

2023/24 HONG KONG BUDGET HIGHLIGHTS



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- ▶ Issue \$5,000 electronic consumption vouchers to each eligible Hong Kong permanent resident and new arrival aged 18 or above
- ▶ Reduce profits tax, salaries tax and tax under personal assessment for 2022/23 by 100%, capped at \$6,000
- ▶ Increase basic child allowance and additional child allowance from \$120,000 to \$130,000
- ▶ Provide rates concession for non-domestic and domestic properties for 2023/24, capped at \$1,000 per quarter in the first two quarters
- ▶ Adjust value bands of the ad valorem stamp duty payable for the sale and purchase or transfer of residential and non-residential properties
- ▶ Grant a subsidy of \$1,000 to each eligible residential electricity account
- ▶ Increase duty on cigarettes by 60 cents per stick, and duty on other tobacco products by the same proportion with immediate effect
- ▶ Introduce a 'patent box' tax incentive for qualifying patents generated through R&D activities

The Financial Secretary, Mr Paul Chan, delivered the 2023/24 Budget Speech on 22 February 2023. The forecasted deficit of about \$139.8 billion for 2022/23 is higher than the original estimate of about \$56 billion. Fiscal reserves will fall to about \$817.3 billion by 31 March 2023.

The 2022/23 revised estimate on government revenue is \$112.1 billion lower than the original estimate mainly because revenues from land premium and stamp duty are lower than their previous estimates.

The revised estimate of total government expenditure for 2022/23 at \$809.6 billion increased significantly by 16.8% compared to the previous year, due to expenditure on counter-cyclical measures and anti-epidemic work.

Estimated deficit for 2023/24 is \$54.4 billion. Fiscal reserves will also decrease to \$762.9 billion, equivalent to 12 months of government expenditure.

Highlights of key measures as well as our comments on tax policy are summarised as follows:

Support enterprises and the general public

- Reduce profits tax, salaries tax and tax under personal assessment for the year of assessment 2022/23 by 100%, subject to a ceiling of \$6,000.
- Provide rates concession for domestic and non-domestic properties for the first two quarters of 2023/24, subject to a ceiling of \$1,000 per quarter for each rateable property.
- Increase tax deduction for the Mandatory Provident Fund voluntary contributions made by employers for their employees aged 65 or above, from the current 100% to 200% in respect of such expenditure.
- Increase the basic child allowance and the additional child allowance for each child born during the year of assessment from \$120,000 to \$130,000 starting from the year of assessment 2023/24.
- Adjust computation of stamp duty to ease the burden on ordinary families of purchasing their first residential properties, particularly small and medium residential units. For example, a property worth of \$8 million may save \$60,000 in stamp duty.

Attract investments and promote high quality growth

- Conduct consultation and submit legislative proposals in 2023/24 to introduce a mechanism to facilitate companies domiciled overseas, particularly enterprises with a business focus in the Asia Pacific region, for re-domiciliation to Hong Kong, so that these companies may utilise our favourable business environment and professional services.
- Introduced legislative amendments into the Legislative Council (LegCo) in December 2022 to provide profits tax exemption for qualifying transactions of family owned investment holding vehicles managed by single family offices in Hong Kong. Upon passage of the proposal, the tax concession arrangements will be applicable to any years of assessment on or after 1 April 2022.
- Enhance the listing rules in order to strike a balance between market development and regulatory needs, including relevant arrangement concerning share buy-backs by issuers.

- Work with regulators to refine the regulatory measures and tax arrangements for the asset and wealth management sector as well as to review the existing tax concession measures applicable to funds and carried interest.
- Introduce a bill into the LegCo in the fourth quarter of 2023 to enhance the aircraft leasing preferential tax regime, striving to establish Hong Kong as an aircraft leasing and services hub.
- Introduce a 'patent box' tax incentive to encourage the information and technology sector to create more patented inventions.

Tax policy and other measure to increase revenue

- Keep profits tax and salaries tax rates unchanged.
- Impose an annual special football betting duty of \$2.4 billion on the Hong Kong Jockey Club for five years starting from 2023/24.
- Introduce a progressive rating system for domestic properties in 2024/25 (announced in the 2022/23 budget).
- Plan to issue no less than \$50 billion of Silver Bond and \$15 billion of retail green bonds in the next financial year, so as to facilitate market development and at the same time offer members of the public investment options with steady returns.
- Further expand the scope of the Government Green Bond Programme to cover sustainable finance projects, and set up an Infrastructure Bond Scheme to better manage the cash flow needs of major infrastructure projects.
- Plan to apply the global minimum effective tax rate on large multinational enterprise (MNE) groups and implement the domestic minimum top-up tax starting from 2025 onwards.
- Put forward an enhancement proposal in mid-March to provide clearer guidelines on whether onshore gains on disposal of equity interests are subject to tax.

BDO comments

Share buy-backs

- We encourage the Government to introduce specific stamp duty exemption for share buy-backs for cancellation to provide greater tax certainty as concerted effort with the Government's aim at looking into relevant arrangement concerning share buy-backs by issuers to further enhance the securities market in Hong Kong. At the moment, the Inland Revenue Department seems to take the view that repurchase of shares for cancellation (not being redemption) is a disposal of the shares and hence subject to stamp duty despite different technical views exist in the industry.

Tax incentive for family and asset management offices

- One important and necessary step alongside the Government's efforts in promoting Hong Kong as a wealth management centre is to expand the scope of covered profits and the list of qualifying assets in the context of Hong Kong's tax exemption for funds and family investment holding vehicles and carried interest concession.
- One weakness in the current scope of exempt profits is the treatment of dividends and interest income as so-called incidental income which can only fit into the tax exemption if it is within a 5% limit. This has rendered Hong Kong's fund exemption regime literally inapplicable for bond funds for example.
- In addition, only profits from transactions in the list of qualifying assets, also known as Schedule 16C assets, may be tax exempt under the current concession regimes. The list only include traditional financial instruments at the moment. To move forward, this list has to expand to include more innovative investment products such as cryptocurrencies and virtual assets which are also within the Government's policy in supporting Hong Kong's role as an international financial centre.

'Patent box' tax incentive

- While further details are to be released about the 'patent box' tax incentive mentioned in the Budget Speech, any new tax incentive schemes introduced in the post-BEPS world should generally require economic substance in Hong Kong. Such economic substance should likely be tied into the R&D activities carried out or arranged to be carried out in Hong Kong.

Capital gain exemption

- To maintain Hong Kong's competitiveness as a simple tax regime, it is crucial for Hong Kong to provide clear guidelines on how capital gains can be exempt from profits tax. Hong Kong is already behind many neighbouring jurisdictions in giving tax certainty on this area. While the Financial Secretary mentioned only equity disposal gains in his Budget Speech, we believe the guidelines should cover other assets as well to be useful. This will be more in line with the upcoming refinement of the foreign sourced income exemption regime to include disposal gains other than equity disposal gains in accordance with European Union's updated guidelines.

Global minimum tax

- Hong Kong plans to apply the global minimum effective tax rate on large MNE groups (consolidated group revenue of at least €750 million) and implement the domestic minimum top-up tax starting from 2025 onwards. Estimated additional tax revenue to Hong Kong will be about \$15 billion per year. With the implementation of global/domestic minimum tax, the various tax concessions offered or plan to be offered by Hong Kong may become less relevant for MNE groups. However, the tax concessions should remain important for companies short of being large MNE groups.

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Profits tax rates	2022/23	2023/24
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	2022/23	2023/24	
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	No change	
Married	\$264,000	No change	
Single parent	\$132,000	No change	
Disabled	\$75,000	No change	
First to ninth child (year of birth)	\$240,000 each	\$260,000 each	
First to ninth child (other years)	\$120,000 each	\$130,000 each	
Dependent parent/grandparent			
Aged 55 to 59	- Basic	\$25,000	} No change
	- Additional, living with the taxpayer	\$25,000	
Aged 60 or above	- Basic	\$50,000	} No change
	- Additional, living with the taxpayer	\$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		
Home loan interest (up to 20 years)	Up to \$100,000		
Elderly residential care expenses	Up to \$100,000		
Mandatory contributions to recognised retirement schemes	Up to \$18,000		
Qualifying Voluntary Health Insurance Scheme policy premiums	Up to \$8,000 per insured person		
Qualifying annuity premiums and MPF voluntary contributions	Up to \$60,000		
Domestic rent deduction	Up to \$100,000		

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

One-off measures	2022/23	2023/24
Types of tax	Salaries tax, tax under personal assessment and profits tax	Salaries tax, tax under personal assessment and profits tax
Tax reduction	100% of tax for 2021/22, capped at \$10,000	100% of tax for 2022/23, capped at \$6,000

Property tax	2022/23	2023/24
Tax rate	15%	No change

Business registration fees	2022/23	2023/24
Fee		
Main business (one year certificate)	Waived	\$2,000
Branch business (one year certificate)	Waived	\$73
Levy		
Main business (one year certificate)	\$250 (\$150 from 17 June 2022)	\$150
Branch business (one year certificate)	\$250 (\$150 from 17 June 2022)	\$150

Rates	2022/23	2023/24
Percentage charge	5% on rateable value	No change
One-off waiver		
Number of quarters	Four quarters	Two quarters
Ceiling - non-domestic properties	\$5,000 (Q1 & Q2), \$2,000 (Q3 & Q4) per rateable property	\$1,000 (Q1 & Q2) per rateable property
- domestic properties	\$1,500 (Q1 & Q2), \$1,000 (Q3 & Q4) per rateable property	

The information contained in this publication is based on the Budget proposal announced by the Financial Secretary on 22 February 2023, which is subject to scrutiny of the Legislative Council prior to enactment of the legislation.