

Highlights of the Revenue Proposals in the 2010/11 Budget (Relevant to AAT Examination Paper 5: Principles of Taxation)

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Introduction

On 24 February 2010, John Tsang Chun-wah, the Financial Secretary, gave his third Budget Speech, this one for the financial year 2010/11.

Economic performance

According to Mr. Tsang:

- Hong Kong's gross domestic product (GDP) fell by 2.7 percent in 2009;
- the economy returned to growth in the final quarter of 2009, following four successive quarters of contraction;
- there was a decline in employment in early 2009; and
- the inflation rate for 2009 was 0.5 percent.

Economic outlook/forecasts

The forecasts or predictions made by Mr. Tsang are as follows:

- The economic outlook is cautiously optimistic. Uncertainties and potential pitfalls remain in the external environment.
- GDP is forecast to grow at between 4 and 5 percent for 2012.
- The headline inflation forecast is 2.3 percent.
- Medium-term annual average growth rate over the period from 2011 to 2014 is estimated to be 4 percent in real terms.
- A revised consolidated budget surplus of \$13.8 billion is forecast for 2009/10.
- A consolidated budget deficit of \$25.2 billion is forecast for 2010/11.
- By 2014/15, a consolidated surplus of \$5.5 billion is forecast.
- At the end of 2014/15, the Government is projecting that it will have fiscal reserves of around \$468.7 billion, approximately equivalent to 15 months of government expenditure.
- Operating expenditure for 2009/10 is forecast to be \$236 billion.
- Operating expenditure is projected to increase broadly in line with economic growth to \$294.2 billion in 2014/15.

This article highlights the major revenue proposals made by Mr. Tsang in light of the underlying and predicted economic conditions.

Proposal relating to income taxes

Salaries tax and personal assessment

Salaries tax and tax under personal assessment for the year of assessment 2009/10 will be reduced by up to 75 percent, subject to a ceiling of \$6,000.

Property tax

No changes have been proposed.

Profits tax

Mr. Tsang proposed the following:

- To extend the concessionary profits tax rate to 50 percent of the normal rate for qualifying debt instruments which have a maturity period of less than three years, and to relax the requirements that such debt instruments should be issued to the public in Hong Kong.
- To allow an accelerated 100 percent tax deduction for capital expenditure on environmentally-friendly vehicles.
- To allow a tax deduction for capital expenditure on purchasing registered trademarks, copyrights and designs.
- The Commissioner of Inland Revenue will further clarify the definition of “central management and control” to address business concerns on the residency requirement for directors of management committees. This will determine whether offshore funds can claim profits tax exemptions.
- To update the lists of recognized stock exchanges and future exchanges under the Inland Revenue Ordinance so as to extend the application of tax exemptions for offshore funds engaged in future trading.

Mr. Tsang specifically mentioned in his speech that the Inland Revenue Department (IRD) “has established procedures to track property transactions involving speculation and will follow up each case closely. If it is found that such transactions constitute a business, the IRD will levy profits tax on the persons or companies concerned for profits arising from such transactions.”

A summary showing the personal allowances and deductions for the years of assessment 2009/10 and 2010/11 is shown in Table A.

Table A: Personal allowances and deductions

Year of assessment	2009/10	2010/11
	\$	\$
Personal allowance		
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	100,000	100,000
Other years	50,000	50,000
Dependent parent/grandparent (aged 60 or more, or eligible for government's disability allowance)		
Basic	30,000	30,000
Additional (for dependant living with taxpayer)	30,000	30,000

Year of assessment	2009/10	2010/11
	\$	\$
Dependent parent/grandparent (aged 55-59)		
Basic	15,000	15,000
Additional (for dependant living with taxpayer)	15,000	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	60,000	60,000
Contribution to recognized retirement scheme	12,000	12,000
Approved charitable donations	35%	35%

A summary of the tax rates for the years of assessment 2009/10 and 2010/11 is shown in Table B.

Table B: Summary of tax rates

	2009/10	2010/11																
Standard rate	15%	15%																
Corporation profits tax rate	16.5%	16.5%																
Progressive tax rates	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">\$1 - \$40,000</td> <td style="text-align: right;">2%</td> </tr> <tr> <td>\$40,001 - \$80,000</td> <td style="text-align: right;">7%</td> </tr> <tr> <td>\$80,001 - \$120,000</td> <td style="text-align: right;">12%</td> </tr> <tr> <td>> \$120,000</td> <td style="text-align: right;">17%</td> </tr> </table>	\$1 - \$40,000	2%	\$40,001 - \$80,000	7%	\$80,001 - \$120,000	12%	> \$120,000	17%	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">\$1 - \$40,000</td> <td style="text-align: right;">2%</td> </tr> <tr> <td>\$40,001 - \$80,000</td> <td style="text-align: right;">7%</td> </tr> <tr> <td>\$80,001 - \$120,000</td> <td style="text-align: right;">12%</td> </tr> <tr> <td>> \$120,000</td> <td style="text-align: right;">17%</td> </tr> </table>	\$1 - \$40,000	2%	\$40,001 - \$80,000	7%	\$80,001 - \$120,000	12%	> \$120,000	17%
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Tax reduction	It is proposed that 75% of salaries tax and tax under personal assessment for the year of assessment 2009/10 will be reduced, subject to a ceiling of \$6,000 per case.																	

Proposals relating to other taxes, duties and fees

Stamp duty

The rate of stamp duty on transactions involving immovable properties valued over \$20 million will increase from 3.75 percent to 4.25 percent as from 1 April 2010. Buyers will no longer be allowed to defer stamp duty payments on such transactions.

The stamp duty concession in the trading of exchange traded funds will be extended to cover funds that track indices composed of not more than 40 percent of Hong Kong stocks.

Business registration fees

The waiver of business registration fees will continue for another year, up to July 2011.

Tobacco duty

Duty-free concessions on tobacco products for incoming passengers will be abolished. Only small amounts of tobacco products for own consumption will be exempted. A phased increase in tobacco duty will be considered in the future.

Rates

Rates for 2010/11 will be waived, subject to a ceiling of \$1,500 per quarter for each rateable tenement.

Conclusion

The Budget speech includes a number of proposals concerning income taxes, including the one-off tax reduction of 75 percent of salaries tax and tax under personal assessment for the year of assessment 2009/10, subject to a cap of \$6,000. 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 themselves with the tax rates, deductions and allowances for salaries tax, property tax, profits tax and personal assessment, and on relevant legislative changes and the effective dates of such changes.