

## **Highlights of the Revenue Proposals in the 2014/15 Budget (Relevant to AAT Examination Paper 5 – Principles of Taxation)**

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### **Introduction**

On 26 February 2014, the Financial Secretary, John Tsang Chun-wah (the FS), made his seventh Budget Speech, this one for the financial year 2014/15.

According to the FS:

- Hong Kong remained resilient amid the challenges facing the global economy in 2013.
- The gross domestic product (GDP) growth for 2013 was 2.9% year-on-year. The forecast GDP growth for 2014 is 3 to 4%.
- The 2014 forecast headline inflation and underlying inflation are 4.6% and 3.7% respectively.
- The revised consolidated budget surplus for 2013/14 is HK\$ 12 billion.
- For the medium term, the annual average growth rate is forecast to be 3.5% in real terms from 2015 to 2018.

This article highlights the major revenue proposals made by the FS in light of the underlying and predicted economic conditions.

### **Proposals relating to income taxes**

#### **Salaries tax and personal assessment**

No changes have been proposed for tax rates and marginal tax bands. The FS proposed to:

- reduce by 75% the final tax payable under salaries tax and personal assessment for the year of assessment 2013/14, subject to a ceiling of \$10,000;
- increase the allowance for maintaining a dependent parent or grandparent aged 60 or above from \$38,000 to \$40,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year;
- increase the allowance for maintaining a dependent parent or grandparent aged between 55 and 59 from \$19,000 to \$20,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year; and

- for taxpayers whose parents or grandparents are admitted to residential care homes, the deduction ceiling for elderly residential care expenses will be raised from the current \$76,000 to \$80,000.

### Property tax

No changes have been proposed.

### Profits tax

The FS proposed to:

- reduce profits tax for 2013/14 by 75%, subject to a ceiling of \$10,000, and
- review requirements under the Inland Revenue Ordinance for interest deduction in the taxation of treasury activities to draw more of these activities to Hong Kong .

Following the initiative announced by the FS in the 2013/14 Budget to attract more enterprises to establish their captive insurers in Hong Kong, the Inland Revenue (Amendment) (No. 3) Bill 2013 was gazetted on 27 December 2013. Its aim is to reduce by half the profits tax on the offshore risks insurance business of captive insurers which are set up to underwrite risks of companies within the same group to which the captive insurers belong, with effective from the year of assessment 2013/14. The Bill has not yet been passed by the Legislative Council at the time of writing this article.

A summary showing the personal allowances and deductions for the years of assessment 2013/14 and 2014/15 (proposed) is shown in Table A.

**Table A: Personal Allowances and Deductions**

<b>Year of assessment</b>	<b>2013/14</b>	<b>2014/15 (Proposed)</b>
	<b>\$</b>	<b>\$</b>
<b>Personal allowance</b>		
Basic allowance	120,000	120,000
Married person's allowance	240,000	240,000
Single parent allowance	120,000	120,000
Child allowance		
1 <sup>st</sup> to 9 <sup>th</sup> child (each)	70,000	70,000
Additional child allowance in the year of birth (each)	70,000	70,000

Dependent parent/grandparent allowance (aged 60 or more, or eligible for government's disability allowance)		
Basic	38,000	*40,000
Additional (for dependant living with taxpayer)	38,000	*40,000
Dependent parent/grandparent allowance (aged 55-59)		
Basic	19,000	*20,000
Additional (for dependant living with taxpayer)	19,000	*20,000
Dependent brother/sister allowance	33,000	33,000
Disabled dependant allowance	66,000	66,000
<b>Deductions</b>		
Self-education expenses	80,000	*80,000
Home loan interest	#100,000	#100,000
Elderly residential care expenses	76,000	80,000
Contribution to recognized retirement scheme	15,000	!17,500
Approved charitable donations	35%	35%

\* As proposed by the Financial Secretary in his Budget Speech for 2014/15.

# The entitlement period for the deduction of home loan interest was extended from 10 years to 15 years from the year of assessment 2012/13 onwards.

! The Inland Revenue (Amendment) (No. 3) Bill 2013 (see above) also seeks to raise the deduction ceiling for contributions made by employees or self-employed persons to recognized retirement schemes, including the Mandatory Provident Fund Schemes, from the current level of \$15,000:

- to \$17,500 for the year of assessment 2014/15 and
- to \$18,000 for the year of assessment 2015/16 and onwards,

subsequent to the increase of the maximum relevant income level under the Mandatory Provident Fund Schemes Ordinance (Chapter 485) from \$25,000 per month to \$30,000 per month with effect from 1 June 2014.

A summary of the tax rates for the years of assessment 2013/14 and 2014/15 is shown in Table B.

**Table B: Summary of Tax Rates**

	<b>2013/14</b>	<b>2014/15</b>
Standard rate	15%	15%
Corporation profits tax rate	16.5%	16.5%
Progressive tax rates	\$1 - \$40,000      2% \$40,001 - \$80,000      7% \$80,001 - \$120,000      12% > \$120,000      17%	\$1 - \$40,000      2% \$40,001 - \$80,000      7% \$80,001 - \$120,000      12% > \$120,000      17%
Salaries tax and personal assessment	* Waive 75% of the final tax, subject to a ceiling of \$10,000.	N/A
Profits tax	* Waive 75% of the final tax, subject to a ceiling of \$10,000.	N/A

\* As proposed by the Financial Secretary in his Budget Speech for 2014/15.

**Proposals relating to stamp duty, rates and tobacco duty**

**Stamp duty**

The FS proposed waiving stamp duty on the trading of all exchange-traded funds (ETFs) to lower transaction costs.

**Rates**

The FS proposed waiving rates for the first two quarters of 2014/15, subject to a ceiling of \$1,500 per quarter for each rateable property. The Rating (Exemption) Order 2014 was gazetted on 26 February 2014 to give effect to the proposal as from 1 April 2014.

**Tobacco duty**

The FS proposed increasing the duty on cigarettes to protect the health of the people. The Public Revenue Protection (Dutiable Commodities) Order 2014 was gazetted on 26 February 2014 and came into effect at 11 am on that same day.

## **Conclusion**

There are a number of new proposed changes to income taxes in the Budget. All the proposals affecting the Inland Revenue Ordinance have to be passed by the Legislative Council before they can be implemented.

For examination purposes, students who are preparing for Paper 5: Principles of Taxation should update themselves on the tax rates, deductions and allowances for salaries tax, property tax, profits tax and personal assessment and update themselves on relevant legislative changes and the effective dates of such changes.