Tax
Issue H50/2013 – 27 February 2013

Tax Analysis

Hong Kong Tax

Hong Kong Budget Team:

Hong Kong SAR
Yvonne Law
Tax Managing Partner
Eminence & Business Development
Tel: +852 2852 1667
Email: yvolaw@deloitte.com.hk

Mona Mak
Tax Partner
Tel: +852 2852 1051
Email: monmak@deloitte.com.hk

Davy Yun
Tax Partner
Tel: +852 2852 6538
Email: dyun@deloitte.com.hk

2013/14 Budget Analysis
Compassionate, pragmatic and cautious with clear positioning of Hong Kong

The Financial Secretary for the Hong Kong Special Administrative Region (HKSAR), Mr. John Tsang Chun-wah, delivered the 2013/14 budget on 27 February 2013. This is the sixth budget prepared by John Tsang, but the first budget of the new government led by Chief Executive C.Y. Leung.

This budget is designed to put Hong Kong in a position to develop certain industries, such as trading and logistics, tourism, financial services, etc. Concrete measures are proposed to support and promote these industries; for example, resources will be dedicated to building facilities and infrastructure to enhance the logistic industries; and tax incentives for funds, asset-management and the insurance business will be introduced.

Given the better-than-expected revenue surplus of nearly HKD 65 billion, the public had been hoping for "sweeteners" from the budget. Rather than capitulating to public pressure, however, the government has taken a firm and cautious approach and has refrained from any unnecessary overspending. Instead, the budget will use the surplus funds in the areas of education, infrastructure, social wealth and healthcare and to develop the economy. The major group that could benefit from the one-off relief measures is low-income earners.

This analysis highlights the key proposals in the 2013/14 budget, which covers four key areas: developing the economy, optimizing human resources, investing in infrastructure and caring for people's livelihood. An appendix summarizing the proposed tax changes also is provided.

Businesses

Specific industry positioning

Deloitte applauds the government’s actions in proposing pragmatic measures to better position Hong Kong to develop specific industries. It is suggested that further effort should be devoted to promoting Hong Kong both externally and internally with a view to improving Hong Kong’s reputation and positioning with regard to the industries concerned. We would also recommend that the government should introduce more tax incentives targeting these specified industries to consolidate Hong Kong’s competitive edge as the financial, investment and commercial hub for the Asia Pacific region. Examples of such incentives could include reduced tax rates for regional headquarters in Hong Kong; and a relaxation of the stringent rules for interest expense deductions to encourage international enterprises to use Hong Kong as the financial hub for the group.

Extending the offshore fund exemption

The offshore fund profits tax exemption currently does not apply to offshore funds investing in private companies. This discourages private equity funds, which mainly invest in private companies, from selecting Hong Kong as the preferred location to set up funds. We are pleased to see the government proposing to extend the offshore fund exemption regime to include transactions in private companies that are incorporated or registered outside Hong Kong and that do not hold any Hong Kong property or carry out any business in Hong Kong.

Hong Kong faces stiff competition in attracting fund management business. It is encouraging to see that the government has taken on board Deloitte's recommendations to extend the profits tax exemption for offshore funds to include transactions in private companies, which would drive the demand for professional services, such as fund management, investment advice, and legal and accounting services, thus creating more job opportunities.

Furthermore, to promote Hong Kong as Asia's pre-eminent international financial hub, we recommend that the government introduce an onshore fund regime that provides an exemption for funds that are centrally managed and controlled in Hong Kong and that satisfy certain conditions.

Tax incentives for captive insurance companies

An increasing number of large enterprises in Asia wish to operate their own captive insurance companies to insure against their business risks. The Hong Kong government is proposing tax incentives for the offshore insurance business of captive insurance companies, which would enjoy the same tax concessions as those currently applicable to reinsurance companies (i.e. a 50% reduction in the profits tax rate for the reinsurance of offshore risks), to encourage more enterprises to form captive insurance companies. Deloitte welcomes the tax incentive, which will support the development of captive insurance companies in Hong Kong.

Issuing iBonds

Given the uncertainty of global financial markets, there is a growing demand from the public for low-risk investment products offering a steady return. To respond to the public's increasing interest in retail bonds, the government will continue to team up with the Hong Kong Monetary Authority to issue "iBonds" in the coming year. Deloitte supports the issuance of the iBond to foster the development of the bond market, especially the market for retail bonds.

One-time relief measures for businesses

A 75% profits tax rebate, capped at HKD 10,000, is proposed for the final tax payable for year of assessment 2012/13. It is also proposed to waive business registration fees for 2013/14.

Enhancing Hong Kong's competitiveness

Hong Kong's profits tax rate has remained unchanged for a number of years, and the 2013/2014 budget does not propose any reduction. Against the backdrop of a volatile global economic environment, lowering the profits tax rate would alleviate the tax burden on enterprises and enhance Hong Kong's competitiveness in relation to its neighbors, such as Taiwan and Singapore, in terms of attracting foreign investment. Although Singapore's rate of 17% is slightly higher than that of Hong Kong, the effective corporate income tax rate for small and medium enterprises in Singapore may be lower due to the tax incentives offered. Considering the government's current substantial fiscal reserves, it is believed that the government could afford to lower the corporate tax rate from 16.5% to 16% to attract investors. Despite a short-term reduction in revenue from a lowering of the rate, this ultimately would improve Hong Kong's competitiveness and attract more overseas investment, thus increasing profits tax revenue in the long term.

Combating tax evasion and avoidance

The budget indicates that the government will adopt a strict approach to combat tax avoidance and evasion by making effective use of information technology, reinforcing staff training and adjusting investigation strategies. Deloitte welcomes the government's approach to safeguarding its revenue, while maintaining the existing low and simple tax regime.

Individuals

Tax rebate and allowances

As in the 2012/2013 budget, the Financial Secretary has proposed a number of tax relief measures to ease the financial pressure on the low income group and the middle class due to inflation.

The budget proposes a salaries tax and tax under personal assessment rebate of 75% (up to HKD 10,000) for final tax payable for year of assessment 2012/13, as well as an increase in child allowances and the ceiling for self-education expense deductions.

Deloitte is delighted that the government has adopted our suggestions on self-education expense deductions. While Deloitte welcomes the significant increase in child allowances, the public may be somewhat disappointed that there are no increases or adjustments to other allowances to account for inflation.

Other one-time relief measures

To ensure that the needs of the disadvantaged and low income earners are addressed, a wide range of one-off inducements are proposed, including:

- Extending the rates waiver for 2013/14, subject to a cap of HKD 1,500 per quarter for each rateable property;
- Providing electricity subsidies in the amount of HKD 1,800 to each residential electricity account in the coming fiscal year;
- Paying two months base rent for public housing tenants and two-thirds of the rent for two months for non-elderly tenants of the Hong Kong Housing Society's Group B estates;
- Providing an extra allowance to Comprehensive Social Security Assistance recipients, Old Age Allowance, Old Age Living Allowance and Disability Allowance recipients that equals one month of the standard rate payments and allowances; and
- Injecting around HKD 15 billion to the Community Care Fund to support policies that assist low income individuals.

The relief measures that focus on helping the disadvantaged and low-income earners and the tax rebate are welcomed, although the capped amount of the tax rebate and one-time relief measures are less than that offered in the 2012/13 budget. The middle-class may not benefit as much as low-income earners from the 2013/2014 budget.

Tax relief for housing expenses

Housing problems and the overheated property market remain the most pressing and immediate concern. In an effort to cool the market, the Financial Secretary announced on 22 February 2013 that the government would introduce another series of demand-side measures to adjust the ad valorem stamp duty (AVD) on property transactions and advance the charging of AVD on non-residential property transactions from the conveyance on sale to the agreement for sale. These measures are in addition to the special measures announced in October 2012 (i.e. adjustment in the Special Stamp Duty for short-term home re-sales and the introduction of a Buyer's Stamp Duty for non-Hong Kong permanent residents and corporate buyers) to stabilize the property market. The new measures reflect the government's determination to resolve the housing problem. Although the housing issue is a deep-rooted problem that cannot be resolved in the short term, it would seem that the government could alleviate the financial burden on individuals by granting a tax deduction/refund for the stamp duty paid on a principal residence after a period of occupation.

Measures for the elderly and healthcare

The burden of elderly and public healthcare services is one of the concerns arising from the aging population. While the government has taken forward various long-term projects to address the surging demand for medical services, the 2013/14 budget does not contain any concrete measures to ease the burden on the population. Deloitte suggests that the government introduce a deduction for medical insurance premiums and actual medical expenses for salaries tax purposes and increase the amount of health care vouchers and expand its coverage for the elderly.

Conclusion

The Financial Secretary's first budget for the new government led by C.Y. Leung can best be described as compassionate, pragmatic and cautious. While the government's efforts to position Hong Kong as the venue of choice for specific industries represent a good step. More concrete measures are awaited.

In the past few years, the government's surpluses have been shared with the public in the form of tax rebates, one-time reliefs and even cash payments. These "sweeteners", however, have lost something of their savor since many social problems (such as housing, the growing elderly population, education, and pollution) remain unresolved. Deloitte supports the new government's approach of using the substantial surplus in some medium to long-term policies to resolve the social problems and develop economy, instead of providing large scale one-off inducements to the public.

We look forward to the current-term government proposing and implementing more concrete measures to solve the deep-seated problems and enhance Hong Kong's future economic development.

Summary of Allowances, Deductions & Tax Rates

Salaries Tax

Progressive Tax Rates

2012/13 and 2013/14	
Net chargeable income (HK$)	Marginal tax rate
First 40,000	2%
Next 40,000	7%
Next 40,000	12%
Remainder	17%

Standard Rate

2012/13 and 2013/14
15%

Allowances and Deductions

	2012/13 (HK$)	2013/14[1] (HK$)
Personal Allowances:		
Basic	120,000	120,000
Married	240,000	240,000
☐ Single Parent	120,000	120,000
Child:		
1st to 9th child		
Year of birth	126,000	140,000
Other years	63,000	70,000
Dependent Parent/Grandparent (aged 60 or above):		
Basic	38,000	38,000
Additional allowance (for each dependant living with taxpayer)	38,000	38,000
Dependent Parent/Grandparent (aged between 55-59):		
Basic	19,000	19,000
Additional allowance (for each dependant living with taxpayer)	19,000	19,000
Dependent Brother/Sister	33,000	33,000
Disabled Dependant	66,000	66,000
Deductions (maximum amount):		
Self-education Expenses	60,000	80,000
Home Loan Interest	100,000 (15 years of assessment)	100,000 (15 years of assessment)
Elderly Residential Care Expenses	76,000	76,000
Contributions to Recognized Retirement Schemes	14,500[2]	15,000[2]
Approved Charitable Donations	35% of income	35% of income

One-off Measure on Salaries Tax and Tax under Personal Assessment

Reduction of 75% of final tax payable under Salaries Tax and Tax under Personal Assessment for 2012/13, subject to a ceiling of HK$10,000, is proposed.[1]

---

[1] Legislative amendments are required.

[2] The maximum level of relevant income under the Mandatory Provident Fund Schemes Ordinance has been increased to HK$25,000 with effect from 1 June 2012. Hence, the maximum amount of deductible contributions is HK$14,500 for the year of assessment 2012/13 and HK$15,000 for the year of assessment 2013/14 and onwards.

Profits Tax

	2012/13 and 2013/14
	Tax rate
Incorporated	16.5%
Unincorporated	15%

One-off Measure on Profits Tax[3]
Reduction of 75% of final tax payable under Profits Tax for 2012/13, subject to a ceiling of HK$10,000 is proposed.

Property Tax

2012/13 and 2013/14
Tax rate
15%

Rates[3]

The Budget would waive full year rates for 2013/14, subject to a ceiling of HK$1,500 per quarter for each rateable tenement.

Government Fees and Charges[3]

The Budget would waive business registration fees for 2013/14.

[3] Legislative amendments are required.

Tax Analysis is published for the clients and professionals of the Hong Kong and Chinese Mainland offices of Deloitte Touche Tohmatsu. The contents are of a general nature only. Readers are advised to consult their tax advisors before acting on any information contained in this newsletter. For more information or advice on the above subject or analysis of other tax issues, please contact:

Beijing
Kevin Ng
Partner
Tel: +86 10 8520 7501
Fax: +86 10 8518 7501
Email: kevng@deloitte.com.cn

Hong Kong SAR
Sarah Chin
Partner
Tel: +852 2852 6440
Fax: +852 2520 6205
Email: sachin@deloitte.com.hk

Shenzhen
Constant Tse
Partner
Tel: +86 755 3353 8777
Fax: +86 755 8246 3222
Email: contse@deloitte.com.cn

Chongqing
Claude Gong
Partner
Tel: +86 23 6310 6206
Fax: +86 23 6310 6170
Email: clgong@deloitte.com.cn

Jinan
Eunice Kuo
Partner
Tel: +86 531 8518 1058
Fax: +86 531 8518 1068
Email: eunicekuo@deloitte.com.cn

Suzhou
Frank Xu / Maria Liang
Partner
Tel: +86 512 6289 1318 / 1328
Fax: +86 512 6762 3338
Email: frakxu@deloitte.com.cn
mliang@deloitte.com.cn

Dalian
Frank Tang
Partner
Tel: +86 411 8371 2888
Fax: +86 411 8360 3297
Email: ftang@deloitte.com.cn

Macau SAR
Quin Va
Partner
Tel: +853 8898 8833
Fax: +853 2871 3033
Email: quiva@deloitte.com.hk

Tianjin
Jason Su
Partner
Tel: +86 22 2320 6680
Fax: +86 22 2320 6699
Email: jassu@deloitte.com.cn

Guangzhou
Constant Tse
Partner
Tel: +86 20 8396 9228
Fax: +86 20 3888 0121
Email: contse@deloitte.com.cn

Nanjing
Frank Xu
Partner
Tel: +86 25 5791 5208
Fax: +86 25 8691 8776
Email: frakxu@deloitte.com.cn

Wuhan
Justin Zhu
Partner
Tel: +86 27 8526 6618
Fax: +86 27 8526 7032
Email: juszhu@deloitte.com.cn

Hangzhou
Qiang Lu
Partner
Tel: +86 571 2811 1901
Fax: +86 571 2811 1904
Email: qilu@deloitte.com.cn

Shanghai
Eunice Kuo
Partner
Tel: +86 21 6141 1308
Fax: +86 21 6335 0003
Email: eunicekuo@deloitte.com.cn

Xiamen
Lynch Jiang
Partner
Tel: +86 592 2107 298
Fax: +86 592 2107 259
Email: lijiang@deloitte.com.cn

About the Deloitte China National Tax Technical Centre

The Deloitte China National Tax Technical Centre ("NTC") was established in 2006 to continuously improve the quality of Deloitte China's tax services, to better serve the clients, and to help Deloitte China's tax team excel. The Deloitte China NTC prepares and publishes "Tax Analysis", "Tax News", etc. These publications include introduction and commentaries on newly issued tax legislations, regulations and circulars from technical perspectives. The Deloitte China NTC also conducts research studies and analysis and provides professional opinions on ambiguous and complex issues. For more information, please contact:

National Tax Technical Centre
E-mail: ntc@deloitte.com.cn

Eastern Region
Leonard Khaw
National Leader & Partner
Tel: +86 21 6141 1498
Fax: +86 21 6335 0003
Email: lkhaw@deloitte.com.cn

Northern Region
Angela Zhang
Partner
Tel: +86 10 8520 7526
Fax: +86 10 8518 1326
Email: angelazhang@deloitte.com.cn

Southern Region
Davy Yun
Partner
Tel: +852 2852 6538
Fax: +852 2520 6205
Email: dyun@deloitte.com.hk

If you prefer to receive future issues by soft copy or update us with your new correspondence details, please notify Wandy Luk by either email at wanluk@deloitte.com.hk or by fax to +852 2541 1911.