

Highlights of the Revenue Proposals in the 2011/12 Budget

(Relevant to AAT Examination Paper 5: Principles of taxation)

Dr Dora Lee

Introduction

On 23 February 2011, the Financial Secretary, the Hon John Tsang Chun-wah, made his fourth Budget Speech, this one covering the financial year 2011/12.

Economic performance

According to the Financial Secretary:

- The Hong Kong economy has fully recovered from the global economic crisis;
- the SAR's gross domestic product (GDP) increased by 6.8% in 2010; and
- the inflation rate for 2010 was 2.4%.

Economic outlook / forecasts

The major forecasts made by the Financial Secretary are as follows:

- a 4% to 5% increase in GDP in real terms is forecast for 2011;
- the inflation rate is expected to be 4.5% in 2011;
- a revised consolidated budget surplus of \$71.3 billion is forecast for 2010/11 and a consolidated budget surplus of \$3.9 billion is forecast for 2011/12; and
- operating expenditure for 2010/11 and 2011/12 are forecast to be \$240.8 billion and \$298 billion respectively.

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 to the tax rates. The allowances for dependent parents, dependent grandparents and children will be increased by 20 percent. The maximum deduction for elderly residential care expenses will also be increased by 20 percent.

On 2 March 2011, the Financial Secretary also proposed reducing the tax payable under salaries tax and personal assessment by up to 75 percent, subject to a ceiling of \$6,000. The year of assessment concerned has not been specified though it is likely to be the year of assessment 2010/11.

Property tax

No changes have been proposed.

Profits tax

No changes have been proposed

A summary showing the personal allowances and deductions for the years of assessment 2010/10 and 2011/12 is shown in Table A.

Table A: Personal allowances and deductions

Year of assessment	2011/12	2010/11
	\$	\$
Personal allowances		
Basic	108,000	108,000
Married person's	216,000	216,000
Single parent	108,000	108,000
Child		
1 st to 9 th child (each)		
Year of birth	*120,000	100,000
Other years	*60,000	50,000
Dependent parent/grandparent (aged 60 or more, or eligible for government's disability allowance)		
Basic	*36,000	30,000
Additional (for dependant living with taxpayer)	*36,000	30,000
Dependent parent/grandparent (aged 55-59)		
Basic	*18,000	15,000
Additional (for dependant living with taxpayer)	*18,000	15,000
Dependent brother/sister	30,000	30,000
Disabled dependant	60,000	60,000
Deductions		
Self-education expenses	60,000	60,000
Home loan interest	100,000	100,000
Elderly residential care expenses	*72,000	60,000
Contribution to recognized retirement scheme	12,000	12,000
Approved charitable donations	35%	35%

*As proposed by the Financial Secretary in his Budget Speech for 2011/12.

A summary of the tax rates for the years of assessment 2010/11 and 2011/12 is shown in Table B.

Table B: Summary of tax rates

	2011/12		2010/11	
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%

Proposals relating to other taxes, duties and fees

Tobacco duty

To protect public health, tobacco duty will be increased by \$0.50 per cigarette. Duties on other tobacco products will be increased by the same rate.

Rates

To combat inflation, rates for 2011/12 will be waived, subject to a ceiling of \$1,500 per quarter for each rateable tenement.

First registration tax

To curb the growth of private cars, the first registration tax for private cars will be increased by about 15%.

Conclusion

There are only a few proposed changes to income taxes in the Budget. All the proposals 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, together with the relevant legislative changes and the effective dates of such changes.