

2019/20 HONG KONG BUDGET HIGHLIGHTS



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- ▶ Reduce profits tax, salaries tax and tax under personal assessment for 2018/19 by 75%, capped at \$20,000
- ▶ Waive rates, capped at \$1,500/quarter/rateable property
- ▶ Waive business registration fees for 2019/20
- ▶ No change in tax rates
- ▶ No change in personal allowances for salaries tax
- ▶ Continue first registration tax concession for electric vehicles
- ▶ Consider introducing tax and other measures to attract ship finance companies to develop ship leasing businesses
- ▶ Provide 50% profits tax concession to eligible insurance businesses including the marine industry
- ▶ Target to bring total number of Comprehensive Avoidance of Double Taxation Agreements from 40 to 50 in the next few years
- ▶ Consider establishing a limited partnership regime and introducing tax arrangement for private equity funds

The Financial Secretary, Mr Paul Chan Mo-po, delivered his third Budget Speech on 27 February 2019. Due to unfavourable economic conditions in the second half of 2018 and lower-than-expected revenues from land premium and stamp duties, the Government expects to record estimated surplus of \$58.7 billion in 2018/19 (after reclassification of the Housing Reserve as investment income). Despite the decrease in surplus, Mr Chan commits to spend majority of the surplus to support enterprises, safeguard jobs, stabilise the economy and strengthen livelihoods. Meanwhile, the Government's plan to spend \$20 billion to purchase 60 properties for housing welfare facilities amidst a rather uncertain economic outlook for the next year or so is interesting.

Mr Chan continues to offer tax reduction, property rates and business registration fee waivers that are only short-term relief measures. Other than these, the Budget appears to contain limited forward-looking fiscal policies but statement of measures carried forward from prior years.

Budget highlights

One-off measures

- One-off reduction of profits tax for the year of assessment 2018/19 by 75%, subject to a ceiling of \$20,000 per case
- One-off reduction of salaries tax and tax under personal assessment for the year of assessment 2018/19 by 75%, subject to a ceiling of \$20,000 per case
- Waive business registration fees for 2019/20
- Waive rates for four quarters of 2019/20, subject to a ceiling of \$1,500 per quarter for each rateable property

Others

- Provide tax concessions for marine insurance and underwriting of specialty risks, and facilitate them to issue insurance-linked securities
- Target to bring total number of Comprehensive Avoidance of Double Taxation Agreements from 40 to 50 in the next few years to enhance business environment and attract investment into Hong Kong
- Continue to study potential tax incentives and other measures to attract ship finance companies and limited partnership funds to establish their presence in Hong Kong

Our comments

We are rather disappointed that the Budget did not take our suggestion of offering tax deduction for rental payments on par with interest deduction on mortgages or our suggestion of increasing personal allowance in line with inflation.

We note the transfer of the Tax Policy Unit (TPU) from under the Financial Services and the Treasury Bureau to under the Financial Secretary's Office. We look forward to progress report of the TPU which hopefully will conduct a much-needed holistic review of Hong Kong's tax system as it originally vowed to do.

Mr Chan touched upon certain existing or potential tax incentives including the investment fund exemption, corporate treasury centre (CTC) regime, potential limited partnership for private equity funds, potential marine insurance and international ship leasing concessionary tax regimes. These are continued projects from prior years. One may have expected more substance or defined timetable though. We also wish to highlight that the role of regional headquarters (HQs) could be much wider than acting as CTCs. Hence, we encourage the Government to expand the current CTC tax incentive to cover regional HQs in Hong Kong.

Again while Mr Chan vowed 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.

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Profits Tax Rates	2018/19	2019/20
Tax rate		
Corporations	16.5%*	No change
Unincorporated businesses	15%*	No change

* First \$2,000,000 assessable profits of eligible taxpayers chargeable at half of the tax rate

Salaries Tax Rates, Deductions and Allowances	2018/19	2019/20
Standard tax rate	15%	No change
Progressive tax rates	First \$50,000 – 2%	
	Next \$50,000 – 6%	
	Next \$50,000 – 10%	
	Next \$50,000 – 14%	
	Remainder – 17%	
Personal allowances**		
Basic	\$132,000	
Married	\$264,000	
Single parent	\$132,000	
Disabled	\$75,000	
1st to 9th child (year of birth)	\$240,000 each	
1st to 9th child (other years)	\$120,000 each	
Dependent parent / grandparent		
Aged 55 to 59 - Basic	\$25,000	
- Additional, living with the taxpayer	\$25,000	
Aged 60 or above - Basic	\$50,000	
- Additional, living with the taxpayer	\$50,000	
Disabled dependent	\$75,000	
Dependent brother / sister	\$37,500	
Deductions		
Approved charitable donations	Up to 35% of assessable income	
Self-education expenses	Up to \$100,000	
Home loan interest (up to 20 years)	Up to \$100,000	
Elderly residential care expenses	Up to \$100,000	
Contributions to recognised retirement schemes	Up to \$18,000	
Qualifying Voluntary Health Insurance Scheme policy premiums	\$0	Up to \$8,000 per insured person
Annuity premiums and MPF voluntary contributions	\$0	Up to \$60,000***

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

*** Subject to enactment of the legislation

One-off measures	2018/19	2019/20
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 2017/18, capped at \$30,000	75% of tax for 2018/19, capped at \$20,000

Property Tax	2018/19	2019/20
Tax rate	15%	No change

Business Registration Fees	2018/19	2019/20
Fee		
Main business (1 year certificate)	\$2,000	Waived
Branch business (1 year certificate)	\$73	Waived
Levy		
Main business (1 year certificate)	\$250	No change
Branch business (1 year certificate)	\$250	No change

Rates	2018/19	2019/20
Percentage charge	5% on rateable value	No change
One-off waiver		
Number of quarters	Four quarters	Four quarters
Ceiling	\$2,500/quarter/rateable property	\$1,500/quarter/rateable property

The information contained in this publication is based on the Budget proposal announced by the Financial Secretary on Wednesday, 27 February 2019. The Budget proposal will be subject to review and modification by the Legislative Council prior to the enactment of the legislation.