

Guide on year 2008-09 proposed Hong Kong's tax regime

The information contained in this letter is intended to provide readers with an overview of the significant changes under the proposed 2008/2009 Hong Kong's tax regime. No liability can be accepted for any actions taken as a result of reading the contents without our consultation having regard to all relevant factors. Additional copies may be obtained by writing to the Firm of the address at the letterhead.

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Introduction

On 27 February 2008, the Financial Secretary, the Hon John C Tsang delivered his 2008-2009 Budget Speech. The details of the budget are summarised as follows:

Economic prospects for 2008

- Consolidated budget deficit is forecast at \$-7.5 billion in 2008/09 (2007/08 :surplus \$115.7 billion).
- Gross Domestic Product (in real terms) is forecast to grow at 4-5% in 2008/09 (2007/08 :6.3%).
- Composite Consumer Price Index is forecast at 3.4% in 2008/09 (2007/08 :2.0%).
- Public expenditure as a percentage of GDP is forecast at 19.2% in 2008/09 (2007/08 : 15.9%).

Investing in Infrastructure and Promoting Long Term Development

- To create about 27,000 new construction jobs with an estimated expenditure amounting to \$21.8 billion on infrastructure projects for 2008/09. This does not include the upfront endowment of \$21.6 billion to the West Kowloon Cultural District Authority.
- To increase land supply and study the relocation of three government office buildings at the Wan Chai waterfront.
- To earmark an additional \$150 million to step up overseas promotion to enhance the appeal of Hong Kong as an international convention, exhibition and tourism capital.
- To waive the Hotel Accommodation Tax.
- To include 'restricted to hotel use' sites on the Application List.
- To exempt the duties on wine, beer and all other alcoholic beverages except spirits.
- To study the site location for Container Terminal 10.
- To offer a reduction in the First Registration Tax for environment-friendly commercial vehicles.
- To offer a more concessionary profits tax reduction for capital expenditure on environment-friendly machinery and equipment.
- To provide a one-off grant of \$18 billion for the establishment of a Research Endowment Fund.

1. Profits tax

Changes have been proposed for profits tax rates in 2008/09. The respective tax rates are summarised below.

	Proposed 2008/09	Actual 2007/08
Corporate; Corporate partner in unincorporated business	16.5%	17.5%

2. Salaries tax

Changes have been proposed for salaries tax rates and/or allowances in 2008/09. The respective tax rates are summarised below.

	Proposed 2008/09	Actual 2007/08
Standard rate	15.0%	16.0%
Progressive rate		
First	HK\$ 40,000 2%	HK\$ 35,000 2%
Second	40,000 7%	35,000 7%
Third	40,000 12%	35,000 12%
Remainder	17%	Remainder 17%
Personal allowance	108,000	100,000
Married allowance	216,000	200,000
Single parent allowance	108,000	100,000
1-9 child (each) year of birth	100,000	100,000
other years	50,000	50,000
Dependent parent/grandparent		
Basic (aged 60 or above)	30,000	30,000
Additional for residing with taxpayer	30,000	30,000
Basic (aged 55-59)	15,000	15,000
Additional for residing with taxpayer	15,000	15,000
Dependent brother/sister	30,000	30,000
Disabled dependent	60,000	60,000
Deductions:		
Self-education expenses	60,000	60,000
Home loan interest (10 years)	100,000	100,000
Elderly residential care expenses	60,000	60,000
Contribution to recognized retirement schemes	12,000	12,000
Charitable donations as a percentage of income	35%	25%

3. Stamp duty

No changes have been proposed for stamp duty rates in 2008/09. The respective tax rates are summarised below.

Stock transactions

The rates of stamp on stock transactions are charged at 0.1% of the amount of the consideration or its value on every sold and bought note (ie 0.2% on the buyer and the seller combined).

Property transactions

Property Consideration HK\$	Proposed 2008/09 Rate levied*	Actual 2007/08 Rate levied*
Up to 1,000,000	HK\$100	HK\$100
1,000,001 to 2,000,000	HK\$100	HK\$100
2,000,001 to 3,000,000	1.50%	1.50%
3,000,001 to 4,000,000	2.25%	2.25%
4,000,001 to 6,000,000	3.00%	3.00%
6,000,001 and above	3.75%	3.75%

*subject to marginal relief

4. Rates

Rates charge in 2008/09 remains unchanged at 5%. However, it is proposed to waive rates for 2008/09, subject to a ceiling of HK\$5,000 per quarter.

Improving People's Livelihood and Supporting Disadvantaged Groups

- To allocate \$4.3 billion to inject into each domestic electricity account a subsidy of \$1,800.
- To inject \$1 billion into the Samaritan Fund so as to relieve the financial burden on needy patients.
- To earmark \$200 million to help elderly people without family support improve their home environment.
- To earmark \$1 billion as a subsidy for the elderly in need to carry out maintenance or safety improvement works for their self occupied properties.
- To provide each Old Age Allowance recipient with a one-off grant of \$3,000.
- To increase funding by \$60 million to provide additional places in day care centres.
- To provide funding of \$45 million over the next 3 years to strengthen day foster care services.
- To provide additional funding of \$40 million to support victims of domestic violence.
- To provide additional funding of \$100 million to training places.
- To provide \$35 million to establish 16 community support centres.
- To make provision of \$1 billion in the next three years to create 3,000 three-year jobs.
- To set up four language support services centres to members of ethnic minorities.
- To provide one additional month payment to Comprehensive Social Security Assistance (CSSA) and Disability Allowance recipients. This costs \$1.2 billion.
- To earmark 1 billion to pay for one-month's rent for lower income families living in public housing estates.

Tax relief

- To offer a one-off rebate of 75% of salaries tax and tax under personal assessment assessed for 2007-08, subject to a ceiling of \$25,000.
- To offer a one-off rebate of 75% of profits tax for 2007-08, subject to a ceiling of \$25,000.
- To waive business registration fees for 2008-09.
- To offer a one-off rebate of 75% of property tax for 2007-08, subject to a ceiling of \$25,000.

Providing for the future

- To earmark \$8.5 billion to provide people earning not more than \$10,000 a month with a one-off injection of \$6,000 into their Mandatory Provident Fund accounts.
- To earmark \$50 billion from the fiscal reserves to promote healthcare reform.