

**Highlights of the Revenue Proposals in the 2016/17 Budget**  
(Relevant to AAT Examination Paper 5 – Principles of Taxation and  
PBE Paper IV – Business Law and Taxation)

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**INTRODUCTION**

On 24 February 2016, the Financial Secretary, John Tsang Chun-wah (the FS), made his ninth Budget Speech for the financial year 2016/17. This article highlights the major revenue proposals made by the FS.

**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 75% of the final tax payable under salaries tax and personal assessment for the year of assessment 2015/16, subject to a ceiling of \$20,000 per case; and to
- increase the basic allowance, married person's allowance, single parent allowance, dependent parent allowance, dependent grandparent allowance, and the deduction ceiling for elderly residential care expenses beginning from the year of assessment 2016/17. The relevant amounts are shown in Table A below.

**Property Tax**

No changes have been proposed.

**Profits Tax**

The FS proposed to:

- reduce profits tax for 2015/16 by 75%, subject to a ceiling of \$20,000 per case, and to
- expand the scope of tax deduction for capital expenditure incurred for the purchase of intellectual property rights from five categories to eight. The additions are:
  - layout-design of integrated circuits,
  - plant varieties; and
  - rights in performance.

## Summary of Personal Allowances, Deductions and Tax Rates

A summary of the personal allowances and deductions for the years of assessment 2015/16 and 2016/17 (proposed) is shown in Table A.

**Table A: Personal Allowances and Deductions**

<b>Year of assessment</b>	<b>2015/16</b>	<b>2016/17 (*Proposed)</b>
	<b>\$</b>	<b>\$</b>
<b>Personal allowance</b>		
Basic allowance	120,000	*132,000
Married person's allowance	240,000	*264,000
Single parent allowance	120,000	*132,000
Child allowance 1 <sup>st</sup> to 9 <sup>th</sup> child (each)	100,000	100,000
Additional child allowance in the year of birth (each)	100,000	100,000
Dependent parent/grandparent allowance (aged 60 or above, or eligible for government's disability allowance)		
Basic	40,000	*46,000
Additional (for dependant living with taxpayer)	40,000	*46,000
Dependent parent/grandparent allowance (aged 55–59)		
Basic	20,000	*23,000
Additional (for dependant living with taxpayer)	20,000	*23,000
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	*92,000
Contribution to recognized retirement scheme	18,000	18,000
Approved charitable donations	35%	35%

\* As proposed by the Financial Secretary in his Budget Speech for 2016/17.

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

A summary of the tax rates for the years of assessment 2015/16 and 2016/17 is shown in Table B.

**Table B: Summary of Tax Rates**

	<b>2015/16</b>	<b>2016/17</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 \$20,000 per case.	N/A
Profits tax	* Waive 75% of the final tax, subject to a ceiling of \$20,000 per case.	N/A

\* As proposed by the Financial Secretary in his Budget Speech for 2016/17.

## **PROPOSAL RELATING TO RATES AND BUSINESS REGISTRATION FEE**

### **Rates**

The FS proposed to waive rates for all four quarters of 2016/17, subject to a ceiling of \$1,000 per quarter for each rateable property. The *Rating (Exemption) Order 2016* was gazetted on 24 February 2016 to give effect to the proposal beginning from 1 April 2016.

### **Business Registration Fees**

The FS proposed to waive business registration fees for 2016/17. The *Revenue (Reduction of Business Registration Fees) Order 2016* was gazetted on 24 February 2016 to give effect to the proposal. The Order will:

1. take effect on 1 April 2016; and
2. reduce the fee payable in relation to a:
  - business registration certificate; or
  - branch registration certificate

that commences within the period of 12 months beginning on 1 April 2016.

If the fee is payable under s.5A(1)(a) of the *Business Registration Ordinance* in relation to a submission made for the purpose of forming a company under s.67 of the *Companies Ordinance*, the reduction applies only if the incorporation submission is made within that period.

The *Inland Revenue (Amendment) (No. 2) Bill 2016* was gazetted on 4 March 2016 to give effect to the above proposals.

## **CONCLUSION**

There are a number of proposed changes to income taxes in the Budget. All of 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 ensure that they have an up-to-date understanding on the tax rates, deductions and allowances for relevant income taxes and that they are up to date with the relevant legislative changes and the dates on which those changes come into effect.