

HONG KONG 08/09

BUDGET SPECIAL REPORT

27 FEBRUARY 2008

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2008/2009 BUDGET HIGHLIGHTS

The Financial Secretary, Mr John Tsang, presented the 2008/09 Government Budget to the Legislative Council ("LegCo") on 27 February 2008.

He reported that our GDP growth is the highest of the past ten years and Hong Kong's economy has staged a strong recovery over the past few years, with a marked improvement in employment and rise in asset prices. Consumer sentiment and investor confidence are strong.

He warned however, that Hong Kong is faced with the risk of global economic slowdown and rising inflation, albeit the sustained rapid economic growth of the Mainland China and its increasingly intensified economic integration with Hong Kong will cushion the impact of this slowdown on Hong Kong.

He said that he had adhered to the following 3 basic principles in preparing this year's budget which will lay a solid foundation for our economy to meet our future challenges:

- Commitment to society;
- Sustainable financial policies;
- Pragmatic.

This special report summarizes the budget proposals on tax revenue which are not final and will be reviewed by LegCo shortly.

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In the absence of unexpected serious incidents and external shocks, the Financial Secretary's forecast for 2008 is that Hong Kong's economy will continue to record solid growth.

MEASURES TO SHARE WEALTH WITH THE COMMUNITY

- Waiving 75% of salaries tax, profits tax, property tax and tax under personal assessment assessed for 2007/08, subject to a ceiling of HK\$25,000.
- Waiving rates for 2008/09, subject to a ceiling of HK\$5,000 per quarter per rateable tenement.
- Waiving the business registration fees for 2008/09.
- Providing a one-off grant of HK\$3,000 for every recipient of old age allowance.
- Providing one additional month of CSSA payment and disability allowance for CSSA recipients and recipients of disability allowance.
- Providing a subsidy of HK\$1,800 for each residential electricity account.
- Paying one month's rent for lower income families living in rental units of Hong Kong Housing Authority (HA) and the Hong Kong Housing Society (HS).

MEASURES FOR PROVIDING FOR FUTURE AND PROMOTING LONG TERM ECONOMIC DEVELOPMENT

- Providing every employee and self-employed person who has a Mandatory Provident Fund (MPF) account and earns not more than HK\$10,000 a month with a one-off injection of HK\$6,000 into his MPF account.
- Earmarking HK\$50 billion to assist in the implementation of healthcare reform.
- Granting HK\$18 billion to establish a Research Endowment Fund to encourage R&D activities.
- Offering a more concessionary tax deduction for capital expenditure on environmental protection equipment and structure.
- Reducing first registration tax for commercial vehicles meeting Euro V emissions standards.

ECONOMIC PERFORMANCE AND PROSPECTS

- Revenues from stamp duty and land premium income are far higher than expected. Therefore, the consolidated account surplus for 2007/08 is forecast at HK\$115.6 billion instead of HK\$25.4 billion as originally estimated. A consolidated account deficit of HK\$7.5 billion for 2008/09 is estimated.
- The operating account surplus for 2007/08 is estimated at HK\$63.7 billion. For 2008/09, an operating deficit of HK\$6.3 billion is estimated.
- Fiscal reserves are forecast to be HK\$484.9 billion by 31 March 2008. The reserve balance is anticipated to fall slightly to HK\$477.4 billion by 31 March 2009.
- The real GDP growth rate for 2007 was 6.3% and that for 2008 is forecast to be 4 to 5%.
- Unemployment rate will remain at a relatively low level.
- The Composite Consumer Price Index (CCPI) is forecast to increase by 3.4% in 2008. Eliminating the effects of various one-off measures introduced in the 2008/09 Budget, the underlying CCPI is forecast to increase by 4.5% in 2008.

TAX REBATES

The Financial Secretary proposed to rebate 75% of salaries tax, profits tax, property tax and tax under personal assessment assessed for 2007/08, subject to a ceiling of HK\$25,000.

APPROVED CHARITABLE DONATIONS

Ceiling for tax-deductible donations to approved charitable organizations under profits tax, salaries tax and tax under personal assessment is increased from 25% to 35% of the assessable profits or income.

PROFITS TAX

TAX RATES

The profits tax rates for corporations and unincorporated businesses are reduced by 1% to 16.5% and 15% respectively in 2008/09. The profits tax rates are summarised in Table 1 below.

TABLE 1: PROFITS TAX RATES

	2008/09	2007/08
	%	%
Corporations	16.5	17.5
Others	15.0	16.0

ENVIRONMENTAL PROTECTION

The Financial Secretary proposed a 100% write-off for capital expenditure on environmental friendly machinery and equipment in the first year of purchase. For environment-friendly installations mainly ancillary to buildings, he proposed to write off the capital expenditure over a 5-year period.

SALARIES TAX AND PERSONAL ASSESSMENT

TAX RATES AND TAX BANDS

The standard rate is reduced by 1% to 15%. The tax band is widened from HK\$35,000 to HK\$40,000 and marginal rates will remain unchanged. The marginal rates and bands are summarized in Table 2:

TABLE 2: SALARIES TAX RATES

	2008/09		2007/08
	%		%
PROGRESSIVE RATES		PROGRESSIVE RATES	
Income net of allowances		Income net of allowances	
HK\$		HK\$	
Under 40,001	2	Under 35,001	2
40,001-80,000	7	35,001-70,000	7
80,001-120,000	12	70,001-105,000	12
Over 120,000	17	Over 105,000	17
STANDARD RATE	15	STANDARD RATE	16

ALLOWANCES AND DEDUCTIONS

Basic personal allowance and single parent allowance is increased to HK\$108,000 whereas married person allowance is increased to HK\$216,000.

Other deductions and allowances remain unchanged. The deductions and allowances are summarised in Table 3 below.

TABLE 3: DEDUCTIONS / ALLOWANCES

	2008/09	2007/08
	HK\$	HK\$
DEDUCTION LIMITS		
Self-education	60,000	60,000
Home loan interest	100,000	100,000
Elderly residential care	60,000	60,000
Contribution to retirement Scheme	12,000	12,000
ALLOWANCES		
Personal		
• Basic	108,000	100,000
• Married person	216,000	200,000
• Single parent	108,000	100,000
Child		
1 st to 9 th		
• Year of birth	100,000	100,000
• Other years	50,000	50,000
Dependent parent / Grandparent		
• Basic		
- Aged 55 – 59	15,000	15,000
- Aged 60 or above	30,000	30,000
• Additional		
- Aged 55 – 59	15,000	15,000
- Aged 60 or above	30,000	30,000
Disabled dependant	60,000	60,000
Dependent brother/sister	30,000	30,000

The break-even points for 2008/09 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

No. of children	Single person	Married couple
	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 be reduced by 1% to 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

HK\$ MILLION	2008/09	2007/08
	RATE	RATE
0-2	HK\$100	HK\$100
2-3	1.50%	1.50%
3-4	2.25%	2.25%
4-6	3.00%	3.00%
Over 6	3.75%	3.75%

HOTEL ACCOMMODATION TAX

The Financial Secretary proposed to waive the hotel accommodation tax to further promote tourism and enhance the competitiveness of Hong Kong's hotel industry.

GOVERNMENT DUTIES AND CHARGES

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| Rates | • To waive rates for 2008/09, subject to a ceiling of HK\$5,000 per quarter per rateable tenement. |
| Business Registration Fee | • To waive business registration fees for 2008/09. |
| First Registration Tax for Vehicle | • To reduce 30%, 50% or 100% of the first registration tax for buyers of commercial vehicles meeting the Euro V emissions standards. |

CUSTOM DUTIES

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| Duty on Alcoholic Beverages | • To exempt the duties on wine, beer and all other alcoholic beverages except spirits with immediate effect. |
| Duty on Euro V diesel | • Government has already offered a concessionary duty rate of HK\$0.56 per litre from 1 December 2007 for 2 years. |