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Hong Kong Tax Newsflash:
Tax measures introduced to relieve individual tax burden and provide tax incentives for environmental protection and bond market

The Inland Revenue (Amendment) (No. 5) Bill 2018 is introduced to the Legislative Council today. The Bill seeks to implement the following three measures:

1. provide the option for married persons to elect for personal assessment (PA) separately;

2. accelerate tax deduction for capital expenditure incurred for environmental protection installations; and

3. extend the scope of tax exemption for qualifying debt instruments (QDI).

Election for PA by married persons separately

PA is a relief for individual taxpayers who are subject to profits tax and / or property tax, with or without salaries income. Currently, a married person can make an election for PA only when the spouse also does so. However, the tax burden of a couple may generally be further reduced if each of them is assessed to tax separately. The Bill relaxes the current restriction by allowing married persons the option to elect PA separately, thus granting additional tax relief to them. This proposed measure aims to commence from the year of assessment 2018/19.

Accelerated tax deduction for environmental protection installations

Currently, enterprises may claim tax deduction for the capital expenditure incurred in procuring eligible energy efficient (EE) building and renewable energy (RE) installations over five years under Section 16I of the Inland Revenue Ordinance

(IRO). To encourage the use of environmental protection installations by the business sector, the Bill proposes to shorten the depreciation period for installations covering EE and RE from five years to one year. In other words, the qualifying capital expenditure will be 100% deductible from chargeable profits in the year in which the expenditure is incurred. This will be in line with the tax deduction for environmental protection machinery / plant. A list of qualifying installations, including twelve types of RE installation and EE building installation, is set out in Schedule 17 to the IRO. This measure will apply to the year of assessment 2018/19 and onwards.

Extension of tax exemption for QDI

Under the current QDI tax concession scheme, interest or profits from medium or short term debt instruments (with original maturity of less than 7 years) could enjoy profits tax concession of 50% (Section 14A of the IRO) while long term debt instruments (with original maturity of not less than 7 years) could enjoy concession of 100% (Section 26A of the IRO). To incentivize the use of Hong Kong as a platform for bond investing and trading, the Bill proposes to extend the 100% profits tax exemption by covering debt instruments of any original maturity. In addition, the Bill also allows debt instruments listed on the Stock Exchange of Hong Kong Limited to be qualified for tax exemption. This measure will apply to QDIs issued on or after 1 April 2018.

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