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Hong Kong Tax Analysis

2023-24 Hong Kong Budget

A sustainable, balanced budget to embark on a new journey for Hong Kong's post-pandemic economy

The Financial Secretary of the Hong Kong Special Administrative Region (HKSAR), Paul Chan Mo-po, delivered the 2023-24 Budget speech today. This is the first budget he has prepared for the current-term government led by John Lee Ka-chiu, HKSAR Chief Executive.

For the 2022-23 financial year (FY2022-23), the Financial Secretary announced the second-highest fiscal deficit in Hong Kong's history of HKD139.8 billion, behind only the HKD232.5 billion deficit in FY2020-21. The deficit for FY2022-23, down from a surplus of HKD29.4 billion for FY2021-22, is mainly due to softer stock and property markets, reduced revenue from tax and land premiums, and increased expenditure on anti-epidemic efforts and relief measures. This will lead to a sharp drop in fiscal reserves to HKD817.3 billion as of 31 March 2023.

Given Hong Kong's post-pandemic economic recovery remains nascent, the Government tightened relief measures from previous years' levels to balance the need to sustain the public finances and support economic recovery. The Budget also prepares for a speedy recovery, high quality development, alignment with National Development Strategies, and governing for the people.

This article analyzes the tax-related proposals in the Budget. For a summary of the Budget measures, please see our *Hong Kong Tax Newsflash – Hong Kong 2023-24 Budget Highlights*.

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Key tax-related measures

Individuals

Electronic consumption voucher

To stimulate local consumption and accelerate economic recovery, the Government proposed issuing electronic consumption vouchers of HKD5,000 in two instalments to each eligible Hong Kong permanent resident and new arrival aged 18 or above. The electronic consumption voucher scheme of HKD5,000 was first introduced in 2021 and the value was increased to HKD10,000 in 2022. The Government will continue to issue electronic consumption vouchers this year but has reduced the value back to HKD5,000. This is appropriate given Hong Kong's large deficit and public expectations. It can encourage spending at local businesses and promote the recovery of Hong Kong's economy and livelihoods.

One-off relief measures

As it did for 2021/22, the Budget provided a 100% reduction in salaries tax and tax under personal assessment for 2022/23, but subject to a ceiling of HKD6,000, lower than last year's. The reduction will be reflected in the final tax payable for the year of assessment 2022/23.

Child allowance

The Budget proposed to increase the basic child allowance and the additional child allowance for each child born during the year of assessment from HKD120,000 to HKD130,000 starting from the year of assessment 2023/24. This will bring much joy to parents and soon-to-be parents.

Stamp duty on sale and purchase of properties

The Budget proposes to adjust the value bands of ad valorem stamp duty on the sale, purchase, or transfer of residential and non-residential properties (Rates at Scale 2) with immediate effect. Rates at Scale 2 apply to Hong Kong permanent residents owning no other residential properties in Hong Kong at the time of acquisition (e.g., first-time buyers). This is great news for those who plan to purchase their first homes.

The Financial Secretary reiterated that the other current demand-side management measures (commonly known as “harsh measures”) for residential properties (e.g., Special Stamp Duty and Buyer's Stamp Duty) will remain unchanged.

Please refer to the appendix for the existing and new ad valorem stamp duty (Rates at Scale 2).

Tobacco duty

To safeguard public health, the Government proposed to increase the duty on cigarettes by 60 cents per stick with immediate effect. The increase in duty will increase the incentive of smokers to reduce or quit smoking.

Capital Investment Entrant Scheme

Echoing the Government's plan to attract new talent as set out in the 2022 Policy Address, the Budget proposed to introduce a new Capital Investment Entrant Scheme. Applicants must make investment of a certain amount in local assets, excluding property. Upon approval, they can reside and pursue development in Hong Kong. This is in line with the Government's initiative to attract investment and talent. We look forward to the Government announcing details of the scheme.

Businesses

Tax relief for businesses

The Budget reduced profits tax for 2022/23 by 100%, subject to a ceiling of HKD6,000, to ease the burden of profits tax payers. The reduction will be reflected in the final tax payable for the year of assessment 2022/23. Deloitte welcomes this measure to relieve the financial burden on businesses.

Tax deduction for the telecommunications sector

The Budget proposed to allow tax deduction for the spectrum utilization fees to be paid by the future successful bidders for radio spectrum. Currently, the Inland Revenue Department is of the view that upfront lump-sum spectrum utilization fees are non-tax deductible as they are capital in nature. This creates concern in the telecommunications sector, as such payments are regulatory payments that are required to enter the telecommunications business. We are happy that our suggestion to provide a tax deduction for spectrum utilization fees has been heard and believe this will improve the business environment for the telecommunications sector.

"Patent box" tax incentive

To encourage more enterprises to conduct research and development (R&D) in Hong Kong, the Budget proposed to introduce a "patent box" tax incentive to provide tax concessions for profits sourced in Hong Kong from qualifying patents generated through R&D. A consultation on the "patent box" tax arrangements will be launched this year, with a view to formulating a competitive concessionary tax rate applicable to Hong Kong. The Government aims to submit the legislative amendments to the Legislative Council in the first half of 2024.

Patent boxes are commonly used in European countries (e.g., the UK, France, the Netherlands) to incentivize R&D activities by taxing revenue from patents at a reduced rate. We welcome the introduction of the "patent box" tax incentive as it can attract more R&D to Hong Kong and assist in evolving Hong Kong into a regional intellectual property hub.

Aircraft leasing preferential tax regime

The *Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area* advocates the development of high-value added aircraft leasing and aviation financing services. The Government is planning to introduce measures to enhance the aircraft leasing preferential tax regime with a view to maintaining and improving its competitiveness. A public consultation on the proposals was launched in November 2022. The Government will review and analyze responses in considering the proposed enhancements. It aims to introduce the relevant bill into the Legislative Council in the fourth quarter of this year.

As an international financial, shipping, and trading center, it is important that Hong Kong keep up with market changes and maintain its distinctive status and edge in the global aircraft leasing industry. We are pleased to see the Government take steps to enhance the preferential tax regime for aircraft leasing businesses and look forward to a more detailed proposal.

Tax incentive for the asset and wealth management sector

A tax concession for family-owned investment holding vehicles was introduced to the Legislative Council in December 2022 and is expected to be passed this year. The Budget contained no new tax proposals in relation to the asset management sector, but the Financial Secretary said the Government will review existing tax concessions applicable to funds and carried interest to further strengthen Hong Kong's status as Asia's asset and wealth management hub. We appreciate the Government's continuous efforts to support the asset management sector.

Implementation of the global minimum tax regime

In the Budget, the Financial Secretary said Hong Kong will implement the global minimum effective tax rate (GMT) on large multinational enterprise (MNE) groups and domestic minimum top-up tax (DMTT) starting from 2025. A consultation exercise will be launched to allow MNE groups to make early preparations.

The timeline is in line with some other jurisdictions. For example, Korea, Malaysia, and Switzerland will implement the GMT from 2024, with Malaysia also implementing DMTT, and Singapore intends to implement both regimes from 2025.

We are glad the Government provided a clear timeline on this important international tax regime so that taxpayers can prepare earlier. We look forward to the Government providing more details on the implementation of the GMT and DMTT.

Onshore gains on disposals of equity interests

The Government will launch a consultation on enhancing the tax certainty around onshore gains on disposals of equity interests in mid-March 2023. Onshore capital gains are not currently taxable in Hong Kong, and whether a gain is taxable revenue or non-taxable capital is determined based on well-established principles, i.e., the six badges of trade (including subject matter, length of ownership, frequency of transaction, and motive), and there is no clear indicator. This can cause uncertainty.

We therefore welcome the Government's consultation on the proposal to provide clearer guidance (e.g., safe harbors) to determine whether a disposal gain is capital in nature. This would provide greater tax certainty and facilitate business expansion and restructuring through disposal of equity interests.

Re-domiciliation mechanism

The Budget proposed to introduce a mechanism to facilitate companies domiciled overseas, particularly enterprises with a business focus in the Asia Pacific region, to re-domicile to Hong Kong. The government will conduct a consultation and submit legislative proposals in 2023-24.

Given recent international tax trends, e.g., the GMT, multinational groups might be prompted to re-domicile their companies in tax-free or low-tax jurisdictions elsewhere. The introduction of a re-domiciliation mechanism will promote Hong Kong as a preferred base for multinationals. To further enhance its effectiveness, we suggest the mechanism provide certainty to those companies as Hong Kong tax residents so they can leverage the Hong Kong tax treaty network.

Tax deduction for Mandatory Provident Fund (MPF) contributions for elderly employees

Given the shrinking workforce in Hong Kong, the Budget proposed to increase the tax deduction for MPF voluntary contributions made by employers for their employees aged 65 or above, from the current 100% to 200% in respect of such expenditure. This could encourage employers to continue to hire mature employees while helping the silver-haired increase their retirement savings.

Special football betting duty

With a view to increasing government revenue in the short-term, the Budget proposed to impose an annual special football betting duty of HKD2.4 billion on the Hong Kong Jockey Club for five years starting from 2023-24. Current betting duty rates will not change. The soccer tax seeks to meet short-term cash needs while minimizing the financial burden on the public.

Concluding remarks

Against the second-highest fiscal deficit ever recorded, the 2023-24 Budget adopts a balanced approach that seeks to maintain financial sustainability and pave the way for the post-pandemic economic recovery. Following the relaxation of anti-epidemic measures and the resumption of international travel, Hong Kong's economic activity is returning to normal. There are still many challenges and uncertainties ahead, but Hong Kong will emerge from the adversities of the pandemic and its economy will go from strength to strength. We look forward to the Government embarking on a new path of post-pandemic economy that leads Hong Kong to a bright future.

Appendix - Ad valorem stamp duty

Existing		Proposed	
Amount or value of consideration (whichever is the higher)	Rates at Scale 2	Amount or value of consideration (whichever is the higher)	Rates at Scale 2
Up to HKD2,000,000	HKD100	Up to HKD3,000,000	HKD100
HKD2,000,001 to HKD2,351,760	HKD100 + 10% of excess over HKD2,000,000	HKD3,000,001 to HKD3,528,240	HKD100 + 10% of excess over HKD3,000,000
HKD2,351,761 to HKD3,000,000	1.5%	HKD3,528,241 to HKD4,500,000	1.5%
HKD3,000,001 to HKD3,290,320	HKD45,000 + 10% of excess over HKD3,000,000	HKD4,500,001 to HKD4,935,480	HKD67,500 + 10% of excess over HKD4,500,000
HKD3,290,321 to HKD4,000,000	2.25%	HKD4,935,481 to HKD6,000,000	2.25%
HKD4,000,001 to HKD4,428,570	HKD90,000 + 10% of excess over HKD4,000,000	HKD6,000,001 to HKD6,642,860	HKD135,000 + 10% of excess over HKD6,000,000
HKD4,428,571 to HKD6,000,000	3%	HKD6,642,861 to HKD9,000,000	3%
HKD6,000,001 to HKD6,720,000	HKD180,000 + 10% of excess over HKD6,000,000	HKD9,000,001 to HKD10,080,000	HKD270,000 + 10% of excess over HKD9,000,000
HKD6,720,001 to HKD20,000,000	3.75%	HKD10,080,001 to HKD20,000,000	3.75%
HKD20,000,001 to HKD21,739,120	HKD750,000 + 10% of excess over HKD20,000,000	HKD20,000,001 to HKD21,739,120	HKD750,000 + 10% of excess over HKD20,000,000
HKD21,739,121 and above	4.25%	HKD21,739,121 and above	4.25%

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