

SYNOPSIS OF HONG KONG 2008/09 BUDGET

A. HIGHLIGHT OF FINANCIAL INDICATORS IN HONG KONG

- 2007/08 forecasted surplus on the Consolidated Account at HK\$115.6 billion.
- GDP growth rate at 6.3% in 2007 which is higher than the trend growth for the past 10 years.
- Hong Kong's exports growth rate at 7.9%.
- Domestic private consumption spending growth rate at 7.8%, the highest since 1993.
- Average inflation rate for 2007 at 2%. Eliminating the effects of the rates concession and public housing rental waiver, the underlying inflation rate at 2.8%.
- Total employment grew to a historical high by 380,000 over the past 4.5 years. The latest unemployment rate at 3.4%, the lowest since the first quarter of 1998.
- Forecasted GDP growth in 2008 at 4 to 5%.
- Estimated underlying inflation rate in 2008 at 4.5%.
- Forecasted average inflation rate at 4% for the subsequent four years. The various one-off measures proposed in the Budget resulting the inflation rate to 3.4% only in 2008.

B. PROPOSED CHANGES IN GOVERNMENT REVENUE AND CHARGES

1. TAX CALCULATION

1.1 Salaries Tax

- Propose to lower the standard rate of salaries tax in by 1% to 15%.
- Propose to widen tax bands from HK\$35,000 to HK\$40,000.
- Propose to raise the basic personal allowance and single parent allowance to HK\$108,000, and married person's allowance to HK\$216,000. This takes us back to the 2002/03 level.

1.2 Profits Tax and Property Tax

- Propose to lower the profits tax rate of unincorporated businesses and property tax rate by 1% to 15%; and the corporate profits tax rate to 16.5%.

1.3 Ceiling for Tax Deductible Donations

- Propose to raise the maximum tax deductible amount on donations from 25% to 35% of assessable profits or income.

1.4 Tax Concession for Environment-friendly Machinery and Equipment

- Propose to provide a full amount of profits tax deduction for capital expenditure on the acquisition of environment-friendly machinery and equipment.
- Propose to accelerate the depreciation of environment-friendly installations ancillary to buildings from the usual period of 25 years to 5 years.

2. TAX AND OTHER CONCESSIONS

2.1 Salaries Tax and Tax Under Personal Assessment

- Propose to offer a one-off rebate of 75% of salaries tax and personal assessment tax that had been paid for the year 2007/08, subject to a ceiling of HK\$25,000. The amount waived will be deducted from the taxpayer's final tax payable for that year.

2.2 Profits Tax

- Propose to offer a one-off rebate of 75% of profits tax that had been paid for the year 2007/08, subject to a ceiling of HK\$25,000. The amount waived will be deducted from the taxpayer's final tax payable for that year.

2.3 Property Tax

- Propose to offer a one-off rebate of 75% of property tax that had been paid for the year 2007/08, subject to a ceiling of HK\$25,000. The amount waived will be deducted from the taxpayer's final tax payable for that year.

2.4 Rates

- Propose to waive the rates for the full year of 2008/09, subject to a ceiling of HK\$5,000 per quarter for each rateable tenement.

2.5 Hotel Accommodation Tax

- Propose to waive the hotel accommodation tax. It will help to further promote tourist attraction and enhance the competitiveness of our hotel industry.

2.6 Duty on Alcoholic Beverages

- Propose to exempt the duties on wine, beer and all other alcoholic beverages.

2.7 First Registration Tax for Commercial Vehicles

- Depending on the types of vehicles, a reduction of 30%, 50% or 100% in the first registration tax will be offered to buyers of commercial vehicles meeting the Euro V emissions standards.

2.8 Business Registration Fee

- Propose to waive the business registration fee for 2008/09.

2.9 Additional Social Welfare Assistance

- Propose to grant a subsidy of HK\$1,800 to each residential electricity account. The Government will inject the subsidy into the electricity bill accounts of eligible registered households in phases.
- Propose to inject a one-off contribution of HK\$6,000 into the MPF accounts of employees and self-employed persons earning not more than HK\$10,000 a month.
- Propose to provide one additional month of the standard rate Comprehensive Social Security Allowance payments for qualified recipients and one additional month of allowance for recipients of Disability Allowance.
- Propose to grant a one-off sum of HK\$3,000 to qualified recipients of Old Age Allowance.
- Propose to pay one month's rent for lower income families living in public housing estate.

C. FURTHER INFORMATION

- The above information is mainly extracted from the website of the "Hong Kong 2008-09 Budget". Please visit <http://www.budget.gov.hk/2008/eng/speech.html> for further details.

D. MAJOR TAX RATES FOR THE YEARS 2007/08 AND 2008/09

1. Salaries Tax

Personal tax allowances and deductions:

	2007/08 HK\$	2008/09 HK\$
Basic allowances:		
Single person's allowance	100,000	108,000
Married person's allowance	200,000	216,000
Additional allowances:		
Child		
- Basic (each)	50,000	50,000
- Additional (each, in the year of birth)	50,000	50,000
Dependent parent / grandparent:		
a. Aged 55 to 59		
- Basic	15,000	15,000
- Additional ¹	15,000	15,000
b. 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	108,000
Disabled dependent	60,000	60,000
Additional deductions:		
Self-education expenses ³	60,000	60,000
Home loan interest	100,000	100,000
Elderly residential care expenses	60,000	60,000
Contributions to retirement schemes	12,000	12,000
Approved charitable donations ⁴	25%	35%
Notes:		
1. For dependent living with taxpayer for a continuous period of not less than 6 months.		
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.		
4. The maximum deduction allowable is restricted to 35% (25% in 2007/08) of the taxpayer's assessable income after deduction of allowable expenses and depreciation allowance.		

Standard salaries tax rates:

	<u>2007/08</u>	<u>2008/09</u>
Standard tax rates	16%	15%

Progressive salaries tax rates:

<u>Net Chargeable Income</u>		<u>2008/09</u>
First	HK\$40,000	2%
Next	HK\$40,000	7%
Next	HK\$40,000	12%
Remainder		17%

<u>Net Chargeable Income</u>		<u>2007/08</u>
First	HK\$35,000	2%
Next	HK\$35,000	7%
Next	HK\$35,000	12%
Remainder		17%

2. Profits Tax

<u>Business Category</u>	<u>2007/08</u>	<u>2008/09</u>
Unincorporated Business	16%	15%
Corporation	17.5%	16.5%

3. Property Tax

<u>Taxpayer</u>	<u>2007/08</u>	<u>2008/09</u>
Property Owner	16%	15%

4. Stamp Duty**Shares transactions:**

<u>Particular</u>	<u>2007/08 and 2008/09</u>
Including shares, marketable securities, warrants and options registered in HK	0.200%

Property transactions:

Sales Consideration	2007/08 and 2008/09
Up to HK\$2,000,000	HK\$100
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	2007/08 and 2008/09
Not defined or is uncertain	0.25%
Specified in the lease as not exceeding 1 year	0.25%
Exceeding 1 year but not exceeding 3 years	0.50%
Exceeding 3 years	1.00%

5. Estate Duty

- ◆ The Government had abolished the Estate Duty with effect from 11-02-2006 pursuant to the Revenue (Abolition of Estate Duty) Ordinance 2005.