

# BUDGET SPECIAL REPORT 2009/2010

February 2009

*Prepared by Mazars Tax Services Limited*

## 2009/2010 BUDGET HIGHLIGHTS

On 25 February 2009, the Financial Secretary, Mr. John Tsang Chun-wah, delivered his budget speech to the Legislative Council proposing the Government's revenue and expenditure plans for the 2009/2010 fiscal year.

This special report summarizes the budget proposals on tax revenue which are not final and will be reviewed by the Legislative Council shortly. Some of the proposals may be amended or may not be enacted at all.

The Financial Secretary proposed a series of measures to help Hong Kong to overcome the challenges posed by the financial crises:

- Introduce a number of measures to preserve employment.
- Promote a more sustainable economic development by strengthening the fundamentals and developing new economic initiatives in the longer run.
- To develop a caring community and provide assistance to the disadvantaged.

### Employment

The Financial Secretary said that jobs were important to social stability and employment was the government's top priority in 2009. He announced a number of initiatives which will create about 62,000 new jobs and internship opportunities in order to preserve social stability.

### Sustainable Economic Development

The Financial Secretary also introduces measures to sustain economic development and maintain the economic vibrancy. Apart from measures for promoting co-operation with Guangdong, Taiwan and Macao; promoting Hong Kong as an Asian wine and gourmet centre; developing human capital etc., the Financial Secretary also introduced particular measures to improve Hong Kong's regime as a platform for the growing area of Islamic finance. He said that relevant proposals on changes to or clarifications in the areas of stamp duty, profits tax and property tax will be submitted to the Legislative Council in 2009/10 in order to create a level playing field for Islamic financial products versus conventional ones.

In addition, to promote the further development of our bond market and to provide more choices to both institutional and individual investors, the government intends to implement a programme to issue government bond. Following the Lehman Brothers Minibond Incident, the government has drawn up an action plan for conducting consultation on the recommendations and implementing the related measures in phases so as to further improve our regulatory framework and enhance investor protection.

To develop Hong Kong into a city of quality and improve our quality of life, the government encourages the use of electric vehicles and proposed to extend the exemption of electric vehicles from First Registration Tax, which is due to expire on 31 March 2009, for a further 5 years instead of 3 years.

Agreements for avoidance of double taxation with major economies will help to improve the Hong Kong's position as an international business and financial centre. The Financial Secretary believed that the business and professional community generally agrees that Hong Kong should align its arrangements for the exchange of tax information with international standards so that Hong Kong can enter into such agreements with more countries. He has scheduled to put forward relevant legislative proposals in the middle of 2009.

### **Building a Caring Community and Alleviating People's Hardship**

For public health reasons, the Financial Secretary announced an increase in tobacco duty by 50% with immediate effect.

The government will adopt counter-cyclical strategies to boost the economy and it will continue to spend to meet the commitments to the community. The Financial Secretary proposed several measures to alleviate the hardship of the middle class as well as disadvantaged groups including:

- To offer a one-off tax reduction of 50% of salaries tax and tax under personal assessment for 2008-09, subject to a ceiling of \$6,000.
- To waive rates for the first two quarters of 2009/10, subject to a ceiling of \$1,500 per quarter for each rateable tenement.
- To provide a 20% rental reduction for most government properties and short term tenancies of government land for three months.
- To extend the freeze on government fees and charges related to people's livelihood till 31 March 2010.

With respect to direct taxes, as anticipated, the Financial Secretary has not proposed any changes to the profits and salaries tax rates and personal allowances.

## ECONOMIC PERFORMANCE AND PROSPECTS

- The revenue from profits tax and salaries tax for 2008/09 is higher than expected. The Financial Secretary pointed out that the impact of the financial crisis on tax revenue has yet to be fully reflected in 2008/09.
- A budget deficit of HK\$4.9 billion in the consolidated account for 2008/09 is expected compared to the original estimate of HK\$7.5 billion. A consolidated account deficit of HK\$39.9 billion for 2009/2010 is estimated.
- The operating account surplus for 2008/09 is estimated at HK\$18 billion. For 2009/10, an operating deficit of HK\$9.8 billion is estimated.
- Fiscal reserves are estimated to be HK\$448.1 billion by 31 March 2010. The reserve balance is anticipated to be around HK\$391.1 billion by 31 March 2014.
- For 2008, GDP grew by 2.5%, which is lower than the trend growth rate over the past 10 years. With the global financial crisis and the continued economic turmoil, the Financial Secretary forecast a decrease in GDP by 2 to 3% for 2009.
- The latest unemployment rate was 4.6% and is expected to increase in 2009.
- The inflation rate was 4.3% for 2008 and will ease to 1.6% in 2009.

## TAX REDUCTION

The Financial Secretary proposed to reduce 50% of salaries tax and tax under personal assessment assessed for 2008/09, subject to a ceiling of HK\$6,000.

## PROFITS TAX

### Tax Rates

The profits tax rates for corporations and unincorporated businesses will remain at 16.5% and 15% respectively in 2009/10. The profits tax rates are summarised in Table 1 below.

**Table 1: Profits Tax Rates**

	<u>2009/10 &amp; 2008/09</u>
	%
Corporations	16.5
Others	15.0

## SALARIES TAX AND PERSONAL ASSESSEMENT

The standard tax rate and progressive marginal tax rates will remain uncharged. No changes have been proposed in the deductions and allowances. The marginal rates and bands are summarized in Table 2 and deduction and allowances are summarized in Table 3 respectively:

**Table 2: Salaries / Personal Assessment Tax Rates**

<u>Progressive Rates</u>	<u>2009/10 &amp; 2008/09</u>
<u>Income net of allowances</u>	<u>Rate</u>
HK\$	%
Under 40,001	2
40,001–80,000	7
80,001–120,000	12
Over 120,000	17
<b>Standard rate</b>	<b>15</b>

**Table 3: Deductions / Allowances**

	<u>2009/10 &amp; 2008/09</u>
	HK\$
<b>Deduction Limits</b>	
Self-education	60,000
Home loan interest	100,000
Elderly residential care	60,000
Contribution to retirement Scheme	12,000
<b>Allowances</b>	
<b>Personal</b>	
• Basic	108,000
• Married person	216,000
• Single parent	108,000
<b>Child</b>	
1 <sup>st</sup> to 9 <sup>th</sup>	
• Year of birth	100,000
• Other years	50,000
<b>Dependent parent / Grandparent</b>	
• Basic	
- Aged 55 – 59	15,000
- Aged 60 or above	30,000
• Additional	
- Aged 55 – 59	15,000
- Aged 60 or above	30,000
Disabled dependant	60,000
Dependent brother/sister	30,000

The break-even points for 2009/10 where the progressive rates of tax will not apply for a single person or married person under separate assessment (“Single Person”) and a married couple with up to two children are shown in Table 4.

**Table 4: Break-Even Points**

<u>No. of children</u>	<u>Single person</u>	<u>Married couple</u>
	HK\$	HK\$
None	1,518,000	2,436,000
1	1,943,000	2,861,000
2	2,368,000	3,286,000

Income level for break-even points will be increased by HK\$425,000 for each additional one-off child allowance for new born child.

## PROPERTY TAX

Property tax rate will remain at 15%.

## STAMP DUTY

Stamp duty on stock transactions will remain unchanged at 0.2%.

The stamp duty on transactions of properties will also remain unchanged. The threshold values for various stamp duty bands and duty rates will remain unchanged as shown in Table 5.

**Table 5: Stamp Duty on Property Transactions**

<u>HK\$ Million</u>	<u>2009/10 &amp; 2008/09</u> <u>Rate</u>
0-2	HK\$100
2-3	1.50%
3-4	2.25%
4-6	3.00%
Over 6	3.75%

## GOVERNMENT DUTIES AND CHARGES

- Rates**
- To waive rates for the first two quarters of 2009/10, subject to a ceiling of HK\$1,500 per quarter per rateable tenement.
- First Registration Tax for Vehicle**
- To exempt the first registration tax for buyers of electric vehicles.
- Government fees and charges**
- To extend the freeze on government fees and charges related to people's livelihood till 31 March 2010.

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## Contacts

### *Mazars Hong Kong*

34/F., The Lee Gardens  
33 Hysan Avenue  
Causeway Bay  
Hong Kong

Tel : (852) 2909 5555

Email : [info@mazars.com.hk](mailto:info@mazars.com.hk)

Fax : (852) 2810 0032

Website : [www.mazars.com.hk](http://www.mazars.com.hk)