

2020/21 HONG KONG BUDGET HIGHLIGHTS



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- ▶ Reduce profits tax, salaries tax and tax under personal assessment for 2019/20 by 100%, capped at \$20,000
- ▶ Disburse \$10,000 to Hong Kong permanent residents aged 18 or above
- ▶ Subsidise 75% of electricity charges for non-residential accounts for four extra months, subject to a monthly cap of \$5,000 per account
- ▶ Waive 75% of water and sewage charges of non-domestic households for four extra months, subject to a monthly cap of \$20,000 and \$12,500 respectively
- ▶ Waive rates of domestic properties for four quarters of 2020/21, capped at \$1,500 per quarter
- ▶ Waive rates of non-domestic properties for 2020/21, capped at \$5,000 per quarter in the first two quarters and \$1,500 per quarter for the remaining two quarters
- ▶ Waive business registration fees for 2020/21
- ▶ Waive registration fees for company annual returns for two years

The Financial Secretary, Mr Paul Chan Mo-po, delivers his fourth Budget Speech today. As expected, Mr Chan forecasts a deficit for 2019/20 after 15 years of surplus. Estimated government revenues are \$58.8 billion lower than the original estimate primarily due to drop in revenue from profits tax and salaries tax caused by unfavourable social and economic conditions, enhanced tax concessions as well as delay in issuing tax assessments. Estimated government expenditure, on the other hand, is \$3.6 billion higher than the original estimate, thus resulting in a deficit of \$37.8 billion for 2019/20. The year ahead continues to be challenging and difficult, and a record high deficit of \$139.1 billion is envisaged.

Mr Chan continues to offer short-term relief measures including tax reduction, property rates and business registration fee waivers (see highlights on the right and details in the attached appendix) to support enterprises, safeguard jobs, stimulate the economy and smoothen livelihoods. He also proposes additional funding and incentives to support Hong Kong's pillar and other sectors.

Budget highlights

Industry specific tax incentives

Financial services

- Waive stamp duty on stock transfers paid by the Exchange Traded Fund (ETF) market makers when creating and redeeming ETF units in Hong Kong
- Establish a limited partnership regime and provide tax concession for carried interest issued by private equity funds to attract them to domicile and operate in Hong Kong

Innovation and technology

- Continue to offer enhanced tax deduction for qualifying research & development (R&D) expenditure (a 300% tax deduction for the first \$2 million qualifying R&D expenditure and a 200% deduction for the remainder)

Trading and logistics

- Amend the relevant legislation to provide tax concessions for the ship leasing business, including offering a profits tax exemption to qualifying ship lessors and a half-rate profits tax concession to qualifying ship leasing manager
- Amend the relevant legislation to reduce profits tax rate by half for eligible insurance businesses including marine insurance
- Explore other tax measures to attract more global shipping business operators and commercial principals to set up business in Hong Kong

Hong Kong tax system

In view of the anticipated deficits for the 2021/22 to 2024/25 financial years, Mr Chan reckons the main reason is government revenue cannot keep up with the drastic increases in expenditure (especially recurrent expenditure) and there may be a need to consider seeking new revenue sources or revising tax rates. Mr Chan says at the end of the Budget Speech that the Government will seek advice from scholars, experts and members of the business community on the impact on Hong Kong tax regime in light of OECD's proposal of setting rules for imposing a global minimum tax rate.

Our comments

- The Financial Secretary mentions a number of tax measures. However, most of them are repackaged from existing initiatives or continuous projects.
- Except for an indication of the intention to offer tax concession for carried interest issued by private equity funds operating in Hong Kong, the measures discussed in the Budget Speech are brought forward initiatives such as R&D tax deductions, tax incentives for ship leasing activities and eligible insurance business, and a limited partnership regime for private equity funds in Hong Kong.
- Tax concession for carried interest would definitely increase asset management activities and promote Hong Kong as the preferred asset management centre provided the qualifying conditions are attractive. Clear rules with bright-line tests would also provide tax certainty for asset management industry.
- The Financial Secretary hints that our territorial-source-based tax system would have to react to the OECD's proposal of a global minimum tax rate. However, it appears that the Government still needs to work out its directions and specific details. The Government may take this opportunity to consider suggestions from industries and professional bodies including what we have proposed such as digital tax and luxury goods tax.
- We would also be glad if the Government can consider our suggestions on various tax reliefs that would benefit the middle-class including an increase in personal allowances in line with inflation and deductions for rental payments. For businesses, shortened statute of limitation, group loss relief and tax loss carried back would provide greater tax certainty and tax reliefs in difficult times like the present.
- With \$450 million ear-marked for the Department of Justice, we would welcome the Government's dedication of sufficient budget and resources to tax policy making and tax administration including the Tax Policy Unit and the IRD to help Hong Kong devise, manage and implement tax incentives and reforms including those highlighted above. Tax revenue hinges on the efficiency and effectiveness of the IRD's daily operations. For instance, automation within the IRD should be speeded up to enhance various tax filings, assessments and collection.

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Profits Tax Rates	2019/20	2020/21
Tax rate		
Corporations	16.5%*	No change
Unincorporated businesses	15%*	No change

* First \$2,000,000 assessable profits of eligible taxpayers chargeable at half of the tax rate

Salaries Tax Rates, Deductions and Allowances	2019/20	2020/21
Standard tax rate	15%	No change
Progressive tax rates	First \$50,000 – 2%	
	Next \$50,000 – 6%	
	Next \$50,000 – 10%	
	Next \$50,000 – 14%	
	Remainder – 17%	
Personal allowances**		
Basic	\$132,000	
Married	\$264,000	
Single parent	\$132,000	
Disabled	\$75,000	
First to ninth child (year of birth)	\$240,000 each	
First to ninth child (other years)	\$120,000 each	
Dependent parent / grandparent		
Aged 55 to 59 - Basic	\$25,000	
- Additional, living with the taxpayer	\$25,000	
Aged 60 or above - Basic	\$50,000	
- Additional, living with the taxpayer	\$50,000	
Disabled dependent	\$75,000	
Dependent brother / sister	\$37,500	
Deductions		
Approved charitable donations	Up to 35% of assessable income	
Self-education expenses	Up to \$100,000	
Home loan interest (up to 20 years)	Up to \$100,000	
Elderly residential care expenses	Up to \$100,000	
Mandatory contributions to recognised retirement schemes	Up to \$18,000	
Qualifying Voluntary Health Insurance Scheme policy premiums	Up to \$8,000 per insured person	
Qualifying annuity premiums and MPF voluntary contributions	Up to \$60,000	

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

One-off measures	2019/20	2020/21
Types of tax	Salaries tax, tax under personal assessment and profits tax	Salaries tax, tax under personal assessment and profits tax
Tax reduction	100% of tax for 2018/19, capped at \$20,000	100% of tax for 2019/20, capped at \$20,000

Property Tax	2019/20	2020/21
Tax rate	15%	No change

Business Registration Fees	2019/20	2020/21
Fee		
Main business (one year certificate)	Waived	Waived
Branch business (one year certificate)	Waived	Waived
Levy		
Main business (one year certificate)	\$250	No change
Branch business (one year certificate)	\$250	No change

Rates	2019/20	2020/21
Percentage charge	5% on rateable value	No change
One-off waiver		
Number of quarters	Four quarters	Four quarters
Ceiling - non-domestic properties	\$1,500 (Q1 – Q3), \$5,000 (Q4) per rateable property	\$5,000 (Q1 & Q2), \$1,500 (Q3 & Q4) per rateable property
- domestic properties	\$1,500/quarter/rateable property	\$1,500/quarter/rateable property

The information contained in this publication is based on the Budget proposal announced by the Financial Secretary on Wednesday, 26 February 2020. The Budget proposal will be subject to review and modification by the Legislative Council prior to the enactment of the legislation.