

# HONG KONG 2003/04 BUDGET

## A. FOREWORD

The Financial Secretary, The Hon. Antony Leung delivers his second Budget for the fiscal year 2003/04 (i.e. 1st April 2003 to 31st March 2004) this afternoon.

Suffering from the declining global economy and internal economic restructuring, the Hong Kong Government recorded a historical high deficit of HK\$70 billion in the financial year 2002/03 (i.e. year ending on 31st March 2003). But Mr. Leung is confident that the Government can achieve the medium target of restoring financial balance in the fiscal year 2006/07. The Government will eliminate the deficit through a three-pronged approach, namely, boost the economy, cut expenditure and raise revenue.

Although the revenue-raising and expenditure-cutting measures may have short-term impact on the community, Mr. Leung considers that these measures could secure Hong Kong's long-term financial stability. He also believes his proposals to eliminate the deficit are not so drastic as to impede the economic recovery of Hong Kong.

We are pleased to summarize Mr. Leung's proposed revenue-raising measures in the forthcoming year 2003/04 in this special newsletter. Some of his proposals may be revised by Legislative Council before enactment and may even not be finally enacted. We hope that this newsletter will give you some insights to plan for the future. Nevertheless, it should not be taken as professional advice and you are always welcome to contact us for further information and explanation.

PKF Hong Kong  
6th March 2003

## **B. PROPOSED CHANGES IN GOVERNMENT REVENUE AND CHARGES**

### **1. TAXATION**

#### **Salaries Tax**

- ◆ Increase the size of the incremental steps from 5% to 6%. After the adjustment, the marginal tax rates will be adjusted upward to 2%, 8%, 14% to 20% respectively \*.
- ◆ Reduce bandwidth from HK\$35,000 to HK\$30,000 \*.
- ◆ Reduce the basic allowance from HK\$108,000 to HK\$100,000 and the married person's allowance from HK\$216,000 to HK\$200,000 \*.
- ◆ Reduce the single parent allowance from HK\$108,000 to HK\$100,000 \*.
- ◆ Increase the child allowance for the third to ninth child from HK\$15,000 each to HK\$30,000 each.
- ◆ Remove the exemption for holiday warrant and passage.
- ◆ Increase standard tax rate from 15% to 16% \*.

Note: The adjustment will be implemented in two equal phases in the years 2003/04 and 2004/05.

#### **Profits Tax**

- ◆ Increase the profits tax rate of corporations from 16% to 17.5%.
- ◆ Increase the profits tax rate for unincorporated business from 15% to 16%, which will be implemented in two equal phases in the years 2003/04 and 2004/05.
- ◆ Increase the rate of deeming assessable profits for certain payments such as royalties from 10% to 30%.

#### **Property Tax**

- ◆ Increase the property tax rate from 15% to 16%, which will be implemented in two phases in the years 2003/04 and 2004/05.

#### **Motor Vehicles First Registration Tax**

- ◆ Abolish the exemption for excluding air conditioners, audio equipment, anti-theft devices and distributors' warranties in calculation of the taxable value.
- ◆ Increase the bandwidth and introduce a marginal tax system for private cars.
- ◆ Extend the exemption of electric vehicles for a further three years to 31st March 2006.

### **Air Passenger Departure Tax**

- ◆ Increase from HK\$80 to HK\$120.

### **Boundary Facilities Improvement Tax**

- ◆ Propose to introduce the bill to the Legislative Council in the second quarter of the year 2003/04 discussing details of implementation.

### **Betting Duty**

- ◆ Raise the duty rate on exotic horse racing bets from 19% to 20%.

### **Football Betting Duty**

- ◆ Introduce betting duty at a rate of 50% on gross profits of the football betting activities.

## **2. TAX CONCESSIONS**

### **Charitable Donation**

- ◆ Raise the existing ceiling for tax-exempted donations to approved charitable organizations from 10% to 25% of assessable income or profits.

### **Fund Management**

- ◆ Amend the Inland Revenue Ordinance to exempt offshore funds from profits tax.
- ◆ Exempt the fixed stamp duty of HK\$5 on subscribing and redeeming units of unit trust funds domiciled in Hong Kong.

### **Debt Instruments**

- ◆ Grant a 50% concession on profits tax for qualified debt instruments having a maturity period of three years.
- ◆ Grant a 100% concession on profits tax for qualified debt instruments having a maturity period of seven years or more.

### **Duty on Ultra Low Sulphur Diesel**

- ◆ Extend the duty concession for ultra low sulphur diesel to 31st March 2004, maintaining the duty rate at HK\$1.11 per litre.

## **3. GOVERNMENT CHARGES**

Withdraw the measure of freezing government charges. Policy Bureaux will discuss how best to adjust the individual fees and charges.

## C. TAX RATES FOR THE YEARS FROM 2002/03 TO 2004/05

### 1. Salaries Tax

#### *Personal tax allowances and deductions:*

	2002/03 HK\$	Proposed 2003/04 HK\$	Proposed 2004/05 HK\$
<b>Basic allowances :</b>			
Single person's allowance	108,000	104,000	100,000
Married person's allowance	216,000	208,000	200,000
<b>Additional allowances :</b>			
Child :			
1st and 2nd child (each)	30,000	30,000	30,000
3rd to 9th child (each)	15,000	30,000	30,000
Dependent parent / grandparent :			
Basic	30,000	30,000	30,000
Additional <sup>1</sup>	30,000	30,000	30,000
Dependent brother / sister <sup>2</sup>	30,000	30,000	30,000
Single parent	108,000	104,000	100,000
Disabled dependent	60,000	60,000	60,000
<b>Additional deductions :</b>			
Self-education expenses <sup>3</sup>	40,000	40,000	40,000
Home loan interest	150,000	100,000	100,000
Elderly residential care expenses	60,000	60,000	60,000
Contributions to retirement schemes	12,000	12,000	12,000
Notes:			
1. For dependent living with taxpayer.			
2. For whom no child allowance is being claimed.			
3. The maximum amount that can be claimed as deductible expense for training courses attended at approved institutions.			

#### *Standard tax rates:*

	2002/03	Proposed 2003/04	Proposed 2004/05
Standard tax rates	15%	15.5%	16%

***The progressive tax rates for the Year 2002/03:***

<u>Net chargeable income</u>		<u>Marginal Tax Rate</u>
		%
First	HK\$35,000	2
Next	HK\$35,000	7
Next	HK\$35,000	12
Remainder	-	17

***Proposed progressive tax rates for the Year 2003/04:***

<u>Net chargeable income</u>		<u>Marginal Tax Rate</u>
		%
First	HK\$32,500	2
Next	HK\$32,500	7.5
Next	HK\$32,500	13
Remainder	-	18.5

***Proposed progressive tax rates for the Year 2004/05:***

<u>Net chargeable income</u>		<u>Marginal Tax Rate</u>
		%
First	HK\$30,000	2
Next	HK\$30,000	8
Next	HK\$30,000	14
Remainder	-	20

**2. Profits Tax**

<u>Business Category</u>	<u>2002/03</u>	<u>Proposed 2003/04</u>	<u>Proposed 2004/05</u>
Unincorporated Business	15%	15.5%	16%
Corporation	16%	17.5%	17.5%

### 3. Property Tax

Taxpayer	2002/03	Proposed 2003/04	Proposed 2004/05
Property Owner	15%	15.5%	16%

### 4. Stamp Duty

#### *Shares transactions:*

Particular	2002/03	Proposed 2003/04
Including shares, marketable securities, warrants and options registered in HK	0.200%	0.200%

#### *Property transactions:*

Sales Consideration	2002/03 and Proposed 2003/04
Up to HK\$1,000,000	HK\$100
HK\$1,000,001 to HK\$1,080,000	HK\$100 + 10% of excess over HK\$1M
HK\$1,800,001 to HK\$2,000,000	0.75%
HK\$2,000,001 to HK\$2,176,470	HK\$15,000 + 10% of excess over HK\$2M
HK\$2,176,471 to HK\$3,000,000	1.5%
HK\$3,000,001 to HK\$3,290,320	HK\$45,000 + 10% of excess over HK\$3M
HK\$3,290,321 to HK\$4,000,000	2.25%
HK\$4,000,001 to HK\$4,428,570	HK\$90,000 + 10% of excess over HK\$4M
HK\$4,428,571 to HK\$6,000,000	3.00%
HK\$6,000,001 to HK\$6,720,000	HK\$180,000 + 10% of excess over HK\$6M
HK\$6,720,001 or above	3.75%

#### *Leases:*

Leasing period	2002/03	Proposed 2003/04
Not defined or is uncertain	0.25%	0.25%
Specified in the lease as not exceeding 1 year	0.25%	0.25%
Exceeding 1 year but not exceeding 3 years	0.50%	0.50%
Exceeding 3 years	1.00%	1.00%

## 5. Estate Duty

Principal Value of the Estate			Proposed
Over	Not Over	2002/03	2003/04
HK\$	HK\$		
-	7,500,000	Nil	Nil
7,500,000	9,000,000	5%	5%
9,000,000	10,500,000	10%	10%
10,500,000	-	15%	15%