

## **Guide on year 2018-19 proposed Hong Kong's Financial Budget**

The information contained in this letter is intended to provide readers with an overview of the significant tax changes. No liabilities can be accepted for any actions taken as a result of reading the contents without our consultation having regard to all relevant factors.

Anthony Kam & Associates Limited  
Certified Public Accountants  
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### **Introduction**

On 28 February 2018, the Financial Secretary, the Hon Paul MP Chan delivered his 2018-19 Budget Speech. The details of the budget are summarized as follows:

### **Economic prospects for 2018-19**

- Consolidated budget is forecast at surplus \$46.6 billion in 2018-19 (2017-18: surplus \$138.0 billion).
- Gross Domestic Product growth is forecast to be 3% ~ 4% in 2018-19 (2017-18: 3.8%).
- Underlying inflation is forecast at 2.5% in 2018-19 (2017-18: 1.7%).
- Government expenditure is forecast at \$557.9 billion in 2018-19 (2017-18: \$474.4 billion).

### **Tax relief, Caring and Sharing**

- Reduce salaries tax and tax under personal assessment for 2017-18 by 75%, subject to a ceiling of \$30,000. Reduce profits tax for 2017-18 by 75%, subject to a ceiling of \$30,000. Waive rates for 4 quarters of 2018-19 subject to a ceiling of \$2,500.
- Provide an extra allowance to recipients to CSSA, Old Age Allowance, Old Age Living Allowance or Disability Allowance, equal to 2 month of the standard rate; similar arrangements will apply to Low-income Working Family Allowance and Work Incentive Transport Subsidy.
- Provide a one-off grant of \$2,000 to each student in need. Pay the examination fees for candidates sitting for the 2019 Hong Kong DSE Examination.
- To set aside \$15B to effect the abolition of the MPF "offsetting" arrangement. Allocate a total of about \$220M to strengthen care for children and disadvantaged youths. Earmark \$500M to strengthen support for ethnic minorities. Allocate an additional \$660M to improve rehabilitation services. Implement measures on elderly services, involving recurrent provision of about \$1,263M and non-recurrent expenditure of about \$2,229M. Allocate about \$500M from the Lotteries Fund to provide social work services.

## 1. Profits tax (no changes)

Corporate; corporate partner in unincorporated business	16.5%
Unincorporated business	15%

## 2. Salaries tax (changes are printed in bold)

	<b>Proposed 2018-19</b> (\$)	Present 2017-18 (\$)
<b>Standard rate</b>		15%
<b>Progressive rates</b>		
First <b>Proposed \$50,000</b> (Present \$45,000)	<b>2%</b>	2%
Next <b>Proposed \$50,000</b> (Present \$45,000)	<b>6%</b>	7%
Next <b>Proposed \$50,000</b> (Present \$45,000)	<b>10%</b>	12%
Next <b>Proposed \$50,000</b> (Present Remainder)	<b>14%</b>	17%
<b>Proposed remainder</b>	<b>17%</b>	

### Allowances

Basic		132,000
Married		264,000
Single parent		132,000
Disabled	<b>75,000</b>	-
1-9 child (each) year of birth	<b>240,000</b>	200,000
other years	<b>120,000</b>	100,000
Dependent parent/grandparent		
Basic (aged 60 or above)	<b>50,000</b>	46,000
Additional for residing with taxpayer	<b>50,000</b>	46,000
Basic (aged 55-59)	<b>25,000</b>	23,000
Additional for residing with taxpayer	<b>25,000</b>	23,000
Dependent brother/sister		37,500
Disabled dependent		75,000

### Deductions ceiling:

Self-education expenses		100,000
Home loan interest		100,000
(number of years of deduction)		(20 years)
Charitable donations (% of income)		35%
Elderly residential care expenses	<b>100,000</b>	92,000
Contributions to recognized retirement schemes		18,000
Voluntary health insurance scheme	<b>8,000</b>	-

## 3. Property tax (no changes)

Property tax	15%
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## 4. Stamp duty

### Stamp duty - On sale or transfer of immovable property in Hong Kong

#### A Ad valorem stamp duty (AVD)

Consideration (\$)	Scale 1*	Scale 2*
2 million (M) <	1.50%	\$100
2M to 3M	3.00%	1.50%
3M to 4M	4.50%	2.25%
4M to 6M	6.00%	3.00%
6M to 20M	7.50%	3.75%
> 20M	8.50%	4.25%

\* subject to marginal relief.

- (i) AVD scale 1 applies to all non-residential properties.
- (ii) AVD scale 2 applies to all residential properties where the purchaser is a permanent resident (HKPR) who does not own any other residential property in Hong Kong at the time of acquisition.
- (iii) AVD is charged at 15% to other residential properties transactions.

#### B Special stamp duty (SSD) – residential property only

Property holding period	Acquired period	
	>27 October 2012	>20 November 2010 <26 October 2012
< 6 months	20%	15%
> 6 months < 12 months	15%	10%
> 12 months < 24 months	10%	5%
> 24 months < 36 months	10%	0%

#### C Buyer's stamp duty (BSD) – residential property only

Non-HKPR buyer	15%
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### Stamp duty - On lease of immovable property in Hong Kong

Term	Yearly average rent	
Not defined or < 1 year	0.25%	
1-3 years	0.5%	
> 3years	1%	
Key money, construction fee etc mentioned in the lease	4.25%	if rent is also payable

### Stamp duty - On transfer of Hong Kong stock

Value on every sold and bought note (0.2% combined)	0.1%
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## 5. Rates (no changes)

Rental value of a property	5%
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## 6. Duty on tobacco and alcoholic beverages (no changes)

For each 1000 cigarettes	\$1906
Cigars	\$2,455/kg
Liquor with an alcoholic strength of more than 30% by volume	100%

## 7. First registration tax (FRT) on private cars (PCs)

Tax bands (\$)	
On the first 150,000	40%
On the next 150,000	75%
On the next 200,000	100%
On the remainder	115%

- (i) Up to 31 March 2021, electric private cars (e-PCs) and electric commercial vehicles, electric motor cycles and electric motor tircycles their FRT will be waived up to \$97,500 and full respectively.
- (ii) Up to 31 March 2021, PC owners who arrange to scrap and deregister their old PC and then first register a new e-PC enjoy a FRT of up to \$250,000.

## 1. Diversified Economy

### **Innovation and Technology and Financial Services Industry**

- Focus on 4 areas: biotechnology, artificial intelligence, smart city and financial technologies. Set aside \$20B for Hong Kong Shenzhen Innovation and Technology Park. Inject \$10B into innovation and Technology Fund. Earmark \$10B for the establishment of two research clusters. Allocate \$10B to upgrade facilities of the Science Park. Allocate \$200M to Cyberport and another \$100M to develop e-sports.
- Set aside a dedicated provision of \$500M to develop financial services industry.

### **Tourism and Trading and Logistics Industry**

- Allocate \$226M for the Hong Kong Tourism Board. Allocate \$310M to support Ocean Park development. Allocate \$30M for enhancing the Pilot Information Technology Development Matching Fund Scheme.
- Set aside \$5B for redeveloping the Air Mail Centre at the Hong Kong International Airport.

### **Construction and Creative Industries**

- Set up \$1B Construction Innovation and Technology Fund. Inject \$1B into the CreateSmart Initiative to support development of the creative industries.

### **Business and Professional Services**

- Inject \$1.5B into the Dedicated Fund on Branding, Upgrading and Domestic Sales. Provide \$250M to the Hong Kong Trade Development Council.

## 2. Enhancing Liveability

### **Healthcare**

- Allocate additional recurrent funding of nearly \$6B to Hospital Authority. Allocate \$200M to enhance the healthcare professional training. Set aside \$300B to support the second 10-year hospital development plan. Provide a one-off additional \$1,000 worth of elderly health care vouchers, involving an expenditure of \$796M. Extend the Colorectal Cancer Screening Programme for a total expenditure of \$940M over the coming 5 years. Establish a \$500M fund to promote development of Chinese medicine. Set aside \$500M to support the improvement of patient's co-payment mechanism for purchasing drugs.

### **Art and Culture**

- Set aside \$20B for improvement and development of cultural facilities; and allocate \$500M for acquisition of museum collections. Inject an additional \$500M into the Art Development Matching Grants Pilots Scheme; and allocate a total of about \$370M to support arts groups and artists. Allocate \$300M to strengthen promotion of Intangible Cultural Heritage.

### **District Facilities and Sports**

- Set aside \$8B to be coordinated by the Home Affairs Bureau, for improving facilities in 18 districts. Earmark \$2B for implementing a Market Modernization Programme. Inject another \$5B into the Elite Athletes Development Fund. Inject \$1B into the sports portion of the Arts and Sports Development Fund. Allocate \$500M for a Major Sports Events Matching Grant Scheme. Allocate \$100M to launch a District Sports Programmes Funding Scheme.

## 3. Nurturing Talent

- Provide additional \$2B recurrent expenditure to strengthen support for teachers, kindergartens, integrated education and life-wide learning. Allocate \$2.5B for the Matching Grant Scheme to support 10 publicly-funded post-secondary institutions. Provide \$2B to expedite installation of lifts in public sector schools. Inject \$800M into both the Gifted Education Fund and the HKSAR Government Scholarship Fund. Earmark \$2.5B to set up a Student Activities Support Fund. Further inject an additional \$8.5B into the Continuing Education Fund. Set aside \$1B to support the work of the Youth Development Commission.

## 4. Land Resources

- Public Housing estimated production for the next 5 years is about 100,000 units. Private housing projected supply in the next 3 to 4 years is about 97,000 units. Potential land supply for private housing in 2018-19 is about 25,500 units. 2018-19 Land Sale Programme includes 4 commercial/hotel sites, capable of providing about 530,000 square meters floor area. Set aside \$1B to subsidise eligible projects.