

HONG KONG 2004/05 BUDGET

A. FOREWORD

The Financial Secretary, the Hon. Henry Tang delivers his maiden Budget for the fiscal year 2004/05 (i.e. 1st April 2004 to 31st March 2005) this afternoon.

Mr. Tang said that the year 2003 was a challenging year for Hong Kong. The outbreak of SARS in the second quarter severely damaged the Hong Kong economy. However, followed by implementation of several advantageous policies (e.g. the signing of the Mainland and Hong Kong Closer Economic Partnership Arrangement, the launch of the Individual Visit Scheme for the mainland citizen and the Renminbi business initiative etc), the Hong Kong economy rebounded rapidly in the second half of the year 2003.

The fiscal deficit for 2003/04 is forecast to be HK\$49 billion, which is lower than the HK\$78 billion that envisaged in October 2003. Mr. Tang said that the Government will continue its effort to reduce the expenditure through streamlining its structure and re-engineering procedures. By doing so, it is anticipated that the Government can restore its fiscal balance by the year of 2008/09. On the revenue side, Mr. Tang does not propose to raise the salaries tax rate, profits tax rate or any other tax rates so as to create a favorable condition for economic recovery. However, it is worth to note that the Government has taken a positive view in introducing new taxes such as the "Green" Tax and the Good and Services Tax in order to broaden the tax base.

We are pleased to summarize Mr. Tang's proposed revenue-raising measures in the forthcoming year 2004/05 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
10th March 2004



B. PROPOSED CHANGES IN GOVERNMENT REVENUE AND CHARGES

1. TAXATION

Salaries Tax, Profits Tax and Property Tax

- ◆ Propose no further increase in the tax rates. The changes in tax rate and personal allowances are in accordance with the second phase adjustments as announced in the 2003/04 Budget.

Stamp Duty

- ◆ Propose no changes for Stamp Duty.

Estate Duty

- ◆ Propose no changes for Estate Duty. However, the Government will conduct study on adjusting Estate Duty for the purpose of attracting foreign capitals.

Green Tax

- ◆ Conduct feasibility study to levy “Green” Tax on some polluting industries or products so as to promote environmental protection and at the same time, raise the Government revenue (one of the options is to levy a Tyre Tax) by reference to the “polluter pays” principle.

Goods and Services Tax (GST)

- ◆ The Government has set up an internal committee to conduct a detailed and comprehensive study on the implementation of GST in Hong Kong. It will draw on the practical experience of other places and come up with a proposed GST framework suitable for Hong Kong and an implementation time table as a basis for discussion. The internal committee will submit a report to Mr. Tang at the end of 2004 upon completion of the study. After that, he will announce what will be done next. It is anticipated that the Government needs at least 3 years to implement GST.

2. TAX CONCESSIONS

Deduction on research and development expenditure

- ◆ Extend the Profits Tax research and development deduction to cover expenses on design-related activities.

Deduction on Home Loan Interest

- ◆ Extend the time limit for deduction from 5 years to 7 years. The maximum deduction in a year is maintained at HK\$100,000.

Rates

- ◆ Propose no change on the charging rate.

Duty for Ultra Low Sulphur Diesel

- ◆ Extend the concession for ultra low sulphur diesel until the end of year 2004 (i.e. HK\$1.11 per litre for ultra low sulphur diesel in order to encourage the transport industry to switch to cleaner fuel).

Duty for Alcoholic Beverages

- ◆ Propose no reduction on duty for alcoholic beverages. However, the Government will keep reviewing the issue.

Fund and Asset Management

- ◆ Discuss with the industry on the arrangement to exempt offshore funds from Profits Tax.

3. GOVERNMENT CHARGES AND OTHERS

Government Fees and Charges

- ◆ Propose to adjust some fees and charges based on the “user pays” principle (e.g. visa fees, collection and disposal charges for oily waste discharged by merchant ships etc.)

Personalised Vehicle Registration Marks Scheme

- ◆ Introduce new scheme to allow the vehicle owner to choose his preferred vehicle registration mark (with any combination of up to eight letters and numerals) and use it upon approval of his application by the Transport Department and following a bidding exercise.

C. MAIN TAX RATES FOR THE YEARS 2003/04 AND 2004/05

1. Salaries Tax

Personal tax allowances and deductions:

	2003/04	2004/05
	HK\$	HK\$
Basic allowances :		
Single person's allowance	104,000	100,000
Married person's allowance	208,000	200,000
Additional allowances :		
Child :		
1st and 2nd child (each)	30,000	30,000
3rd to 9th child (each)	30,000	30,000
Dependent parent / grandparent :		
Basic	30,000	30,000
Additional ¹	30,000	30,000
Dependent brother / sister ²	30,000	30,000
Single parent	104,000	100,000
Disabled dependent	60,000	60,000
Additional deductions :		
Self-education expenses ³	40,000	40,000
Home loan interest	100,000	100,000
Elderly residential care expenses	60,000	60,000
Contributions to retirement schemes	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 salaries tax rates:

	2003/04	2004/05
Standard tax rates	15.5%	16%

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

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>2003/04</u>	<u>2004/05</u>
Unincorporated Business	15.5%	16%
Corporation	17.5%	17.5%

3. Property Tax

<u>Taxpayer</u>	<u>2003/04</u>	<u>2004/05</u>
Property Owner	15.5%	16%

4. Stamp Duty

Shares transactions:

Particular	2003/04	2004/05
Including shares, marketable securities, warrants and options registered in HK	0.200%	0.200%

Property transactions:

Sales Consideration	2003/04 & 2004/05
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	2003/04	2004/05
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 Over HK\$	Not Over HK\$	2003/04	2004/05
-	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%