

Highlights of the Revenue Proposals in the 2009/10 Budget

(Relevant to AAT Examination Paper 5 – Principles of Taxation)

Dr. Dora Lee

Introduction

On 25 February 2008, the financial secretary, The Hon. John C Tsang, made his budget speech for the financial year 2009/10.

Mr. Tsang made the following statements about Hong Kong's economy:

- Hong Kong's economy has worsened in the second half of 2008
- gross domestic product (GDP) growth fell from 7.3% in the first quarter to -2.5% in the fourth quarter. GDP grew by 2.5% for 2008 as a whole, lower than the trend growth rate over the past 10 years
- private consumption grew only by 1.8% in 2008
- export growth recorded an increase of only 2%
- the latest unemployment rate is 4.6%
- the average inflation rate, as measured by the composite consumer price index for 2008, was 4.3%

His forecasts or predictions were as follows:

- 2009 will be a very difficult year for Hong Kong
- both external trade and domestic demand will remain gloomy
- a deficit of \$4.9 billion in the government's consolidated account for 2008/09
- as a result of the financial crisis, GDP will fall by 2% to 3%
- unemployment will increase
- the inflation rate will ease to 1.6% in 2009
- there will be a deficit of \$9.8 billion in the government's operating account and a deficit of \$39.9 billion in the consolidated account for 2009/10, equivalent to 2.4% of GDP
- fiscal reserves will be \$448.1 billion by the end of March 2010, equivalent to 18 months of government expenditure
- for the medium term, the annual growth rate will be 3.5% in real terms for 2012/13 and the inflation rate will average 2%
- there will be a deficit in the operating account for the next three years, followed by a return to surplus in 2012/13
- the consolidated deficit will gradually decline and fiscal balance will be achieved by 2013/14
- fiscal reserves will be \$390 billion by the end of March 2014, equivalent to 14 months' government expenditure

This article will highlight the major revenue proposals made by Mr. Tsang 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 the year of assessment 2009/10

There will be a one-off reduction of 50% of the salaries tax and tax under personal assessment payable for the year of assessment 2008/09, subject to a ceiling of \$6,000. This will be reflected in the taxpayer's final tax payable for 2008/09. The proposal will cost the government about \$4.1 billion and benefit all 1.4 million taxpayers.

Property tax

No changes have been proposed for the years of assessment 2009/10 and 2008/09.

Profits tax

No changes have been proposed for the years of assessment 2009/10 and 2008/09.

A summary showing the personal allowances and deductions for the years of assessment 2008/09 and 2009/10 is shown in Table A.

Table A: Personal allowances and deductions

Year of assessment	2008/09	2009/10
	\$	\$
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
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 2008/09 and 2009/10 is shown in Table B.

Table B: Summary of tax rates

	2008/09 *		2009/10	
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%

* It is proposed that 50% of salaries tax and tax under personal assessment for the year of assessment 2008/09 will be waived, subject to a ceiling of \$6,000.

Proposals relating to other taxes and duties

Rates

Rates for the first two quarters of 2009/10 will be waived, subject to a ceiling of \$1,500 per quarter for each rateable tenement. About 90% of domestic properties and 60% of non-domestic properties will be subject to no rates for these two quarters. This proposal will cost the government \$4.2 billion.

First registration tax

It has been proposed that the exemption for electric vehicles from first registration tax, which is due to expire on 31 March 2009, be extended for a further five years instead of three years as in the past.

Duty on alcoholic beverages

Wine duties will continue to be exempt.

Duty on tobacco and cigarettes

It was proposed that tobacco duty be increased by 50%. The following new rates were applicable as from 11 am, 25 February 2009:

	\$
(a) for each 1,000 cigarettes	1,206
(b) cigars	1,553/kg
(c) Chinese prepared tobacco	296/kg
(d) all other manufactured tobacco except tobacco intended for the manufacture of cigarettes	1,461/kg

Other proposals affecting taxation

Islamic financial products

The government plans to submit to the Legislative Council in 2009/10 a proposal to create a level playing field for Islamic financial products vis-à-vis conventional ones. The proposal will include making changes to or clarifications of the arrangements for stamp duty, profits tax and property tax.

Extending the network of agreements for avoidance of double taxation

In recent years, Hong Kong's major trading partners have raised the requirements on the exchange of tax information under double taxation agreements. Our existing legislation has not kept pace with this development. To further extend our network of such agreements, the government consulted industry in mid-2008 on liberalising the arrangements for the exchange of tax information. Mr. Tsang believes that the business and professional community generally agrees that Hong Kong should align its arrangements for the exchange of tax information with international standards so that Hong Kong can enter into double taxation agreements with more countries. The government plans to put forward relevant legislative proposals by the middle of 2009.

Conclusion

For income taxes, Mr. Tsang has only specifically proposed a one-off tax reduction of 50% of salaries tax and tax under personal assessment 2008/09, subject to a cap of \$6,000. The proposal has to be passed by the Legislative Council before it can be implemented. Legislative changes may be made to stamp duty, profits tax and property tax in relation to Islamic finance products. The government may also put forward relevant legislative proposals to align the arrangement of Hong Kong for the exchange of information with international standards so that Hong Kong can enter into more double taxation agreements.

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 know about the relevant legislative changes. **T/D**