASEAN countries
- Increasing the cumulative funding ceiling for enterprises under the SME Export Marketing Fund from \$200,000 to \$400,000, and removing the existing condition on the use of the last \$50,000 of grants
- Extending the application period for the special concessionary measures under the SME Financing Guarantee Scheme to 28 February 2019

Supporting Tourism

- Allocating an additional \$396 million to the tourism industry, of which \$226 million will be provided for the Hong Kong Tourism Board to implement the Development Blueprint for Hong Kong’s Tourism Industry released by the Tourism Commission last year
- Allocating a total of \$310 million in the next few years to support the Ocean Park in developing education and tourism projects. For the benefits of local students, the Ocean Park will distribute 10 000 complimentary admission tickets to primary and secondary school students in the coming year



Nurturing Innovation

- Earmarking \$20 billion to be used on the first phase of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop
- Injecting \$10 billion into the Innovation and Technology Fund for I&T development in Hong Kong
- Earmarking \$10 billion to support the establishment of two research clusters on healthcare technologies and on artificial intelligence and robotics technologies
- Allocating \$10 billion to the Hong Kong Science and Technology Parks Corporation to reinforce the role of the Science Park as Hong Kong's flagship technology infrastructure
- Allocating \$200 million to Cyberport to enhance the support for start-ups and promote the development of digital technology ecosystem
- Allocating \$100 million to Cyberport to promote the development of e-sports
- Drafting of the legislation and consultation in respect of the provision of additional tax deduction for domestic expenditure on R&D incurred by enterprises announced by the Chief Executive in her Policy have already commenced
- Relaxing the eligibility criteria for the Technology Voucher Programme that all local enterprises, irrespective of size and duration of operation, may apply
- Earmarking \$500 million under the Innovation and Technology Fund to implement, in the second half of the year, the Technology Talent Scheme as announced in the Policy Address
- Setting up a \$1 billion Construction Innovation and Technology Fund to boost the capacities of enterprises and practitioners in the construction industry to adopt new technology, and support the industry to harness innovative technology

Business and Professional Services

- Setting up new Economic and Trade Offices in countries including Korea, India, Russia and the United Arab Emirates and the Government is actively following up with the governments concerned
- Launching the Professional Services Advancement Support Scheme to provide funding support for business and professional organisations, thereby facilitating external promotion and enhancement of Hong Kong's professional services

Financial Services

- The Hong Kong Monetary Authority has been asked to make plans to set up an academy of finance for promoting cross-sector expertise sharing and collaboration in applied research
- The Stock Exchange of Hong Kong has consulted the market on the proposed specific arrangements and the amendments to the Listing Rules regarding developing Hong Kong into a preferred listing platform for emerging and innovative enterprises which will boost Hong Kong's competitiveness as a listing platform and attract listing applications from emerging and innovative enterprises, including large enterprises with weighted voting rights structure and pre-revenue biotechnology enterprises
- Proposing to launch a 3-year Pilot Bond Grant Scheme to attract local, Mainland and overseas enterprises to issue bonds in Hong Kong. The pilot scheme will cover eligible enterprises issuing bonds in Hong Kong for the first time. The amount of grant for each bond issuance is equivalent to half of the issue expenses, capped at HK\$2.5 million. Each enterprise can apply for a grant for 2 bond issuances at most

- Amending the qualifying debt instrument scheme by extending the scope of tax exemption from debt instruments with an original maturity of not less than 7 years to instruments of any duration
- Expecting the regime for open-ended fund companies to be used as a fund vehicle and the relevant tax exemption arrangements can commence operation later this year
- Reviewing the existing tax concession arrangements applicable to the fund industry and examining the feasibility of introducing a limited partnership regime for private equity funds and the related tax arrangements
- Amending the Inland Revenue Ordinance to extend the coverage of profits tax concession to specified treasury services provided by qualifying corporate treasury centres to all their onshore associated corporations to attract multinational and Mainland enterprises to establish corporate treasury centres in Hong Kong
- Setting aside a dedicated provision of \$500 million for the development of the financial services industry in the coming five years, providing necessary support for bond market development, Fintech, green finance, manpower training and other aspects of financial services

Trading and Logistics Industry

- Actively seeking to sign Free Trade Agreements, Investment Promotion and Protection Agreements and Comprehensive Avoidance of Double Taxation Agreements with other economies, including those along the Belt and Road
- Setting aside \$5 billion for the redevelopment of the Air Mail Centre at the Hong Kong International Airport maximising the use of the centre's transit handling capability to foster cross-border logistics and trading activities
- Capping the charge for each declaration at \$200, so as to further lower the cost of importing and exporting high-value goods to and from Hong Kong, and enhance Hong Kong's advantage as a trading hub

Environment

- Continuing to waive in full the first registration tax for electric commercial vehicles, electric motor cycles and electric motor tricycles until 31 March 2021
- Launching a "one-for-one replacement" scheme 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 first registration tax concession of up to \$250,000

Care for People

- Continuing the issuance of Silver Bonds in 2018 and 2019
- Setting aside a sum of \$300 billion as an initial provision to support the second 10-year hospital development plan, improve the clinic facilities in the Department of Health, and upgrade and increase healthcare teaching facilities
- Allocating \$200 million each year to enhance the healthcare professional training provided by the Hospital Authority, including clinical practicum, as well as specialist and higher training

Manpower Training

- Proposing to commit an additional recurrent expenditure of \$2 billion to achieve quality education
- Injecting \$800 million into the Gifted Education Fund in 2018-19 to enhance the development of gifted students
- Earmarking \$2.5 billion to set up a new Student Activities Support Fund continuing to provide support for students with financial needs to participate in life-wide learning activities for whole-person development

Salaries Tax	2017-18	2018-19
<u>Standard tax rate</u> * ¹	15%	15%
<u>Progressive tax rates</u> * ¹	First HK\$45,000 - 2% Next HK\$45,000 - 7% Next HK\$45,000 - 12% Remainder - 17%	First HK\$50,000 - 2% Next HK\$50,000 - 6% Next HK\$50,000 - 10% Next HK\$50,000 - 14% Remainder - 17%
<u>Personal allowances</u>		
- Single taxpayer	HK\$132,000	HK\$132,000
- Married couple	HK\$264,000	HK\$264,000
- Disabled	-	HK\$75,000
- First to ninth child (each)	HK\$100,000	HK\$120,000
- Additional for new born baby (each)	HK\$100,000	HK\$120,000
- Single parent	HK\$132,000	HK\$132,000
- Dependant parent/grandparent (each)		
Aged 55 to 59		
- Basic	HK\$23,000	HK\$25,000
- Additional (for dependant living with taxpayer)	HK\$23,000	HK\$25,000
Aged 60 or above		
- Basic	HK\$46,000	HK\$50,000
- Additional (for dependant living with taxpayer)	HK\$46,000	HK\$50,000
- Disabled dependant (each)	HK\$75,000	HK\$75,000
- Dependent brother/sister (each)	HK\$37,500	HK\$37,500
<u>Deductions</u>		
- Charitable donations	Up to 35% of assessable income	Up to 35% of assessable income
- Self education expenses	Up to HK\$100,000	Up to HK\$100,000
- Home loan interest	Up to HK\$100,000 * ²	Up to HK\$100,000 * ²
- Elderly residential care expenses	Up to HK\$92,000	Up to HK\$100,000
- Contributions to recognized retirement schemes	Up to HK\$18,000	Up to HK\$18,000

*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 20 years of assessment, whether continuous or not.

Profits Tax	2017-18	2018-19
<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	100% immediate write-off
Intellectual property expenditure		
- Patent rights, rights to any know-how	100% immediate write-off	100% immediate write-off
- Copyrights, registered designs, registered trade marks	20% write-off for 5 years	20% write-off for 5 years

Property tax		2017-18/ 2018-19	
Tax rate		15%	
Stamp duty			
<u>Stock transactions</u>		<u>2017-18/ 2018-19</u>	
Hong Kong stock		0.2% per transaction (payable half by the vender and half by the purchaser)	
<u>Residential property transactions (Subject to completion of enactment)</u>		Any residential property acquired by a Hong Kong Permanent Resident individual who does not own any other residential property in Hong Kong at the time of acquisition	
			Other scenario
Up to HK\$2,000,000	HK\$100		
HK\$2,000,001 – HK\$3,000,000	1.50%		
HK\$3,000,001 – HK\$4,000,000	2.25%		
HK\$4,000,001 – HK\$6,000,000	3.00%		15%
HK\$6,000,000 – HK\$20,000,000	3.75%		
Above HK\$20,000,000	4.25%		
<u>Buyer's Stamp duty (BSD)</u>			
		Any residential property acquired by a Hong Kong Permanent Resident individual	Any residential property acquired by a non-Hong Kong Permanent Resident individual (including corporation)
Residential property transactions	Nil		15%
<u>Special stamp duty (SSD) (residential property transactions)</u>		<u>Transactions took place after 27 October 2012</u>	
Property held for 6 months or less		20%	
Property held for more than 6 months but for 12 months or less		15%	
Property held for more than 12 months but for 24 months or less		10%	
Property held for more than 24 months but for 36 months or less		10%	
Property held for more than 36 months		Nil	

(Source: The 2018-19 Budget Summary)

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

Contact Us

Dr. Angus Ho	Tax Partner	+ (852) 3583 8588	angus.ho@shinewing.hk
Mr. Degas Yip	Tax Principal	+ (852) 3583 8503	degas.yip@shinewing.hk
Ms. Janice Or	Tax Manager	+ (852) 3583 8514	janice.or@shinewing.hk
Ms. Karina Tsoi	Tax Manager	+ (852) 3583 8505	karina.tsoi@shinewing.hk
Mr. Wilson Lee	Assistant Tax Manager	+ (852) 3583 8511	wilson.lee@shinewing.hk
Ms. Velma Lam	Assistant Tax Manager	+ (852) 3583 8510	velma.lam@shinewing.hk

SHINEWING is a premier provider of professional services, specialising in audit, tax and advisory services. Present in China, SHINEWING has domestic offices which are spread across the major cities, including Beijing, Shenzhen, Chengdu, Shanghai, Xi'an, Tianjin, Qingdao, Changsha, Changchun, Yinchuan, Jinan, Dalian, Kunming, Guangzhou, Fuzhou, Nanjing, Urumqi, Wuhan, Hangzhou, Taiyuan, Chongqing, Nanning, Hefei and Zhengzhou. Other member firms include Hong Kong, Singapore, Japan, Australia, Pakistan, Egypt, Malaysia, United Kingdom and Indonesia. Today, SHINEWING employs over 7,000 staff. With our extensive network, we are able to leverage fellow members' expertise and geographical presence and enhance our ability to serve the dynamic needs of transnational clients.

SHINEWING Tax and Business Advisory Limited offers strategic counsel for the taxation needs of corporate clients, from the design of privilege tax strategies for merger, acquisitions and listings to identifying efficient tax structure and vehicles and analyzing tax benefits of inter-company transactions.

Other major areas of services include advisory on real estate and foreign capital investments, formulation of overall tax planning scheme and identifying channels for capital retrieval and remittance which are particularly useful in countries under foreign currency control.

The aim of this summary is to alert taxpayers on the recent developments. The information is general in nature and should not be taken as a substitute for specific advice. Accordingly, SHINEWING Tax and Business Advisory Limited accepts no responsibility for any loss that occurs to any party who acts on information contained herein without further consultation with us.

Copyright and any other intellectual property rights in its contents are the sole property of SHINEWING Tax and Business Advisory Limited and its affiliates.