

## **Highlights of the Revenue Proposals in the 2015/16 Budget**

(Relevant to AAT Examination Paper 5 – Principles of Taxation and PBE Paper IV – Business Law and Taxation)

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### **Introduction**

On 25 February 2015, Financial Secretary John Tsang Chun-wah (the FS) made his eighth Budget Speech, for the financial year 2015/16.

According to the FS:

- 2014 was an extraordinary year, during which momentous local and global events affected the people of Hong Kong.
- The Hong Kong economy grew by only 2.3% in 2014. This makes 2014 the third consecutive year with a growth rate lower than the annual average for the last decade of 3.9%.
- The average unemployment rate for 2014 as a whole was at a low level of 3.2%.
- Inflation continued to ease, with the headline inflation rate for 2014 at 4.4%, or 3.5% after netting out the effects of the government's one-off relief measures.
- The forecast revised surplus for 2014/15 and fiscal reserves as of 31 March 2015 were HKD 63.8 billion and HKD 819.5 billion respectively.
- The forecast gross domestic product (GDP) growth in 2015 is 1–3%, with a headline inflation rate of 3.5% and an underlying inflation rate of 3%.

This article highlights the major revenue proposals made by the FS in light of the underlying and forecast 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 has proposed to:

- reduce 75% of the final tax payable under the salaries tax and personal assessment for the year of assessment 2014/15, subject to a ceiling of \$20,000 per case; and
- increase the child allowance and the additional child allowance in the year of birth from \$70,000 to \$100,000, effective from the year of assessment 2015/16.

#### **Property Tax**

No changes have been proposed.

## Profits Tax

The FS has proposed to:

- reduce the profits tax for the year of assessment 2014/15 by 75%, subject to a ceiling of \$20,000 per case;
- allow, under specified conditions, interest deductions under the profits tax for corporate treasury centres and to reduce the profits tax for specified treasury activities by 50%; and
- allow private equity funds to enjoy the profits tax exemption available to offshore funds.

## Summary of Personal Allowances, Deductions and Tax Rates

A summary of the personal allowances and deductions for the years of assessment 2014/15 and 2015/16 (proposed) is shown in Table A.

**Table A: Personal Allowances and Deductions**

Year of assessment	2014/15	2015/16 (* Proposed)
	\$	\$
<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	* 100,000
Additional child allowance in the year of birth (each)	70,000	* 100,000
Dependent parent/grandparent allowance (aged 60 or more, or eligible for government's disability allowance)		
Basic	40,000	40,000
Additional (for dependant living with taxpayer)	40,000	40,000
Dependent parent/grandparent allowance (aged 55–59)		
Basic	20,000	20,000
Additional (for dependant living with taxpayer)	20,000	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	80,000	80,000
Contribution to recognized retirement scheme	17,500	18,000
Approved charitable donations	35%	35%

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

A summary of the tax rates for the years of assessment 2014/15 and 2015/16 is shown in Table B.

**Table B: Summary of Tax Rates**

	<b>2014/15</b>	<b>2015/16</b>
Standard rate	15%	15%
Corporate 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	* 75% of the final taxes will be waived, subject to a ceiling of \$20,000 per case.	N/A
Profits tax	* 75% of the final taxes will be waived, subject to a ceiling of \$20,000 per case.	N/A

\* As proposed by the Financial Secretary in his Budget Speech for 2015/16.

## **Proposals relating to rates and stamp duty**

### **Rates**

The FS proposed to waive rates for the first two quarters of 2015/16, subject to a ceiling of \$2,500 per quarter for each rateable property. The *Rating (Exemption) Order 2015* was gazetted on 25 February 2015, bringing the proposal into effect on 1 April 2015.

### **Stamp Duty**

On 26 February 2014, the FS proposed in his 2014/15 Budget Speech to extend the waiving of the stamp duty to the trading of exchange-traded funds (ETFs) that track indices comprising not more than 40 per cent of Hong Kong stocks. The *Stamp Duty*

*Ordinance* was amended to waive the stamp duty payable on the transfer of shares or units of all ETFs with effect from 13 February 2015.

## **Conclusion**

There are a number of 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 'AAT Paper 5: Principles of Taxation' and 'PBE paper IV: Business Law and Taxation' should make sure they are up to date on the tax rates, deductions and allowances for relevant income taxes, as well as on the relevant legislative changes and the effective dates of such changes.