

HONG KONG 2005/06 BUDGET

A FOREWORD

The Financial Secretary, the Hon. Henry Tang, delivers his second Budget for the fiscal year 2005/06 (i.e. from 1st April 2005 to 31st March 2006) this afternoon with emphasis on social stability and economic development.

Our economy was recovered throughout the year 2004/05 (i.e. from 1st April 2004 to 31st March 2005), moving out of the doldrums since the Asian financial crisis. The investment income from foreign exchange funds, the land premiums and the Government revenue from many sources were much higher than original estimates. On the other side, the Government expenses were well under control through a series of containment efforts. The 2004/05 consolidated accounts therefore recorded a surplus of around HK\$20 billion, outperforming from the original estimate of HK\$42.6 billion deficit. Real economic growth for the year 2004 was 8.1% in the year, which is the highest rate in the past 4 years. Mr. Tang forecasts that the GDP growth will be in a range of 4.5% and 5.5% in 2005.

The above financial highlights suggest that Hong Kong economy is back on an upward track following the adjustments over the past few years. But Mr. Tang stresses that the Government will continue its prudent financial control efforts. By doing so, it is anticipated that the Government can restore its fiscal balance by the year of 2007/08. Mr. Tang therefore does not propose to raise the salaries tax rate, profits tax rate or any other tax rates for the year 2005/06.

We are pleased to summarize Mr. Tang's proposed revenue-raising measures in the forthcoming year 2005/06 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
16th March 2005

B. PROPOSED CHANGES IN GOVERNMENT REVENUE AND CHARGES

1. TAXATION

Salaries Tax, Profits Tax, Property Tax and Stamp Duty

- Propose no change in the tax rates.

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.
- Consider to introduce product responsibility scheme for waste tyres and tax on plastic bags on the principles of “polluter pays”.

Goods and Services Tax (GST)

- Conduct in-depth, thorough and constructive discussions on this subject. It is anticipated that the Government needs at least 3 years before implementing the GST.

2. TAX CONCESSIONS

Estate Duty

- Abolish Estate Duty to attract foreign capitals and expertise for the development of international financial center in Hong Kong.

Tax Deduction for Private Medical Insurance

- Consider to allow tax deduction for the contributions to private medical insurance schemes.

Rates

- Propose no change on the charging rate (i.e. 5% of the estimated annual rental value of a property at a designated valuation reference date, assuming that the property was then vacant and to let).

Duty for Alcoholic Beverages

- Propose no change on the charging rate.

Fund and Asset Management

- After consultation with the industry on the proposed exemption of offshore funds from profits tax, Mr. Tang will shortly introduce the necessary legislative amendments to the Legislative Council.

3. GOVERNMENT CHARGES

Propose to adjust some fees and charges not directly affecting people's livelihood or general business activities (e.g. fees for oil storage installation licences and for registration of general building contractors) based on the principles of “user pays”, fairness and objectivity.

C. MAJOR TAX RATES FOR THE YEARS 2004/05 AND 2005/06

1. Salaries Tax

Personal tax allowances and deductions:

	<u>2004/05</u>	<u>2005/06</u>
	HK\$	HK\$
Basic allowances:		
Single person's allowance	100,000	100,000
Married person's allowance	200,000	200,000
Additional allowances:		
Child (each)	30,000	40,000
Dependent parent / grandparent:		
I. Aged 55 – 59		
- Basic	-	15,000
- Additional ¹	-	15,000
II. Aged 60 or above		
- Basic	30,000	30,000
- Additional ¹	30,000	30,000
Dependent brother / sister ²	30,000	30,000
Single parent	100,000	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:

	<u>2004/05</u>	<u>2005/06</u>
Standard tax rates	16%	16%

Progressive salaries tax rates:

<u>Net chargeable income</u>		<u>2004/05</u>	<u>2005/06</u>
First	HK\$30,000	2%	2%
Next	HK\$30,000	8%	8%
Next	HK\$30,000	14%	14%
Remainder		20%	20%

2. Profits Tax

<u>Business Category</u>	<u>2004/05</u>	<u>2005/06</u>
Unincorporated Business	16%	16%
Corporation	17.5%	17.5%

3. Property Tax

<u>Taxpayer</u>	<u>2004/05</u>	<u>2005/06</u>
Property Owner	16%	16%

4. Stamp Duty**Shares transactions:**

<u>Particular</u>	<u>2004/05</u>	<u>2005/06</u>
Including shares, marketable securities, warrants and options registered in HK	0.200%	0.200%

Property transactions:

Sales Consideration	2004/05 & 2005/06
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	2004/05	2005/06
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	Not Over	2004/05	2005/06
HK\$	HK\$		
-	7,500,000	Nil	Nil
7,500,000	9,000,000	5%	Nil
9,000,000	10,500,000	10%	Nil
10,500,000	-	15%	Nil