

Highlights of the Revenue Proposals in the 2013/14 Budget (Relevant to AAT Examination Paper 5 – Principles of Taxation)

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INTRODUCTION

On 27 February 2013, the Financial Secretary, John Tsang Chun-wah (the FS), made his sixth Budget Speech, this one for the financial year 2013/14.

According to the FS:

- Hong Kong's actual gross domestic product (GDP) growth for 2012 was 1.4%. The forecast GDP growth for 2013 is between 1.5% and 3.5%.
- Inflation will be subject to upward pressure. The average rate of headline inflation for 2013 is estimated at 4.5%, and the underlying inflation rate is 4.2%.
- The surplus for 2012/13 is approximately \$64.9 billion (against the previous forecast deficit of \$3.4 billion), due mainly to higher than expected revenue from earnings and profits tax, land premiums, stamp duty and the dividend from the West Rail Property Development. With the proposed increase in government expenditure, a deficit of about \$4.9 billion is expected for 2013/14.
- The revised estimate for government revenue for 2012/13 was \$445.5 billion, being \$55.2 billion higher than the original estimate. Hong Kong's fiscal reserves are estimated to be \$734 billion by the end of March 2013, equivalent to 36% of GDP or 23 months' government expenditure.

This article highlights the major revenue proposals made by the FS 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 FS proposed to:

- waive 75% of the final tax payable under salaries tax and personal assessment for the year of assessment 2012/13, subject to a ceiling of \$10,000;
- increase the child allowance and additional child allowance in the year of birth to \$70,000 each;
- increase the maximum annual deduction for self-education expenses to \$80,000.

Property Tax

No changes have been proposed.

Profits Tax

The FS proposed to:

- extend the profits tax exemption for offshore funds to allow private equity funds to enjoy the same tax exemption as offshore funds;
- reduce the profits tax on the offshore insurance business of captive insurance companies, so that they will enjoy the same tax concessions as those currently applicable to reinsurance companies; and
- waive 75% of the final tax payable under profits tax for the year of assessment 2012/13, subject to a ceiling of \$10,000.

A summary showing the personal allowances and deductions for the years of assessment 2012/13 and 2013/14 (proposed) is shown in Table A.

Table A: Personal Allowances and Deductions

Year of assessment	2012/13	2013/14 (Proposed)
	\$	\$
Personal allowance		
Basic allowance	120,000	120,000
Married person's allowance	240,000	240,000
Single parent allowance	120,000	120,000
Child allowance 1 st to 9 th child (each)	63,000	*70,000
Additional child allowance in the year of birth (each)	63,000	*70,000
Dependent parent/grandparent allowance (aged 60 or more, or eligible for government's disability allowance)		
Basic	38,000	38,000
Additional (for dependant living with taxpayer)	38,000	38,000
Dependent parent/grandparent allowance (aged 55-59)		
Basic	19,000	19,000
Additional (for dependant living with taxpayer)	19,000	19,000
Dependent brother/sister allowance	33,000	33,000
Disabled dependant allowance	66,000	66,000
Deductions		
Self-education expenses	60,000	*80,000
Home loan interest	#100,000	#100,000

Elderly residential care expenses	76,000	76,000
Contribution to recognized retirement scheme	14,500	15,000
Approved charitable donations	35%	35%

* As proposed by the Financial Secretary in his Budget Speech for 2013/14.

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

A summary of the tax rates for the years of assessment 2012/13 and 2013/14 is shown in Table B.

Table B: Summary of Tax Rates

	2012/13		2013/14	
Standard rate	15%		15%	
Corporation profits tax rate	16.5%		16.5%	
Progressive tax rates	\$1 - \$40,000	2%	\$1 - \$40,000	2%
	\$40,001 - \$80,000	7%	\$40,001 - \$80,000	7%
	\$80,001 - \$120,000	12%	\$80,001 - \$120,000	12%
	> \$120,000	17%	> \$120,000	17%
Salaries tax and personal assessment	* Waive 75% of the final tax, subject to a ceiling of \$10,000.		N/A	
Profits tax	* Waive 75% of the final tax, subject to a ceiling of \$10,000.		N/A	

* As proposed by the Financial Secretary in his Budget Speech for 2013/14.

PROPOSALS RELATING TO OTHER BUSINESS REGISTRATION FEES AND RATES

Business Registration Fees

The FS proposed to waive business registration fees for the year 2013/14. The Revenue (Reduction of Business Registration Fees) Order 2013 was gazetted on 1 March 2013 to effect the proposal to waive the fees for

- business registration certificates, and
- branch registration certificates

that commence on/after 1 April 2013 but before 1 April 2014.

Rates

The FS proposed to waive rates for 2013/14, subject to a ceiling of \$1,500 per quarter for each rateable tenement. The Rating (Exemption) Order 2013 was gazetted on 1 March 2013 to implement the proposal as from 1 April 2013.

CONCLUSION

There are a number of new 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 themselves on the tax rates, deductions and allowances for salaries tax, property tax, profits tax and personal assessment and update themselves on relevant legislative changes and the effective dates of such changes.