

2018/19 HONG KONG BUDGET HIGHLIGHTS



The Financial Secretary, Mr Paul Chan Mo-po, delivered his second Budget speech on 28 February 2018. As generally expected, the Government will have a large estimated surplus of \$138 billion in 2017/18. We are happy to see Mr Chan's proposal to share with the community about 40% of this surplus and to use the remaining 60% for improving government services and investment in the future.

The commitment of \$300 billion to support the second 10-year hospital development and the \$6 billion increase in recurrent funding to the Hospital Authority demonstrate the Government's undertaking to invest in public healthcare. The Government has also pledged to increase recurrent expenditure on education by \$5 billion. The Budget also proposed measures to stimulate development in selected industries, particularly innovation and technology and bond market in Hong Kong. It appears that, however, Mr Chan has followed the footsteps of his predecessors in focusing on short-term relief measures in other areas and handing out small-scale "sweeteners" to individual taxpayers.

HIGHLIGHTS

- ▶ Reduce profits tax, salaries tax and tax under personal assessment for 2017/18 by 75%, capped at \$30,000
- ▶ Launch Pilot Bond Grant Scheme and extend tax exemption scope for qualifying debt instruments
- ▶ Enhance existing offshore fund tax regime and examine feasibility of introducing an onshore fund regime
- ▶ Introduce tax deduction of health insurance premium
- ▶ Relax requirement for election of personal assessment for married persons
- ▶ Adjust marginal bands and marginal tax rates for salaries tax
- ▶ Increase personal allowances and introduce personal disability allowance
- ▶ Raise deduction ceiling for elderly residential care expense
- ▶ Waive rates, capped at \$2,500/quarter/rateable property
- ▶ Continue first registration tax concession for electric vehicles

Budget Highlights

Profits Tax

- One-off reduction of profits tax for the year of assessment 2017/18 by 75%, subject to a ceiling of \$30,000 per case
- Allow tax deduction to be claimed in full in 1 year instead of 5 consecutive years for capital expenditure on eligible energy efficient building installations and renewable energy devices

Industry specific

Innovation and technology

- Introduce additional tax deduction for domestic expenditure on research & development (R&D) (a 300% tax deduction for the 1st \$2 million qualifying R&D expenditure and a 200% deduction for the remainder)

Financial services industry

(i) Bond market

- Launch a 3 year Pilot Bond Grant Scheme to attract local, Mainland and overseas enterprises to issue bonds in Hong Kong for the first time. Each enterprise can apply for a grant for 2 bond issuance at most to cover ½ of the issue expenses, capped at \$2.5 million each
- Amend the qualifying debt instrument scheme to include debt securities listed on the Hong Kong Stock Exchange and extend the scope of tax exemption from debt instruments with an original maturity of not less than 7 years to instruments of any duration

(ii) Asset and wealth management

- Review existing tax concessionary treatment applicable to fund industry with regard to international requirements on tax co-operation
- Introduce open-ended fund tax exemption regime later this year
- Examine the feasibility of introducing a limited partnership regime for private equity funds and the related tax arrangements

(iii) Corporate treasury centres

- Extend the coverage of profits tax concession to specified treasury services provided by qualifying corporate treasury centres to all their onshore associated corporations

(iv) Insurance industry

- Explore tax arrangements and other regulatory requirements to enhance Hong Kong as an insurance hub

Salaries Tax/Tax under Personal Assessment

- One-off reduction of salaries tax and tax under personal assessment for the year of assessment 2017/18 by 75%, subject to a ceiling of \$30,000 per case
- Propose tax concessions for deferred annuity products meeting guidelines to be issued by the Insurance Authority and Mandatory Provident Fund voluntary contributions
- Introduce tax deduction for qualified premium for eligible health insurance products under the Voluntary Health Insurance Scheme for taxpayers or their dependents. The annual tax ceiling of deduction is \$8,000 per insured person
- Relax the requirement for personal assessment election by allowing married persons the option to elect personal assessment separately
- Expand tax bands and adjust marginal rates
- Increase child allowances and dependent parent and grandparent allowances
- Introduce personal disability allowance
- Raise the deduction ceiling for elderly residential care expenses

Others

- Waive in full the first registration tax (FRT) for electric commercial vehicles, electric motor cycles and electric motor tricycles until 31 March 2021

- Waive the FRT for electric private car of up to \$97,500 and launch a “one-for-one replacement” scheme to allow eligible private car owners who buy a new electric private car and scrape an eligible private car they own to enjoy a high FRT concession of up to \$250,00
- Cap trade declaration charge at \$200

While the Budget speech did not mention the Tax Policy Unit (TPU) set up after Mr Chan's maiden Budget speech last year, we look forward to the Government's update on the progress of the TPU's work in respect of long term measures to address Hong Kong's narrow tax base. We hope to see concrete proposals with details and specific implementation timelines soon.

Our Comments

In 2017/18, profits tax, salaries tax, stamp duties and land premium account for about 74% of total government revenue. Mr Chan recognises that our tax base is narrow and not rooted in recurrent revenue. While Mr Chan vows to be proactive, innovative and bold in investing for the future of Hong Kong, the Budget speech would have been more encouraging had it proposed more creative and tangible approaches to incentivise different businesses in Hong Kong and more sustainable measures to broaden the Government's source of revenue.

Although the proposed two-tiered profits tax rates regime, once enacted, will no doubt lower tax burden of enterprises, in particular small and medium ones, the attractiveness of our once low tax regime will continue to diminish in the wake of global trends of reducing income tax rates. Further reduction in tax rates and enhancement in tax certainty by reducing the general statute of limitation from 6 to 4 years, as proposed in our budget submission letter dated 14 February 2018 (see [link](#) for details of our suggestions), will help foster Hong Kong's international competitiveness.

BDO'S SUPPORT AND ASSISTANCE

25th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong
Tel: +852 2218 8288
Fax: +852 2815 2239
info@bdo.com.hk

AGNES CHEUNG
Director & Head of Tax
Tel: +852 2218 3232
agnescheung@bdo.com.hk

CAROL LAM
Director
Tel: +852 2218 8296
carollam@bdo.com.hk

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Profits Tax Rates	2017/18	2018/19
Tax rate		
Corporations	16.5%	16.5%*
Unincorporated businesses	15%	15%*

* First \$2,000,000 assessable profits of eligible taxpayers chargeable at half of the tax rate (subject to approval by the Legislative Council)

Salaries Tax Rates, Deductions and Allowances	2017/18	2018/19
Standard tax rate	15%	No change
Progressive tax rates	First \$45,000 – 2%	First \$50,000 – 2%
	Next \$45,000 – 7%	Next \$50,000 – 6%
	Next \$45,000 – 12%	Next \$50,000 – 10%
	Remainder – 17%	Next \$50,000 – 14%
		Remainder – 17%
Personal allowances**		
Basic	\$132,000	No change
Married	\$264,000	No change
Single parent	\$132,000	No change
Disabled	-	\$75,000
1st to 9th child (year of birth)	\$200,000 each	\$240,000 each
1st to 9th child (other years)	\$100,000 each	\$120,000 each
Dependent parent / grandparent		
Aged 55 to 59 - Basic	\$23,000	\$25,000
- Additional, living with the taxpayer	\$23,000	\$25,000
Aged 60 or above - Basic	\$46,000	\$50,000
- Additional, living with the taxpayer	\$46,000	\$50,000
Disabled dependent	\$75,000	No change
Dependent brother / sister	\$37,500	No change
Deductions		
Approved charitable donations	Up to 35% of assessable income	No change
Self-education expenses	Up to \$100,000	No change
Home loan interest (up to 20 years)	Up to \$100,000	No change
Elderly residential care expenses	Up to \$92,000	Up to \$100,000
Contributions to recognised retirement schemes	Up to \$18,000	No change

** Personal allowances are only applicable to progressive tax rates calculation.

One-off measures	2017/18	2018/19
Types of tax	Salaries tax, tax under personal assessment and profits tax	Salaries tax, tax under personal assessment and profits tax
Tax reduction	75% of tax for 2016/17, capped at \$20,000	75% of tax for 2017/18, capped at \$30,000

Property Tax	2017/18	2018/19
Tax rate	15%	No change

Business Registration Fees	2017/18	2018/19
Fee		
Main business (1 year certificate)	\$2,000	No change
Branch business (1 year certificate)	\$73	No change
Levy		
Main business (1 year certificate)	\$250	No change
Branch business (1 year certificate)	\$250	No change

Rates	2017/18	2018/19
Percentage charge	5% on rateable value	No change
One-off waiver		
Number of quarters	4 quarters	4 quarters
Ceiling	\$1,000/quarter/rateable property	\$2,500/quarter/rateable property

The information contained in this publication is based on the Budget proposal announced by the Financial Secretary on Wednesday, 28 February 2018. The Budget proposal will be subject to review and modification by the Legislative Council prior to the enactment of the legislation.