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Tax Newsflash
Hong Kong Tax News: Passage of 2017/18 Budget Measures / Update on Stamp Duty

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德勤百年庆 开创新纪元

Passage of 2017/18 Budget Measures

The Inland Revenue (Amendment) Bill 2017 was passed by the Legislative Council on 25 May 2017. The new Ordinance gives effect to the concessionary measures proposed in the 2017/18 Budget, including:

- one-off tax reduction for profits tax, salaries tax and tax under personal assessment by 75%, subject to a ceiling of HK$20,000 per case;
- increasing marginal tax bands to HK$45,000;
- increasing disabled dependent allowance and dependent brother/sister allowance;
- increasing the entitlement period for home loan interest deduction to 20 years; and
- increasing the deduction ceiling for self-education expense to HK$100,000.

The one-off tax reduction will be reflected in the taxpayers' final tax payable for the year of assessment 2016/17. In addition, the Inland Revenue Department will apply the enhanced marginal tax bands, allowances, entitlement period and deduction ceiling when calculating the provisional tax for the year of assessment 2017/18.

Bill for tightened Stamp Duty exemption gazetted

With the intention to cool down the overheated property market, the Government introduced various stamp duty measures over the last few years. In particular, the ad valorem stamp duty (AVD) for residential property was proposed to be increased to a new flat rate of 15% with effect from 5 November 2016, subject to the passage of Stamp Duty (Amendment) Bill 2017. In order not to affect the first-time home buyers, a Hong Kong Permanent Resident (HKPR) buyer who is acting on his / her own behalf and does not own any other residential property in Hong Kong at the time of acquisition could be exempted from this new flat rate. Instead, such transaction would be subject to the old AVD rate, ranging from HK$100 to 4.25%. The exemption would also apply to buying multiple properties simultaneously under one sale and purchase agreement according to the existing regime. However, some people have taken advantage of this rule to purchase more than one residential flats simultaneously under one agreement so as to avoid paying the huge new AVD. They might not be the end-users of all these residential properties, but investors.

In order to fix this loophole, the Government proposed to tighten the exemption arrangement with effect from 12 April 2017. The relevant Stamp Duty (Amendment) (No.2) Bill 2017 was gazetted on 26 May 2017. Under the tightened exemption arrangement, if more than one residential property is acquired under a single instrument, even if the buyer is a HKPR who acts on his / her own behalf and does not own any other residential property in Hong Kong at the time of acquisition, the transaction will no longer be exempted and will be subject to AVD at the new flat rate of 15%. The Bill sets out some examples which will be regarded as a single residential property, including:

- a unit and a roof situated immediately above the unit;
- a unit and an adjacent garden; and
- a unit that became a single unit following the demolition of the walls separating two adjoining units.

Please note that both the proposed new AVD flat rate of 15% and the tightened exemption arrangement are subject to the enactment of the relevant legislation with retrospective effect.

If you have any questions please contact:

Ryan Chang	**Doris Chik**
Tax Partner	Tax Senior Manager
+852 2852 6768	+852 2852 6608
ryanchang@deloitte.com	dchik@deloitte.com.hk