

SYNOPSIS OF HONG KONG 2009/10 BUDGET

[Tax & Business Advisory Division]

A. HIGHLIGHT OF FINANCIAL INDICATORS IN HONG KONG

- 2008/09 forecasted a deficit on the Consolidated Account at HK\$4.9 billion. This deficit was equivalent to 0.3% of our GDP.
- GDP growth rate was at 2.5% in 2008 which are lower than the trend growth rate over the past 10 years.
- Hong Kong's exports growth rate at 2.0%.
- Domestic private consumption spending growth rate was at 1.8%, a market slowdown from the rapid growth in 2007.
- The average inflation rate as measured by the Composite Consumer Price Index for 2008 was 4.3%.
- With the economy sinking into recession, the employment situation is expected to deteriorate further. The latest unemployment rate was at 4.6%.
- Forecasted a decrease in GDP by 2% to 3% for 2009, the first negative growth for a whole year since the Asian financial crisis in 1998.
- Estimated headline inflation rate in 2009 would ease to 1.6%.

B. PROPOSED CHANGES IN GOVERNMENT REVENUE AND CHARGES

1. TAX CONCESSIONS AND OTHER MEASURES

1.1 Salaries Tax and Tax Under Personal Assessment

- Propose to offer a one-off rebate of 50% of salaries tax and personal assessment tax that had been paid for the year 2008/09, subject to a ceiling of HK\$6,000. The amount waived will be deducted from the taxpayer's final tax payable for that year.

1.2 Rates

- Propose to waive the rates for the first two quarters of 2009/10, subject to a ceiling of HK\$1,500 per quarter for each rateable tenement.

1.3 First Registration Tax for Electric Vehicles

- Propose to extend the exemption for electric vehicles from First Registration Tax, which is due to expire on 31 March 2009, for a further five years instead of three years as in the past.



1.4 Tobacco Duty

- Propose to increase tobacco duty by 50% with immediate effect. The duty on cigarettes will increase from around HK\$0.8 to about HK\$1.2 per stick.

1.5 Additional Social Welfare Assistance

- Propose to provide a 20% rental reduction for most government properties and short term tenancies of government land for three months and expected to benefit more than 17,000 tenants.
- Propose to extend the freeze on government fees and charges related to people's livelihood till 31 March 2010.
- Propose to allocate an additional of HK\$5,000,000 for the "Neighbourhood Active Ageing Project" in the next financial year to establish new neighbourhood support network in each district.
- Propose to allocate HK\$10,000,000 for the establishment of an Elder Academy Development Foundation which is co-sponsored by the Government and various sectors in order to ensure the sustainable development of the Elder Academy Scheme
- Propose to provide additional recurrent funding of about HK\$37,000,000 to residential care homes taking care of infirm elders and those with dementia.
- Propose to increase recurrent funding by about HK\$55,000,000 to provide a total of 650 additional subsidised residential care places through the Enhanced Bought Place Scheme and two new contract homes.
- Propose to allocate HK\$20,000,000 in the coming three years to expand the Capacity Building Mileage Programme so as to encourage more women to pursue continuous learning and self-development.
- Propose to provide additional recurrent funding of about HK\$19,000,000 to enhance the care for persons with disabilities and provide the necessary training, including the provision of 156 additional residential places, 30 additional day training or vocational rehabilitation service places and 54 additional pre-school rehabilitation service places.

C. FURTHER INFORMATION

- The above information is mainly extracted from the website of the "Hong Kong 2009-10 Budget". Please visit <http://www.budget.gov.hk/2009/eng/speech.html> or contact us for further details.

D. MAJOR TAX RATES FOR THE YEARS 2008/09 AND 2009/10

1. Salaries Tax

Personal tax allowances and deductions:

| | <u>2008/09 and 2009/10</u> |
|---|----------------------------|
| | HK\$ |
| Basic allowances: | |
| Single person's allowance | 108,000 |
| Married person's allowance | 216,000 |
| Additional allowances: | |
| Child | |
| - Basic (each) | 50,000 |
| - Additional (each, in the year of birth) | 50,000 |
| Dependent parent / grandparent: | |
| a. Aged 55 to 59 | |
| - Basic | 15,000 |
| - Additional ¹ | 15,000 |
| b. Aged 60 or above | |
| - Basic | 30,000 |
| - Additional ¹ | 30,000 |
| Dependent brother / sister ² | 30,000 |
| Single parent | 108,000 |
| Disabled dependent | 60,000 |
| Additional deductions: | |
| Self-education expenses ³ | 60,000 |
| Home loan interest | 100,000 |
| Elderly residential care expenses | 60,000 |
| Contributions to retirement schemes | 12,000 |
| Approved charitable donations ⁴ | 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% of the taxpayer's assessable income after deduction of allowable expenses and depreciation allowance. | |

Standard salaries tax rates:

| | <u>2008/09 and 2009/10</u> |
|--------------------|----------------------------|
| Standard tax rates | 15% |

Progressive salaries tax rates:

| <u>Net Chargeable Income</u> | <u>2008/09 and 2009/10</u> |
|------------------------------|----------------------------|
| First HK\$40,000 | 2% |
| Next HK\$40,000 | 7% |
| Next HK\$40,000 | 12% |
| Remainder | 17% |

2. Profits Tax

| <u>Business Category</u> | <u>2008/09 and 2009/10</u> |
|--------------------------|----------------------------|
| Unincorporated Business | 15% |
| Corporation | 16.5% |

3. Property Tax

| <u>Taxpayer</u> | <u>2008/09 and 2009/10</u> |
|-----------------|----------------------------|
| Property Owner | 15% |

4. Stamp Duty**Shares transactions:**

| <u>Particular</u> | <u>2008/09 and 2009/10</u> |
|--|----------------------------|
| Including shares, marketable securities, warrants and options registered in HK | 0.200% |

Property transactions:

| Sales Consideration | 2008/09 and 2009/10 |
|--------------------------------|---|
| 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 | 2008/09 and 2009/10 |
|--|---------------------|
| 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.