2025-26
Hong Kong Budget
Tax Highlights

MAKING AN IMPACT THAT MATTERS since 1845

February 2025

FOREWORD

The 2025-26 Budget demonstrates the Government's strong commitment to embracing, adapting to, and driving change. The Financial Secretary of the Hong Kong Special Administrative Region (HKSAR), Paul Chan Mo-po, delivered the 2025-26 Budget Speech on 26 February 2025, outlining the fiscal policy for the upcoming year amidst challenging economic times. This marks the third budget he has presented under the current-term Government led by HKSAR Chief Executive John Lee Ka-chiu.

The Financial Secretary announced a HKD87.2 billion fiscal deficit for the 2024-25 financial year, marking a modest decrease from HKD100.2 billion in 2023-24 but still significantly higher than anticipated. This discrepancy is attributed to geopolitical tensions affecting capital flows, leading to declined government revenues. With fiscal reserves expected to drop, the government is tasked with strengthening public finances.

In the Budget, the Financial Secretary balances fiscal responsibility with economic stimulus, focusing on controlling expenditure and enhancing revenue streams. This strategy creates an environment conducive to economic diversification and technological advancement, paving the way for a stronger economic outlook for Hong Kong.

The Budget presents a comprehensive set of measures aimed at stabilizing the economy in the short term and fostering sustainable growth in the long run. By addressing immediate fiscal challenges and supporting economic diversification, it strikes a balance between addressing fiscal deficits and fostering economic growth.

We welcome the Government's adoption of Deloitte's various recommendations to revitalize and strengthen Hong Kong's economic environment. We are particularly encouraged by the allocation of substantial resources to develop 'new productive forces' in emerging industries, accelerating Hong Kong's economic transformation.

Below, you will find detailed information on the proposed tax-related measures and how they align with our vision for a resilient and prosperous Hong Kong.

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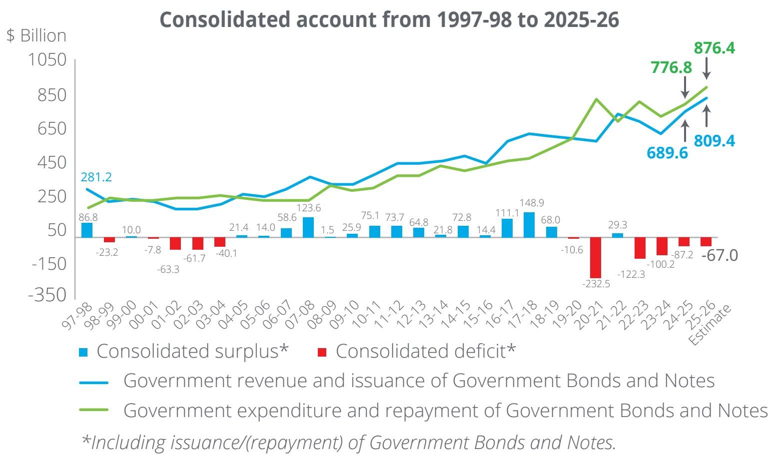
2025-26 BUDGET: KEY FINANCIALS

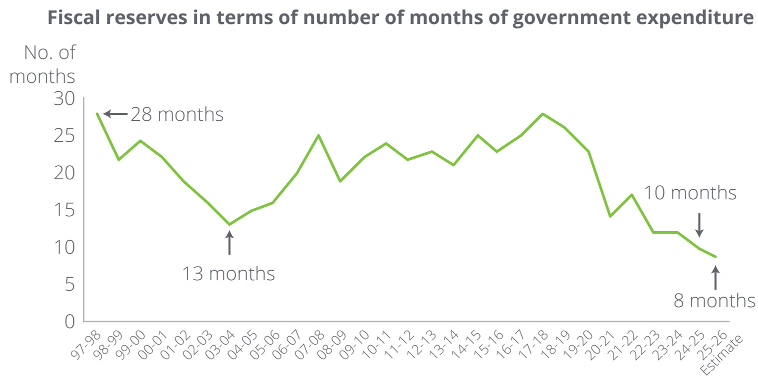
Budget deficit

The latest Budget projects a deficit of HKD87.2 billion for 2024/25, inclusive of proceeds from bond and note issuance. Against this backdrop, the Financial Secretary has indicated that the HKSAR Government aims to return to a fiscal surplus position in 2028/29.



Fiscal reserves

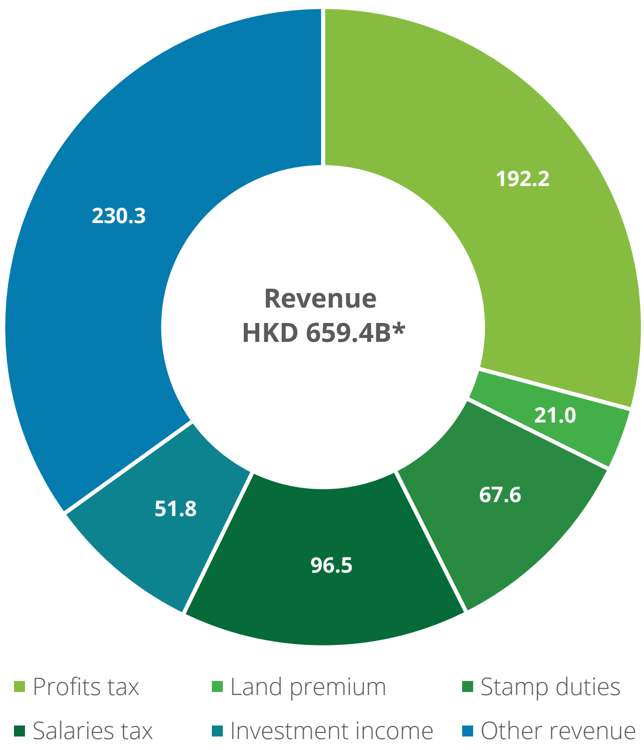
Between 1997/98 and 2024/25, the size of Government's fiscal reserves ranged from 10 to 28 months of government expenditures. Since peaking at 28 months in 2017/18, this figure has gradually declined and is projected to reach 10 months in 2024/25, before further decreasing to 8 months in 2025/26.

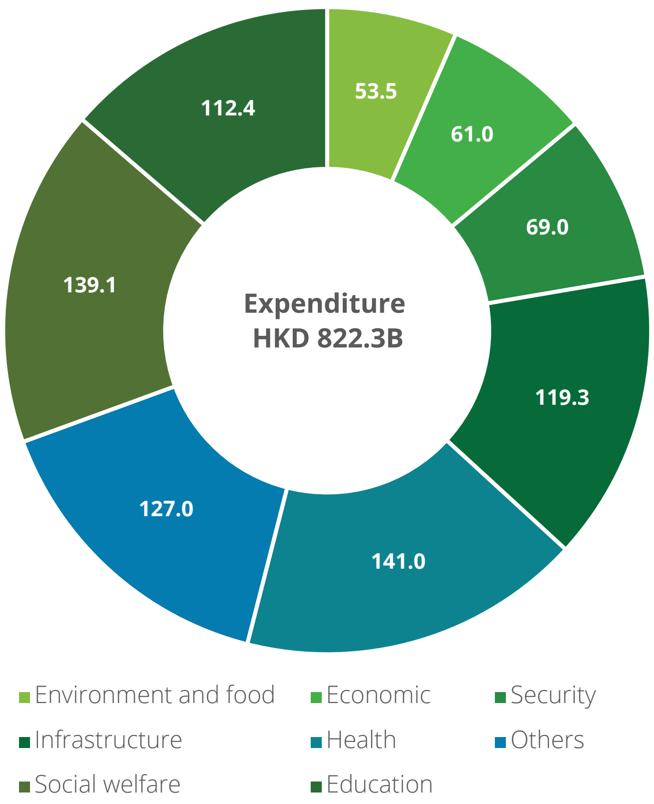


Gross domestic product

The Hong Kong economy continued to expand, though at a moderated pace, in Q4 2024 over a year earlier. Real GDP grew by 2.4% year-on-year in Q4. On a full-year basis, Hong Kong's real GDP increased by 2.5% in 2024.

2025-26 BUDGET:
GOVERNMENT REVENUE AND EXPENDITURE





*Excluding estimated proceeds from issuance of government bonds amounting to HKD 150B in 2025/26

BUSINESS TAX

> “We are glad to see that the HKSAR Government is committed to maintain the simple and low tax regime which is the competitive edge of Hong Kong to attract investors. The HKSAR Government is going to reinforce the fiscal consolidation program and avoid considerable increase in tax rates or introducing new taxes.

Polly Wan
Lead Partner
Hong Kong Budget Team

Tax relief

The Financial Secretary proposes to reduce profits tax for the year of assessment (YOA) 2024/25 by 100%, subject to a HKD1,500 ceiling.

Maritime services

The Budget proposes enhancing the current tax incentives for ship leasing by allowing tax deductions for the ship acquisition cost for ship lessors under an operating lease. At present, eligible ship lessors benefit from a preferential tax rate of 0% on profits generated from qualifying activities. As such, the proposed enhancement would not bring an immediate effect on ship lessors but would provide them with a safeguard against potential increases in the tax rate. This measure supports the Government's plan to advance high-value-added maritime services and are anticipated to attract more shipping commercial principals and maritime service enterprises to establish presence in Hong Kong.

In addition, to develop Hong Kong into a green maritime fuel bunkering center, the Budget proposes a tax exemption for green methanol used for bunkering. This measure helps to address global climate change and contributes to green transformation and development.

BUSINESS TAX

Commodity Trading

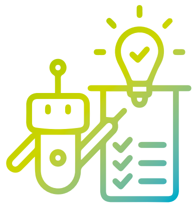
Echoing the Government's strategy to develop a commodity trading ecosystem as outlined in the 2024 Policy Address, the Budget proposes to offer a half-tax concession (i.e. a tax rate of 8.25%) for eligible commodity traders. This initiative aims to attract commodity trading enterprises to establish their presence in Hong Kong and foster a robust international trading hub.

> "We welcome the new half-rate tax concession for commodity traders. This initiative is expected to facilitate the development of a comprehensive commodity trading ecosystem in Hong Kong, thereby generating substantial benefits across various sectors including maritime, logistics, insurance, and finance, among others.

Doris Chik
Partner
National Tax Technical Center

Innovative technology and intellectual property (IP)

To stimulate the growth and development of innovative technologies in Hong Kong, the Budget proposes a review of tax deductions related to the purchase of IP or the rights to use IP from associates, and lump sum licensing fees for acquiring the rights to use IP. These expenditures are currently non-deductible.



Global minimum tax

The draft legislation on implementation of the Global Minimum Tax and Hong Kong Minimum Top-up Tax (HKMTT) rules is currently under consideration by the Legislative Council. Once enacted, the income inclusion rule and HKMTT will apply retrospectively from 1 January 2025.

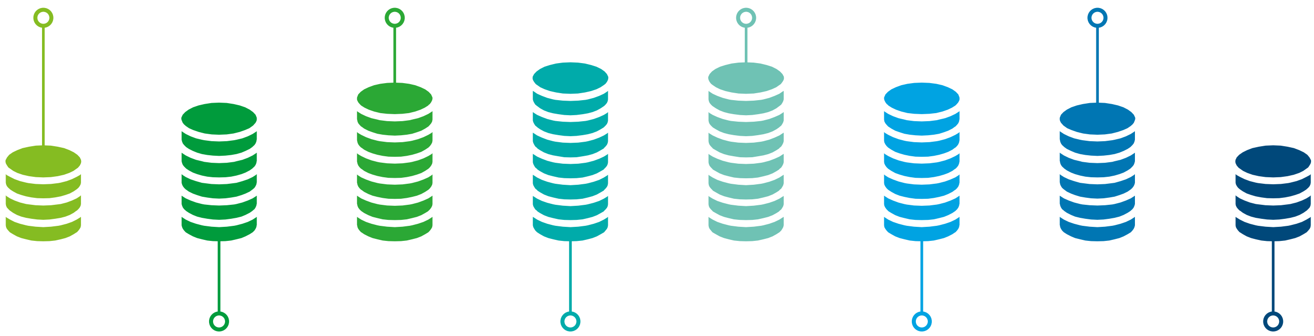
BUSINESS TAX

Asset and wealth management

The Financial Secretary has announced in the Budget Speech that the HKSAR Government will formulate the proposals to enhance the preferential tax regimes for funds, family-owned investment holding vehicles (FIHVs) managed by single family offices and carried interest within this year. Based on the consultation paper issued by the Financial Services and the Treasury Bureau in November 2024, it is expected that the key proposed enhancement measures may include:

> “Industry would be happy to see that the HKSAR Government is committed to formulate the proposals within 2025, as the proposed enhancements would definitely make our preferential tax regimes even more attractive for funds and family offices to establish and operate in Hong Kong, fostering the development of asset and wealth management industries. Apart from the proposed enhancements highlighted in the consultation paper, the HKSAR Government can also consider further expanding the scope of exemption to cover investments in art piece, collectible, investment-linked insurance policies, etc., as well as providing tax incentive (such as preferential tax rate) to fund managers and single family offices which meet certain conditions.
>
> **Roy Phan**
> Partner
> International Tax Services

UNIFIED FUND EXEMPTION



- Expanding the definition of fund
- Simplifying the tests applicable to transactions in private companies
- Broadening the coverage of qualifying investments to cover virtual assets, loans and private credits, etc.
- Relaxing anti-round tripping rule
- Relaxing income eligible for profits tax exemptions
- Implementing tax reporting mechanism
- Expanding the definition of special purpose entities (SPEs)
- Introducing substantial activities requirement thresholds

BUSINESS TAX

FIHVS MANAGED BY SINGLE FAMILY OFFICES

- Broadening the coverage of qualifying investments to cover virtual assets, loans and private credits, etc.
- Relaxing income eligible for profits tax exemptions
- Expanding the definition of SPEs
- Simplifying the tests applicable to transactions in private companies

CARRIED INTEREST

- Removing the requirement for a fund to obtain Hong Kong Monetary Authority's certification
- Broadening the coverage of "associate" under the definitions of "qualifying payers" / "qualifying employees" to cover entities within the same group of the fund / investment managers (regardless of their legal forms)
- Expanding the coverage of the sources of profits or income of a fund which may give rise to eligible carried interest, including:
  - A fund's tax-exempt profits under the UFE regime
  - A fund's other non-taxable income, e.g. offshore income
  - A fund's other taxable income, e.g. income specified in the proposed exclusion list
- Removing the requirement to distribute carried interest through the qualified person (e.g. Hong Kong investment manager)

INDIVIDUAL TAX

Tax relief

The Budget proposes a 100% reduction in salaries tax and tax under personal assessment for 2024/25, subject to a ceiling of HKD1,500. The reduction will be reflected in the final tax payable for the YOA 2024/25.

Tax rates

Individuals are taxed at progressive rates ranging from 2% to 17% on their net chargeable income (i.e. income less deductions and allowances) or at standard rate (15%-16%) on their net income (income less deductions), whichever is lower.

Net chargeable income (after allowances and deductions)	Rate (for YOA 2018/19 to 2023/24)	Rate (for YOA 2024/25 and onwards)
Up to HKD 50,000	2%	2%
HKD 50,001 – HKD 100,000	6%	6%
HKD 100,001 – HKD 150,000	10%	10%
HKD 150,001 – HKD 200,000	14%	14%
Over HKD 200,000	17%	17%
Standard Rate	15%	-
Two- tiered Standard Rates		
- On the first HKD5,000,000 of net income	-	15%
- Remainder	-	16%

INDIVIDUAL TAX

Allowances

Income subject to salaries tax is reduced by allowances before the progressive tax rates are applied, where applicable, including but not limited to:

Allowances	YOA 2022/23 HKD	YOA 2023/24 and onwards HKD
Basic allowance (for a single person)	132,000	132,000
Married person's allowance	264,000	264,000
Single parent allowance	132,000	132,000
Child allowance (for each of the 1^{st} to 9^{th} child)	120,000	130,000
Dependent parents and dependent grandparents allowance (for each dependent) **- aged 60 and above** **- aged 55-59**	 50,000 25,000	 50,000 25,000

INDIVIDUAL TAX

Deductions

Expenses are allowable if they are wholly, exclusively and necessarily incurred in the production of income subject to salaries tax, including:

- Self-education expenses up to HKD100,000
- Home loan interest up to HKD100,000 (eligible taxpayers can claim an additional deduction HKD20,000 starting from the YOA 2024/25)
- Elderly residential care expenses up to HKD100,000
- Domestic rents deduction up to HKD100,000 (eligible taxpayers can claim an additional deduction HKD20,000 starting from the YOA 2024/25)
- Mandatory contributions to the Mandatory Provident Fund (MPF) or Recognized Retirement Scheme, up to HKD18,000
- Donations exceeding HKD100 to approved charities, up to a maximum of 35% of assessable income less other deductions
- Qualifying premiums up to HKD8,000 paid by taxpayers or their spouse as a policyholder of a voluntary health insurance scheme policy for each insured person
- Qualifying annuity premiums paid by taxpayers or their spouse as a policyholder of a qualifying deferred annuity policy under which annuity payments are receivable by an annuitant and MPF voluntary contributions paid, up to a maximum of HKD60,000
- Expenses on qualifying assisted reproductive services paid by the taxpayers or their spouse up to HKD100,000 (starting from YOA 2024/25)

OTHER LEVIES

Stamp duty for properties

To ease the burden on buyers of residential and non-residential properties at lower values, the Budget proposes to adjust the maximum value of properties chargeable to a stamp duty of HKD100 from HKD3 million to HKD4 million, with immediate effect.

Air passenger departure tax

The Budget proposes increasing the rate of air passenger departure tax from HKD120 to HKD200 per passenger, starting from the third quarter of 2025-26.

Boundary facilities fee on private cars

Adhering to the “affordable users pay” principle, the Budget proposes introducing a boundary facilities fee on private cars departing via land boundary control points. Coaches, goods vehicles, etc. will not be affected. The final rate is subject to the Government's announcement.

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