

2017/18 HONG KONG BUDGET HIGHLIGHTS



On 22 February 2017, the Financial Secretary, Mr Paul Chan, for the first time delivered the 2017/18 Budget. The Budget is largely in line with, if not over, his predecessor's prudent approach of managing public finances and keeping expenditure within the limits of revenue.

The estimated consolidated budget for 2016/17 is a surplus of \$92.8 billion, which is significantly higher than the original forecast of \$11.4 billion owing to the increase in revenue from land sales and stamp duty. The fiscal reserve is expected to be \$936 billion by 31 March 2017. The forecast for 2017/18 is a surplus of \$16.3 billion with an estimated fiscal reserve of \$952 billion by 31 March 2018, representing 37% of GDP and equivalent to 23 months of government expenditure.

Despite the huge surplus, Mr Chan said the Government could neither propose a tax cut, which erodes Hong Kong's tax base, nor adjust our tax rates frequently as this would affect the predictability of our tax regime and dent investor confidence. Hence, no changes to our tax regime and tax rates were proposed. Instead, he proposed a plan to set up a tax policy unit to review Hong Kong's tax base and long term tax incentive policy.

HIGHLIGHTS

- ▶ Reduce profits tax, salaries tax and tax under personal assessment for 2016/17 by 75%, capped at \$20,000
- ▶ Widen marginal bands for salaries tax
- ▶ Increase dependent brother/sister allowance and disabled dependent allowance
- ▶ Extend entitlement period for home loan interest deduction from 15 to 20 years
- ▶ Raise deduction ceiling for self-education expenses
- ▶ Waive licence fees for travel agents, hotels and guesthouses, restaurants, hawkers and operators with restricted food permits for one year
- ▶ Waive rates, capped at \$1,000/quarter/rateable property
- ▶ Introduce tax concession to promote aircraft leasing and financing
- ▶ Extend profits tax exemption to attract more funds to domicile in Hong Kong
- ▶ Explore enhanced tax deductions for innovation and technology expenditure
- ▶ Examine tax deduction for purchase of regulated health insurance products
- ▶ Establish a tax policy unit

One-off measures

- Reduce 2016/17 profits tax by 75%, subject to a ceiling of \$20,000.
- Reduce 2016/17 salaries tax and tax under personal assessment by 75%, subject to a ceiling of \$20,000.
- Waive licence fees for travel agents, hotels and guesthouses, restaurants, hawkers and operators with restricted food permits for one year.
- Waive rates for four quarters of 2017/18, subject to a ceiling of \$1,000 per quarter for each rateable property.
- Provide one month extra allowance to recipients of Comprehensive Social Security Allowance, Old Age Allowance, Old Age Living Allowance and Disability Allowance; similar arrangement will apply to Low-Income Working Family Allowance and Work Incentive Transport Subsidy.
- Extend waiver of the first registration tax of electric commercial vehicles, motor cycles and motor tricycles to 31 March 2018, with a cap of \$97,500 for electric private cars from 1 April 2017.

Recurrent tax measures

- Widen the marginal bands for salaries tax rates from \$40,000 to \$45,000.
- Increase dependent brother/sister allowance from \$33,000 to \$37,500.
- Increase disabled dependent allowance from \$66,000 to \$75,000.
- Extend the entitlement period for the tax deduction for home loan interest by a further 5 years to a total of 20 years while maintaining the current ceiling of \$100,000 per year.
- Increase the deduction ceiling for self-education expenses from \$80,000 to \$100,000.

Other highlights

- Introduce a bill in 2017 to offer tax concession to promote aircraft leasing and financing.
- Propose to extend the profits tax exemption to onshore privately-offered open-ended fund companies.
- Examine tax deduction for the purchase of regulated health insurance products.
- Explore enhanced tax deductions for innovation & technology expenditure.
- Expand tax treaty network.

We welcome proposals to widen the marginal bands for salaries tax rates and to examine tax deduction for the purchase of regulated health insurance products to encourage the use of private healthcare services by the public. These are in line with our suggestions, and we hope the Financial Secretary will consider some of our other suggestions in the coming year such as providing deductions for residential rental expenses to further relieve taxpayers' burden.

The plan to set up a tax policy unit is an important step to drive comprehensive study on long term measures to broaden Hong Kong's tax base and develop industry specific tax incentives. We hope to see concrete proposals with details and specific implementation timelines very soon.

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Profits Tax Rates	2016/17	2017/18
Tax rate		
Corporations	16.5%	} No change
Unincorporated businesses	15%	

Salaries Tax Rates, Deductions and Allowances	2016/17	2017/18
Standard tax rate	15%	No change
Progressive tax rates	First \$40,000 – 2%	First \$45,000 – 2%
	Next \$40,000 – 7%	Next \$45,000 – 7%
	Next \$40,000 – 12%	Next \$45,000 – 12%
	Remainder – 17%	Remainder – 17%
Personal allowances*		
Basic	\$132,000	} No change
Married	\$264,000	
1st to 9th child (year of birth)	\$200,000 each	
1st to 9th child (other years)	\$100,000 each	
Single parent	\$132,000	
Dependent parent / grandparent		
Aged 55 to 59 - Basic	\$23,000	
- Additional, living with the taxpayer	\$23,000	
Aged 60 or above - Basic	\$46,000	
- Additional, living with the taxpayer	\$46,000	
Disabled dependent	\$66,000	\$75,000
Dependent brother / sister	\$33,000	\$37,500
Deductions		
Approved charitable donations	Up to 35% of assessable income	No change
Self-education expenses	Up to \$80,000	Up to \$100,000
Home loan interest	Up to \$100,000	Up to \$100,000**
Elderly residential care expenses	Up to \$92,000	} No change
Contributions to recognised retirement schemes	Up to \$18,000	

* Personal allowances are only applicable to progressive tax rates calculation.

** Extend the entitlement period by a further 5 years to a total of 20 years.

One-off measures	2016/17	2017/18
Types of tax	Salaries tax, tax under personal assessment and profits tax	Salaries tax, tax under personal assessment and profits tax
Tax reduction	75% of tax for 2015/16, capped at \$20,000	75% of tax for 2016/17, capped at \$20,000

Property Tax	2016/17	2017/18
Tax rate	15%	No change

Business Registration Fees	2016/17	2017/18
Fee		
Main business (1 year certificate)	Waived	\$2,000
Branch business (1 year certificate)		\$73
Levy		
Main business (1 year certificate)	\$250	} No change
Branch business (1 year certificate)	\$250	

Rates	2016/17	2017/18
Percentage charge	5% on rateable value	No change
One-off waiver		
Number of quarters	4 quarters	} No change
Ceiling	\$1,000/quarter/rateable property	

The information contained in this publication is based on the Budget proposal announced by the Financial Secretary on Wednesday, 22 February 2017. The Budget proposal will be subject to review and modification by the Legislative Council prior to the enactment of the legislation.