

2015/16

Hong Kong Budget



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Introduction

The Hong Kong budget for the year of 2015/16 was delivered on 25 Feb 2015 and the relevant tax concessions was passed by the Legislative Council on 9 July 2015. The budget addresses several areas which can be broadly classified as follows:

- (1) Diversified Development;
- (2) Augmenting Competitiveness;
- (3) Human Resources;
- (4) Land and Housing; and
- (5) Ageing Population.

A number of measures in areas such as promoting Hong Kong's social enterprises, boosting creative industries, nurturing startup ecosystem, strengthening financial hub status, reinforce logistics hub status, enhancing business and professional services, expanding tourism facilities, increasing residential and commercial land, enhancing social welfare for aged population and reinforcing healthcare services have been proposed in the budget to meet the above objectives.

Economic data

The Gross Domestic Product ("GDP") grew by 2.3% for 2014. GDP growth of 1% to 3% is forecasted for 2015, lower than the average annual growth rate of 3.9% over the past decade.

The average headline inflation rate for 2014 as a whole was 4.4%, while the underlying inflation rate is 3.5%. The headline inflation for 2015 is estimated to be on average of 3.5% and underlying inflation at 3%.

The government predicts its total revenues of HK\$477.6 billion and expenditure of HK\$440.8 billion. A consolidated surplus of HK\$36.8 billion for FY2014/15 is expected.

Tax measures

The proposed tax measures include the followings:

- (1) Waive 75% of profits tax for 2014/15, subject to a ceiling of HK\$20,000, to be deducted from the taxpayer's final tax payable for the year.

- (2) Waive 75% of salaries tax and tax under personal assessment for 2014/15, subject to a ceiling of HK\$20,000, to be deducted from the taxpayer's final tax payable for the year.
- (3) Waive rates for the first two quarters of 2015/16, subject to a ceiling of HK\$2,500 per quarter for each ratable property.
- (4) Increase the basic and additional child allowances from HK\$70,000 to HK\$100,000 from 2015-16 onward.
- (5) Proposed to amend the Inland Revenue Ordinance to allow, under specified conditions, interest deductions under profits tax for corporate treasury centres and reducing profits tax for specified treasury activities by 50%.
- (6) Plans to table a bill in the Legislative Council later to allow private equity funds to enjoy profits tax exemption available to offshore funds.

Non-tax measures

Some of the non-tax measures are proposed as follows:

- (1) Pay one month's rent for public housing tenants.
- (2) Provide additional two months of Comprehensive Social Security Assistance payment, Old Age Allowance, Old Age Living Allowance and Disability Allowance.
- (3) Issue "iBond" (i.e. inflation-linked retail bonds) worth up to HK\$10 billion.
- (4) Waive the licence fees for travel agents, hotels and guesthouses, restaurants and hawkers and fees for restricted food permits for six months.
- (5) Waive the fees for vehicle examination once for the renewal of vehicle licences of taxis, light buses, franchised and non-franchised buses, goods vehicles, trailers and special purpose vehicles within a year.
- (6) Expand the application period for special concessionary measures under SME Financing Guarantee Scheme to 29 February 2016.
- (7) Injecting HK\$1.5 billion into the SME Export Market and Development Fund.
- (8) Injecting an additional HK\$400 million into the Create Smart Initiative.
- (9) Deploy HK\$500 million for launching a three-year pilot programme for Hong Kong's fashion industry.
- (10) Injecting a further 200 million to the Film Development Fund.
- (11) Launching a HK\$300 million matching fund for the Art Development Matching Grants Pilot Scheme.
- (12) Injecting HK\$150 million to roll out a new phase of Self-Reliance Through District Partnership Programme.
- (13) Embark HK\$50 million to Hong Kong Science and Technology Parks Corporation to set up a co-investment matching fund.
- (14) Work with Guangdong Province for early achievement of liberalization of trade in services between Hong Kong and Guangdong.

- (15) Promote the launch of Shenzhen-Hong Kong Stock Connect and enhance the Shanghai-Hong Kong Stock Connect.
- (16) Promote e-commerce and examine the feasibility of using electronic letter of credit.
- (17) Support the development of a three-runway system.
- (18) The 2015/16 Land Sale Program will include 29 residential sites and 4 commercial / business sites.

Conclusion

In respond to the recommendations made by the Working Group on Long-Term Fiscal Planning on ageing population and slowing economic growth, the Government would keep its expenditure growing at a faster pace than that of revenue and the economy. It is estimated that if this trend persists, structural deficits will surface within ten years. To avoid the appearance of structural deficits, the Government would need to take early and positive actions to contain expenditure, preserve the revenue base and save up in a timely manner.

With regard to preserving tax base, the Government stressed that stabilising and broadening the Hong Kong revenue base remains of utmost importance. The Government announced the possibility of exploring again the feasibility of broadening the tax base, stabilising government revenue and creating room for direct tax concessions. Despite that, the budget does not address the request of a review of the Inland Revenue Ordinance would be undertake which has long been advocated by various professional bodies.

Tax table

Salaries Tax

Tax rates	2015/16	2014/15
First HK\$40,000	2%	2%
Next HK\$40,000	7%	7%
Next HK\$40,000	12%	12%
On the remainder	17%	17%
Standard rate	15%	15%

Personal allowances	2015/16	2014/15
Basic allowance	HK\$120,000	HK\$120,000
Married person's allowance	HK\$240,000	HK\$240,000
Child allowance		
1st to 9th child (each)		
- <i>Year of birth</i>	HK\$200,000	HK\$140,000
- <i>Other years</i>	HK\$100,000	HK\$70,000
Dependent parent / grandparent allowance		
Aged 60 or above		
- <i>not residing with taxpayer</i>	HK\$40,000	HK\$40,000
- <i>residing with taxpayer throughout the year</i>	HK\$80,000	HK\$80,000
Aged 55 to 59		
- <i>not residing with taxpayer</i>	HK\$20,000	HK\$20,000
- <i>residing with taxpayer throughout the year</i>	HK\$40,000	HK\$40,000
Dependent brother / sister allowance (for whom no child allowance has been claimed by his / her parent)	HK\$33,000	HK\$33,000
Single parent allowance	HK\$120,000	HK\$120,000
Disabled dependent allowance (in addition to any allowances already granted for the disabled person)	HK\$66,000	HK\$66,000

Maximum deductions	2015/16	2014/15
Self-education expenses	HK\$80,000	HK\$80,000
Home loan interest	HK\$100,000	HK\$100,000
Elderly residential care expenses	HK\$80,000	HK\$80,000
Contributions to recognised retirement schemes	HK\$18,000	HK\$17,500
Charitable donations	35% of assessable income	35% of assessable income

Profits Tax

Tax Rates	2015/16	2014/15
Corporation (i.e. limited company)	16.5%	16.5%
Unincorporated business (i.e. sole-proprietor or partnership)	15%	15%

Plant and Machinery	2015/16	2014/15
Allowance rate on qualifying expenditure		
Environmental protection machinery and vehicles	100%	100%
Other qualifying expenditures		
Initial allowance	60%	60%
Annual allowance (depends on the nature)	10%, 20% or 30%	10%, 20% or 30%

Environmental Protection Installations Ancillary to Buildings	2015/16	2014/15
Allowance rate on qualifying expenditure		
Annual allowance	20%	20%

Prescribed Fixed Assets	2015/16	2014/15
Allowance rate on qualifying expenditure		
Outright deduction	100%	100%

Industrial Building Allowance	2015/16	2014/15
Allowance rate on qualifying expenditure		
Initial allowance	20%	20%
Annual allowance	4%	4%

Commercial Building Allowance	2015/16	2014/15
Allowance rate on qualifying expenditure		
Annual allowance	4%	4%

Refurbishment Allowance	2015/16	2014/15
Allowance rate on qualifying expenditure		
Annual allowance	20% until residue is reduced to nil	20% until residue is reduced to nil

Property Tax

Property tax is charged on the owner of any land or buildings in Hong Kong at standard rate of 15% for 2015/16 (2014/15: 15%) on the net assessable value of such land or buildings.

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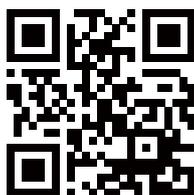
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