

Highlights of the Revenue Proposals in the 2018/19 Budget

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

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INTRODUCTION

On 28 February 2018, the Financial Secretary ('FS'), Paul Chan Mo-po, made his second Budget Speech for the financial year 2018/19. 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 2017/18, subject to a ceiling of \$30,000 per case;
- increase the width of marginal tax bands from \$45,000 to \$50,000 and to increase the number of tax bands from 4 to 5 with marginal tax rates of 2%, 6%, 10%, 14% and 17% commencing from the year of assessment 2018/19; and
- increase the child allowance and additional child allowance for each child, the dependent parent/grandparent allowance and additional dependent parent/grandparent allowance commencing from the year of assessment 2018/19;
- increase the deduction for elderly residential care expenses from \$92,000 to \$100,000 commencing from the year of assessment 2018/19;
- introduce a personal disability allowance of \$75,000, commencing from the year of assessment 2018/19, if the individual concerned is eligible to claim an allowance under the Government's Disability Scheme; and
- relax the requirement for the election of personal assessment, commencing from the year of assessment 2018/19, by allowing married persons the option to elect for personal assessment separately.

The amounts of the above items can be found in Tables A and B below.

The FS also proposed the introduction of a tax deduction for qualified premiums for eligible health insurance products under the Voluntary Health Insurance Scheme. The annual tax ceiling of premiums for tax deduction is \$8,000 per insured person. This measure will be implemented from the year of assessment following the passage of the relevant legislative amendments.

Property Tax

No changes have been proposed.

Profits Tax

The FS proposed to:

- reduce profits tax for the year of assessment 2017/18 by 75%, subject to a ceiling of \$30,000 per case;
- amend the qualifying debt instrument scheme to increase the types of qualified instruments such that debt securities listed on the Hong Kong Stock Exchange will also become eligible; and
- extend the scope of tax exemption from debt instruments with an original maturity of not less than seven years to instruments of any duration; and
- enhance tax concessions for capital expenditure incurred by enterprises in procuring eligible efficient building installations and renewable energy devices by allowing tax deduction to be claimed in full in one year instead of the current time frame of five years.

Summary of Personal Allowances, Deductions and Tax Rates

A summary showing the personal allowances and deductions for the years of assessment 2017/18 and 2018/19 is shown in Table A.

Table A: Personal Allowances and Deductions

Year of assessment	2017/18	2018/19 (* 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	* 120,000
Additional child allowance in the year of birth (each)	100,000	* 120,000
Dependent parent/grandparent allowance (aged 60 or more, or eligible for government's disability allowance)		
Basic	46,000	* 50,000
Additional (for dependant living with taxpayer)	46,000	* 50,000
Dependent parent/grandparent allowance (aged 55–59)		
Basic	23,000	* 25,000
Additional (for dependant living with taxpayer)	23,000	* 25,000

Dependent brother/sister allowance	37,500	37,500
Disabled dependant allowance	75,000	75,000
Personal disability allowance	N/A	75,000
Deductions		
Self-education expenses	100,000	100,000
Home loan interest	# 100,000	100,000
Elderly residential care expenses	92,000	* 100,000
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 2018/19.

The entitlement period for the deduction of home loan interest has been extended from 10 years to 15 years from the year of assessment 2017/18 onwards.

A summary of the tax rates for the years of assessment 2017/18 and 2018/19 is shown in Table B.

Table B: Summary of Tax Rates

	2017/18	2018/19
Standard rate	15%	15%
Corporation profits tax rate	16.5%	16.5%
Progressive tax rates	\$1 – \$45,000 2% \$45,001 – \$90,000 7% \$90,001 – \$135,000 12% > \$135,000 17%	* \$1 – \$50,000 2% * \$45,001 – \$100,000 6% * \$100,001 – \$150,000 10% * \$150,001 – \$200,000 14% * > \$200,000 17%
Salaries tax and personal assessment	* Waive 75% of the final tax, subject to a ceiling of \$30,000 per case.	N/A
Profits tax	* Waive 75% of the final tax, subject to a ceiling of \$30,000 per case.	N/A

* As proposed by the Financial Secretary in his Budget Speech for 2018/19.

PROPOSAL RELATING TO RATES

The FS proposed to waive rates for all four quarters of 2018/19, subject to a ceiling of \$2,500 per quarter for each rateable property. The *Rating (Exemption) Order 2018* was gazetted on 28 February 2018 for the proposal to take effect as from 1 April 2018.

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 of the tax rates, deductions and allowances for relevant income taxes and update their knowledge of relevant legislative changes and the dates on which such changes take effect.