**Highlights of the Revenue Proposals in the 2012/13 Budget**
(Relevant to AAT Examination Paper 5 – Principles of taxation)
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**Introduction**

On 1 February 2012, the financial secretary, John Tsang Chun-wah, made his fifth Budget Speech, this one for the financial year 2012/13.

According to the financial secretary:
- forecast GDP growth is 1%-3% in 2012 (2011: 5%) while headline inflation rate is estimated to be 3.5% in 2012 (2011: 5.3%);
- a revised consolidated surplus of $66.7 billion is forecast for 2011/12;
- the forecast consolidated budget deficit for 2012/13 is $3.4 billion;
- government expenditure is estimated to reach $393.7 billion for 2012/13, an increase of 7% compared with the revised estimate for 2011/12; and
- total government expenditure is estimated to be $390.3 billion.

This article highlights the major revenue proposals made by the financial secretary 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 financial secretary proposed:
- reducing 75% of the final tax payable under salaries tax and personal assessment for the year of assessment 2011/12, subject to a ceiling of $12,000;
- increasing the basic allowance and married person's allowance to $120,000 and $240,000 respectively;
- increasing the child allowance and additional child allowance in the year of birth to $63,000 each;
- increasing the dependent parent/grandparent allowance to:
  - $38,000 for each parent/grandparent aged 60 or above and not residing with the claimant;
  - $19,000 for each parent/grandparent aged 55 to 59 and not residing with the claimant.
- increasing the additional dependent parent/grandparent allowance to:
  - $38,000 for each parent/grandparent aged 60 or above and residing with the claimant;
  - $19,000 for each parent/grandparent aged 55 to 59 and residing with the claimant.
- increasing the dependent brother/sister allowance to $33,000;
- increasing the single parent allowance to $120,000;
- increasing the disabled dependant allowance to $66,000;

- extending the entitlement period for the tax reduction for home loan interest from 10 years to 15 years starting from the year of assessment 2012/13;
- increasing the deduction ceiling for residential care expenses to $76,000; and
- increasing the maximum annual deduction for mandatory contributions to Mandatory Provident Schemes to $14,500 for the year of assessment 2012/13, and to $15,000 from the year of assessment 2013/14 onwards. This proposed change is made in the light of the increase of the maximum relevant income level under the Mandatory Provident Fund Schemes Ordinance to $25,000, which will be effective from June 2012.

**Property tax**

No changes have been proposed.

**Profits tax**

The financial secretary proposed reducing 75% of the final profits tax payable for the year of assessment 2011/12, subject to a ceiling of $12,000.

A summary showing the personal allowances and deductions for the years of assessment 2011/12 to 2012/13 (proposed) is shown in Table A.

**Table A: Personal allowances and deductions**

| **Year of assessment** | **2011/12** | **2012/13 (Proposed)** |
|---|---|---|
| | **$** | **$** |
| **Personal allowance** | | |
| Basic allowance | 108,000 | *120,000 |
| Married person's allowance | 216,000 | *240,000 |
| Single parent allowance | 108,000 | *120,000 |
| Child allowance | | |
| ● 1st to 9th child (each) | 60,000 | *63,000 |
| Additional child allowance in the year of birth (each) | 60,000 | *63,000 |
| Dependent parent/grandparent allowance (aged 60 or more, or eligible for government's disability allowance) | | |
| ● Basic | 36,000 | *38,000 |
| ● Additional (for dependant living with taxpayer) | 36,000 | *38,000 |
| Dependent parent/grandparent allowance (aged 55-59) | | |
| ● Basic | 18,000 | *19,000 |
| ● Additional (for dependant living with taxpayer) | 18,000 | *19,000 |
| Dependent brother/sister allowance | 30,000 | *33,000 |

| | | |
|---|---|---|
| Disabled dependant allowance | 60,000 | *66,000 |
| **Deductions**<br>Self-education expenses<br>Home loan interest<br>Elderly residential care expenses<br>Contribution to recognized retirement scheme<br><br>Approved charitable donations | <br>60,000<br>100,000<br>72,000<br>12,000<br><br>35% | <br>60,000<br>#100,000<br>*76,000<br>!14,500<br><br>35% |

* As proposed by the financial secretary in his Budget Speech for 2021/13.
# The financial secretary proposed extending the entitlement period for the deduction from 10 years to 15 years from the year of assessment 2012/13 onwards.
! The financial secretary proposed increasing the maximum annual deduction for mandatory contributions to Mandatory Provident Schemes to $14,500 for the year of assessment 2012/13, and to $15,000 from the year of assessment 2013/14 onwards.

A summary of the tax rates for the years of assessment 2011/12 and 2012/13 is shown in Table B.

**Table B: Summary of tax rates**

| | 2011/12 | 2012/13 |
|---|---|---|
| Standard rate | 15% | 15% |
| Corporation profits tax rate | 16.5% | 16.5% |
| Progressive tax rates | $1 - $40,000 2%<br>$40,001 - $80,000 7%<br>$80,001 - $120,000 12%<br>> $120,000 17% | $1 - $40,000 2%<br>$40,001 - $80,000 7%<br>$80,001 - $120,000 12%<br>> $120,000 17% |
| Salaries tax and personal assessment | 75% of the final tax to be reduced, subject to a ceiling of $12,000. | N/A |
| Profits tax | 75% of the final tax to be reduced, subject to a ceiling of $12,000. | N/A |

**Proposals relating to other taxes, duties and fees**

**Business registration fees**

The financial secretary proposed waiving business registration fees for the year 2012/13. The Revenue (Reduction of Business Registration Fees) Order 2012 was gazetted on 3 February 2012 to effect the proposal to waive the fees for

- business registration certificates, and
- branch registration certificates

that commence on or after 1 April 2012 but before 1 April 2013.

**Rates**

The financial secretary proposed waiving rates for 2012/13, subject to a ceiling of $2,500 per quarter for each rateable tenement. The Rating (Exemption) Order 2012 was gazetted on 3 February 2012 to implement the proposal as from 1 April 2012.

**Capital duty**

The financial secretary proposed abolishing capital duty levied on local companies.

**Charges for import and export declarations**

The financial secretary proposed reducing the charges by 50%. The Import and Export (Fees) (Amendment) Regulation 2012 was gazetted on 3 February 2012 to implement the proposal as from 30 March 2012.

**Conclusion**

There were quite 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 Paper 5: Principles of Taxation should update their knowledge of the tax rates, deductions and allowances for salaries tax, property tax, profits tax and personal assessment and with relevant legislative changes and the effective dates of such changes.