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A nighttime photograph of a city skyline with illuminated skyscrapers and light trails from traffic on a road in the foreground. The scene is dominated by blue and white lights from the buildings, with red and white light trails from cars in the lower portion of the frame.

HKSAR Budget Summary 2017 - 2018

(22 February 2017)

2017-18 HKSAR Budget

Mr. Paul Chan Mo-po, GBS, MH, JP, the Financial Secretary of the Hong Kong SAR Government delivered the 2017-18 Budget speech today.

Hong Kong has always been an externally-oriented economy, driven by the impact of global economic activities in the past few years, surplus has been recorded in both of the forecast and actual budgets. The 2016-17 fiscal year is no exception. With the exceptional increase in revenue received from land sales and stamp duties, this year HKSAR has recorded successive years of surplus of more than 90 billion. When compared to the performance of many other economic systems in the world, Hong Kong is leading the way.

This year's Budget is refreshing. The Budget echoed the Financial Secretary's article published in his official blog on 19 February 2017 which expressed his vision for the future development of Hong Kong. That is, the Budget should be prepared to mobilize the allocation of resources that bring benefits to different social strata, well thought-out, pragmatic, meeting the needs of the society and focusing on tackling the long term challenges faced by Hong Kong. The Financial Secretary is aware that, amid the major global economic systems, including the United States, the call for tax reform is not uncommon. The aspects that such kind of reform involved could be very diversified and therefore, coordination and adjustment of import and export taxes, profits tax and turnover tax are imperative. In this regard, the Financial Secretary proposed to set up a tax policy unit to examine various tax measures that have gone through more than ten years of discussion but still make no fundamental changes to the critical tax development.

We welcome the HKSAR Government to take this important step and hope they could speed up the pace of scrutiny. The profession has always believed that the tax base in Hong Kong is highly concentrated and considered weak in responding to industry diversification and global economic changes, especially during economic downturn. Therefore, we have been proposing that the HKSAR Government should introduce indirect taxes while simultaneously reduce the tax rates of direct profits tax and salaries tax. In addition to making the

tax system more equitable and broad, it is also designed to maintain a stable and adequate income stream for the HKSAR Government to meet a variety of public expenditure and development needs when income from the high tax payer group decreases. By doing so it can also stabilize the social unrest in connection to this matter, so as to make it easier for the public to accept the introduction of indirect taxes. When the world's major economies began to call for this kind of tax reform, our pace of reform has become even more imperative.

We also agreed that the Budget demonstrated a shift from consumption-based budget to investment-based budget. The Budget repeatedly emphasized on deep-seated issues such as ageing population, as well as introducing various industry incentives to assist us develop and maintain our productivity and creativity in the long run amid the world development, so that we could continually maintain our attractiveness in the global economy.

Tax Highlights

Profits Tax

- Reducing profits tax for 2016-17 by 75%, subject to a ceiling of HK\$20,000

Salaries Tax

- Reducing salaries tax and tax under personal assessment for 2016-17 by 75%, subject to a ceiling of HK\$20,000
- Widening the marginal bands for salaries tax from HK\$40,000 to HK\$45,000
- Raising the dependent brother/sister allowance from HK\$33,000 to HK\$37,500
- Raising the disabled dependant allowance from HK\$66,000 to HK\$75,000
- Raising the deduction ceiling for self-education expenses from HK\$80,000 to HK\$100,000
- Extending the entitlement period for tax reduction for home loan interest from 15 years to 20 years of assessment while maintaining the current deduction ceiling of \$100,000 a year

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 2017-18, subject to a ceiling of \$1,000 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 1 month of the standard rate, similar arrangements will apply to Low-income Working Family Allowance and Work Incentive Transport Subsidy

Helping Small and Medium Enterprises ("SME")

- Extending the application period for the "special concessionary measures" under the "SME Financing Guarantee Scheme" to 28 February 2018 to help enterprises tide over their liquidity needs
- Continue to implement the SME Financing Guarantee Scheme and the Technology Voucher Programme. The 3 year pilot programme will provide, on a matching basis, a maximum subsidy of \$200,000 for each eligible SME
- Extending the application period for the Dedicated Fund on Branding, Upgrading and Domestic Sales for 5 years to June 2022
- Proposing to strengthen the underwriting capacity of the Hong Kong Export Credit Insurance Corporation (ECIC) by raising the cap on the contingent liability of ECIC under contracts of insurance from \$40 billion to \$55 billion

Supporting Tourism

- Waiving licence fees for travel agents, hotels and guesthouses and restaurants and hawkers and fees for restricted food permits for 1 year
- Allocating \$243 million for Government and the industry to jointly launch several measures to enhance Hong Kong's attractiveness and competitiveness



Nurturing Innovation

- Earmarking \$500 million to set up an Innovation and Technology (I&T) Fund for Better Living to encourage different sectors to apply I&T to improve the quality of living
- Reserving \$10 billion for supporting I&T development in Hong Kong
- Building an Advanced Manufacturing Centre and a Data Technology Hub in Tseung Kwan O Industrial Estate
- Setting up a \$2 billion Innovation and Technology Venture Fund to co-invest with private venture capital funds on a matching basis in local technology start-ups

Business and Professional Services

- For the facilitation of trade in goods, establish a "single window" for "one-stop" lodging of all the 50-plus trade documents and submissions with Government for trade declaration and customs clearance purpose

Financial Services

- Extending the profits tax exemption to onshore privately-offered open-ended fund companies
- Exploring the development of eMPF, a centralised electronic platform
- Studying the feasibility of a public annuity scheme
- Continue to work with the Central Government and the Asian Infrastructure Investment Bank (AIIB) for early completion of the procedures for Hong Kong to participate in participate the AIIB as a non-sovereign territory
- Developing a new Faster Payment System (FPS) to further enhance the payment infrastructure
- Exploring the feasibility of applying distributed ledger technology (DLT) and Blockchain technology



Care for People

- Issuing a second batch of Silver Bond in 2017–18, targeting at Hong Kong residents aged 65 or above
- Earmarking \$30 billion to strengthen elderly services and rehabilitation services for persons with disabilities
- Earmarking \$20 billion for developing sports and recreation facilities

Stabilizing Land Supply

- 28 residential sites to be included in the Land Sale Programme, of which 20 are new sites
- 3 commercial/business sites and 1 hotel site to be included in the Land Sale Programme

Manpower Training

- Implementing the free quality kindergarten education policy from the 2017/18 school year to replace the Pre-primary Education Voucher Scheme
- Regularising the Study Subsidy Scheme for Designated Professions/Sectors to subsidise students to undertake designated self-financing undergraduate programmes, the number of subsidised places will increase from about 1,000 per cohort to 3,000.
- Injecting an additional \$1.5 billion into the Continuing Education Fund (CEF)
- Injecting \$200 million into the Multi-faceted Excellence Scholarship
- Injecting \$100 million to expand the Youth Exchange Programme
- Earmarking \$700 million from the surplus for this financial year to support student learning and professional development of teachers
- Increasing the allocation for regular school repairs by nine per cent to \$1.2 billion

Salaries Tax	2016-17	2017-18
<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\$45,000 - 2% Next HK\$45,000 - 7% Next HK\$45,000 - 12% Remainder - 17%
<u>Personal allowances</u>		
- Single taxpayer	HK\$132,000	HK\$132,000
- Married couple	HK\$264,000	HK\$264,000
- First to ninth child (each)	HK\$100,000	HK\$100,000
- Additional for new born baby (each)	HK\$100,000	HK\$100,000
- Single parent	HK\$132,000	HK\$132,000
- Dependant parent/grandparent (each)		
Aged 55 to 59		
- Basic	HK\$23,000	HK\$23,000
- Additional (for dependant living with taxpayer)	HK\$23,000	HK\$23,000
Aged 60 or above		
- Basic	HK\$46,000	HK\$46,000
- Additional (for dependant living with taxpayer)	HK\$46,000	HK\$46,000
- Disabled dependant (each)	HK\$66,000	HK\$75,000
- Dependant brother/sister (each)	HK\$33,000	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\$80,000	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\$92,000
- 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	2016-17	2017-18
<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
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	2016-17/ 2017-18	
Tax rate	15%	
Stamp duty	2016-17/ 2017-18	
<u>Stock transactions</u>	<u>2016-17/ 2017-18</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 non-Hong Kong Permanent Resident individual (including corporation)	
Residential property transactions	Any residential property acquired by a Hong Kong Permanent Resident individual	15%
	Nil	
<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	

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