



Intertrust

Budget Bulletin Hong Kong 2010/2011



Consolidating Recovery, Economic Development, Caring Society

Hong Kong's Financial Secretary, John Tsang Chun-wah, issued the 2010/11 Budget on 24 February 2010. This is his third budget since taking office.

What he did do

- ▶ retained the "source" system of taxing both individual and corporate income
- ▶ retained the exemption of tax on dividends, capital gains and interest
- ▶ promoted further development of the bond market
- ▶ reduced profits tax by 50% for interest income and profits derived from qualifying debt instruments with a maturity period of less than three years
- ▶ urged the Commissioner of Inland Revenue to clarify the definition of "central management and control" to address the industry's concern about the residency requirement for directors of the management committee of offshore funds in their applications for profits tax exemption
- ▶ proposed to accelerate the tax deduction for capital expenditure on environmental-friendly vehicles
- ▶ proposed to extend the deduction under Profits Tax for expenditure on registered trademarks, copyrights and registered designs
- ▶ waived property rates for the year 2010/11, subject to a ceiling of HK\$1,500 per quarter for each rateable tenement
- ▶ waived the business registration fee of companies for the year 2010/11
- ▶ increased the marginal tax rate of stamp duty on transactions of properties valued at more than HK\$20 million to 4.25%
- ▶ granted a one-off tax reduction of 75% of salaries tax and tax under personal assessment for 2009/10, subject to a ceiling of HK\$6,000
- ▶ provided further support and initiatives to maintain Hong Kong's position as a leading international financial centre

What he should have done

- ▶ announced a plan which would broaden the tax base
- ▶ increased tobacco duty

- ▶ eliminated the upper limit of the deduction for home mortgage interest payments and the limitation on the number of years deduction
- ▶ granted a deduction for personal allowances to standard flat rate taxpayers
- ▶ lowered the tax burden of the middle class group by reducing the progressive rates for Salaries Tax
- ▶ initiated the revision of the Inland Revenue Ordinance to:
 - ▶ grant tax incentives to those industries as encouraged in his budget proposal;
 - ▶ give greater certainty on the application of the source concept for profits tax purposes to all taxpayers;
 - ▶ reconsider the introduction of group tax relief and tax loss carry-back provisions;
 - ▶ grant tax deductions on expenditure for manufacturing plant and machinery for import processing cases

"Big Market, Small Government"

The Government will continue to create conditions for market development including measures such as maintaining the rule of law, a simple and low tax regime, nurturing talent, investing in infrastructure, and helping enterprises tap markets outside Hong Kong.

A series of measures will be introduced to help people of different sectors. Key highlights of his budget are summarised as follows:

Fiscal highlights

Surplus of HK\$19 billion and 13.8 billion in the Operating Account and the Consolidated Account respectively are forecast for 2009/10.

From an economic performance perspective, the overall 2009 GDP fell by only 2.7% and the average inflation rate, netting out the effects of Government's one-off relief measures, was 1%. As a result of the measures to preserve employment, the employment situation is expected to improve further. Furthermore, a GDP growth of 4% to 5% for the year 2010 is forecast.

In 2009, Government implemented the strategy of "stabilizing the financial system, supporting enterprises and preserving employment" in the shortest possible time.

While Hong Kong's economy is in an early stage of recovery, this year Government will carefully adjust the exceptional measures introduced to combat the financial tsunami and reduce the risk of creating a property bubble. On the road of recovery, the Government will have to rise to the challenge of promoting sustained and steady socio-economic development.

Reinforce Hong Kong's Position as a Financial Centre

The Financial Secretary mentioned that the financial services sector in Hong Kong can play a unique role in complementing the development of China.

For example, developing offshore RMB business in Hong Kong can be one of the best options to promote the use and circulation of RMB outside the Mainland in an orderly manner. The Government will continue to study the ongoing refinements to the RMB trade settlement services and promote the expanded use of RMB outside the Mainland. With the increasing popularity of RMB investment projects in Hong Kong, the Hong Kong Government anticipates further promoting the development of RMB bond business in Hong Kong, such as expanding the issuance size of bonds and increasing the types of bond issuers and the classes of qualified investors.

The Financial Secretary also proposes to extend the stamp duty concession in respect of the trading of exchange traded funds (ETFs). He proposes to extend the concession to cover ETFs that track indices which comprise not more than 40% of Hong Kong stocks. This will reduce the trading cost and promote diversification and growth of the ETF market.

In addition, the Financial Secretary promises to extend the concessionary profits tax rate at 50% of the normal rate to interest income and profits derived from qualifying debt instruments with a maturity period of less than three years.

Last but not the least, through spending in areas such as housing healthcare and social welfare, the Government will provide disadvantaged groups and people in difficulties with a basic safety net and will also invest in education and training as well as strengthen employment support services to enhance social mobility.

Various tax concessions and other measures have also been announced in the Budget to benefit different sectors of the community. Details are set out in this leaflet.

Furthering Regional Co-operation

Capitalising on the China advantage, the Government will support the development of the Mainland by further developing Hong Kong into a knowledge-based and high-value added economy. Taking the situation that the Mainland has been actively promoting quality growth and encouraging enterprises to reach out internationally, Hong Kong can provide a platform for Mainland enterprises to expand overseas, further reinforcing Hong Kong's position as an international financial and commercial centre. At the same time, Hong Kong can assist by attracting foreign investment, facilitating international exchanges and providing quality services to restructure and upgrade the Mainland's economy. The 12th Five Year Plan will also provide opportunities for Hong Kong to further integrate its economy with the Mainland.

In addition, the SAR Government has decided to set up the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council which will discuss mutual interest and enhance co-operation with Taiwan.

Investing in Infrastructure & Optimising Land Resources

The Financial Secretary mentioned that the Government will continue to invest heavily in infrastructure to promote economic development, create employment opportunities and enhance the long-term competitiveness of Hong Kong. With many large scale infrastructure projects commencing, the estimated capital works expenditure for 2010/11 will increase to \$49.6 billion and will be at an all-time high of over \$50 billion for each of the next few years.

To revitalise or redevelop old industrial buildings, the Lands Department will set up a dedicated team to process such applications and the Government will consider making use of industrial buildings for the relocation of offices and facilities.

Key points to note

- ▶ Proposed strategies for further developing the economy of Hong Kong
- ▶ to further promote regional co-operation with the Mainland, Macao and Taiwan to take advantage of the platform being provided under the National 12th Five-Year Plan
- ▶ to promote economic development, create employment opportunities and enhance the long-term competitiveness

of Hong Kong by investing in local infrastructure

- ▶ to promote the development of medical services, education services, environmental industries, testing and certification, innovation and technology, and cultural and creative industries in Hong Kong
- ▶ to reinforce Hong Kong's position as a financial centre by developing offshore Renminbi (RMB) business and make Hong Kong a global financial centre and asset management centre

Proposed actions to achieve the proposed strategies

- ▶ to ensure adequate fiscal reserves
- ▶ to optimise land resources
- ▶ to promote asset management business
- ▶ to improve the financial regulatory system
- ▶ to promote cross-border trade settlement in RMB in Hong Kong
- ▶ to develop the RMB clearing platform in Hong Kong
- ▶ to further promote the development of RMB bond business in Hong Kong

Profits Tax

The tax rates in 2010/11 will remain unchanged as follows:

2009/10 & 2010/11	
Persons other than corporations	15.0%
Corporations	16.5%

Property Tax

The Property Tax rate will remain at 15%. The tax is charged to the owner of land or property situated in Hong Kong at the standard rate on the rent receivable less 20% and is payable in addition to rates.

Corporations carrying on business in Hong Kong can elect to be exempt from Property Tax and be subject to Profits Tax.

Salaries Tax

Salaries Tax rates and charge

Salaries Tax is charged at the lower of:

- ▶ net assessable income less charitable donations at the standard rate of 15% or

- ▶ net assessable income less charitable donations and personal allowances, charged at progressive rates as follows:

2009/10 & 2010/11		
First	HK\$ 40,000	2.0%
Next	HK\$ 40,000	7.0%
Next	HK\$ 40,000	12.0%
Balance		17.0%

Deductible items

A deduction for fees for training courses at approved institutions remains unchanged at HK\$ 60,000 in 2010/11.

The deduction for home mortgage interest payments of up to HK\$100,000 per year for ten years remains unchanged.

A one-off tax reduction of 75% of Salaries tax and tax under Personal Assessment for 2009/10 subject to a ceiling of HK\$6,000 is proposed.

Personal allowances


Applicable to progressive rate taxpayers:

2009/10 & 2010/11	
HK\$	
Personal allowance:	
▶ single	108,000
▶ married	216,000
Single parent allowance	108,000
Child allowances:	
1st to 9th child	
▶ Year of birth	100,000
▶ Other years	50,000

Dependent parent/grandparent allowances:

2009/10 & 2010/11	
HK\$	
Age 60 or above:	
Basic	30,000
Additional allowance (for dependant living with taxpayer)	30,000
Age between 55 and 59:	
Basic	15,000
Additional allowance (for dependant living with taxpayer)	15,000
Dependent Brother/Sister	30,000
Disabled dependant	60,000

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