

Highlights of the Revenue Proposals in the 2017/18 Budget

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

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INTRODUCTION

On 22 February 2017, the Financial Secretary, Paul Chan Mo-po (“the FS”), made his first Budget Speech for the financial year 2017/18. This article highlights the major revenue proposals made by the FS.

PROPOSALS RELATING TO INCOME TAXES

Salaries Tax and Personal Assessment

The FS proposed to:

- reduce 75% of the final tax payable under salaries tax and personal assessment for the year of assessment 2016/17, subject to a ceiling of \$20,000 per case;
- increase the width of marginal tax bands from \$40,000 to \$45,000, commencing from the year of assessment 2017/18; and
- increase the disabled dependant allowance from \$66,000 to \$75,000 and the dependent brother or dependent sister allowance from \$33,000 to \$37,500, effective from the year of assessment 2017/18.

The amounts concerned can be found in Tables A and B below.

Property Tax

No changes have been proposed.

Profits Tax

The FS proposed to:

- reduce profits tax for 2016/17 by 75%, subject to a ceiling of \$20,000 per case; and
- introduce a bill into the Legislative Council in 2017 to amend the *Inland Revenue Ordinance* to offer tax concessions to attract aircraft leasing companies to develop their business in Hong Kong.

Summary of Personal Allowances, Deductions and Tax Rates

A summary showing the personal allowances and deductions for the years of assessment 2016/17 and 2017/18 (proposed) is shown in Table A.

Table A: Personal Allowances and Deductions

Year of assessment	2016/17	2017/18 (* Proposed)
	\$	\$
Personal allowance		
Basic allowance	132,000	132,000
Married person's allowance	264,000	264,000
Single parent allowance	132,000	132,000
Child allowance 1 st to 9 th 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 more, or eligible for government's disability allowance)		
Basic	46,000	46,000
Additional (for dependant living with taxpayer)	46,000	46,000
Dependent parent/grandparent allowance (aged 55–59)		
Basic	23,000	23,000
Additional (for dependant living with taxpayer)	23,000	23,000
Dependent brother/sister allowance	33,000	* 37,500
Disabled dependant allowance	66,000	* 75,000
Deductions		
Self-education expenses	80,000	* 100,000
Home loan interest	100,000	# 100,000
Elderly residential care expenses	92,000	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 2017/18.

The entitlement period for the deduction of home loan interest is extended from 15 years to 20 years from the year of assessment 2017/18 onwards.

A summary of the tax rates for the years of assessment 2016/17 and 2017/18 is shown in Table B.

Table B: Summary of Tax Rates

	2016/17	2017/18
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 – \$45,000 2% * \$45,001 – \$90,000 7% * \$90,001 – \$135,000 12% * > \$135,000 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 2017/18.

PROPOSAL RELATING TO RATES

The FS proposed to waive rates for all four quarters of 2017/18, subject to a ceiling of \$1,000 per quarter for each rateable property. The *Rating (Exemption) Order 2017* was gazetted on 22 February 2017 to give effect to the proposal beginning 1 April 2017.

CONCLUSION

All of the proposals in the Budget 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 update their knowledge on the tax rates, deductions and allowances for relevant income taxes, as well on the relevant legislative changes and the effective dates of such changes.