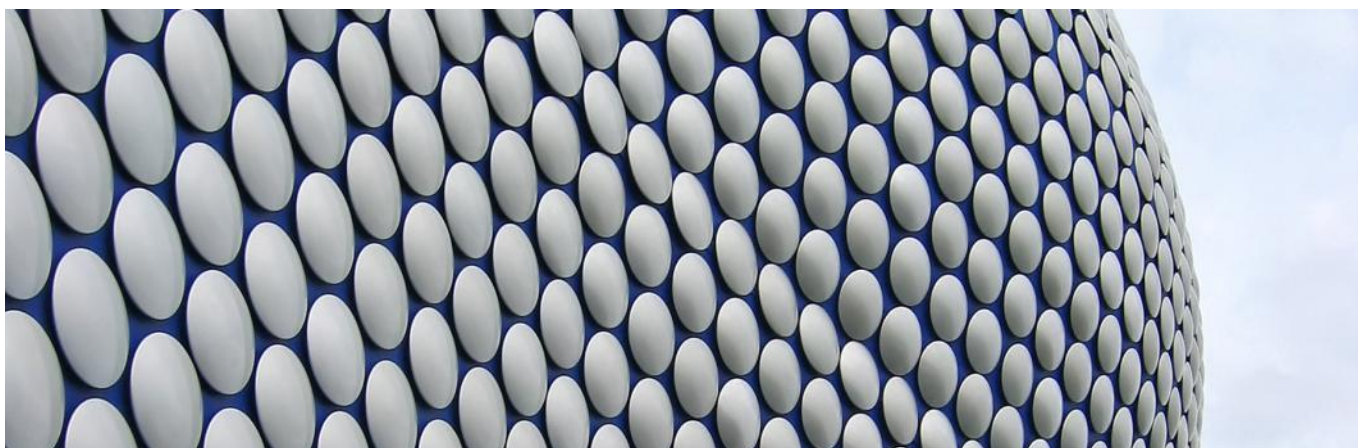


HONG KONG BUDGET NEWS 2014-2015

Hong Kong, 26 February 2014



INTRODUCTION

The Financial Secretary, Mr. John Tsang delivered his 2014-2015 budget speech for the government today. The theme of this year's budget is "**Competitiveness**". Mr. Tsang proposed a number of measures to enhance the competitiveness of Hong Kong. Besides, in view of the slow growth in economy comparing to the government's increasing spending on public policy and welfare benefits, Mr. Tsang emphasized that the government needs to contain its expenditure growth on one hand and preserve, stabilize and broaden the revenue base on the other hand.

Mr. Tsang identified manpower, land supply and ageing population as major constraints to Hong Kong's future development. In order to ease the financial burden of the ageing population in Hong Kong, in the long run, broadening the tax base, e.g. introduction of sales tax, may be one of the possible ways to increase the government's revenue. However, Mr. Tsang considered that it is not the appropriate timing for introducing new taxes. As hinted by Mr. Tsang earlier this month, the one-off budget relief measures this year are similar but less generous than prior years.

1. ECONOMIC PERFORMANCE AND OUTLOOK

Mr. Tsang reported the economic performance for 2013 and forecasted the outlook for 2014 as follows:

- The Government's revised **consolidated surplus for 2013-14 is HK\$12 billion**, instead of the original budget deficit of HK\$4.9 billion. The substantial increase is mainly contributed by an increase in salaries tax revenue of HK\$4 billion and an increase in land sale of HK\$15.1 billion.
- For 2014-15, Mr. Tsang estimated a consolidated surplus of HK\$9.1 billion.
- For 2013, **GDP grew by 2.9%** in real terms. The forecast GDP growth rate for 2014 is between 3% and 4%.
- For 2013, the annual average unemployment rate is 3.3%, which still signifies **full employment**.
- Average core inflation rate for 2013 was 4%. Estimated core inflation rate for 2014 is 3.7%.
- **Total exports of goods** for 2013 **grew by 6.7%** in real terms.
- Fiscal reserves are expected to be HK\$745.9 billion by 31 March 2014; HK\$755.1 billion by end of March 2015, and HK\$799.2 billion by end of March 2019.

2. 2014-2015 BUDGET HIGHLIGHTS

In this newsletter, we have summarized the budget proposals with a focus on tax matters. Please note that they are not final and will be reviewed by the Legislative Council shortly. The proposals are subject to amendment.

2.1. TAX AND OTHER ONE-OFF MEASURES

Mr. Tsang proposed the following tax and one-off measures to help easing the community's burden:

- To increase the basic and additional dependent parent and grandparent allowance from the current HK\$38,000 to HK\$40,000 for parents or grandparents aged 60 or above.
- To increase the basic and additional dependent parent and grandparent allowance from the current HK\$19,000 to HK\$20,000 for parents or grandparents aged between 55 and 59.
- To increase the elderly residential care deduction from HK\$76,000 to HK\$80,000.
- To reduce salaries tax and tax under personal assessment for 2013-14 by 75%, subject to a ceiling of HK\$10,000.
- To reduce profits tax for 2013-14 by 75%, subject to a ceiling of HK\$10,000.
- To waive rates for the first two quarters (instead of waiving the whole year for 2013-14), subject to a ceiling of HK\$1,500 per quarter for each rateable property.
- To provide extra allowance to recipients of Comprehensive Social Security Assistance, Old Age Allowance, Old Age Living Allowance and Disability Allowance, equal to one month of the allowances.

- To pay one month rent for public housing tenants, one month basic rent for tenants who are required to pay extra rent to the Hong Kong Housing Authority and two-third of the rent for one month payable by non-elderly tenants of the Hong Kong Housing Society's Group B estates.

The Financial Secretary believes that the above relief measures can help to ease the burden of the community. The government will not subsidize residential electricity bills and will not waive the business registration fee in the coming year.

2.2. OTHER MEASURES

To protect the public health, the Financial Secretary proposed to increase the tobacco duty by HK\$0.2 to HK\$1.906 per stick of cigarettes. Duties on other tobacco products will be increased by the same rate.

The Financial Secretary also proposed to extend the exemption from the First Registration Tax for buyers of electric vehicles until 31 March 2017.

2.3. ENHANCING COMPETITIVENESS

The Financial Secretary proposed the following measures to enhance the competitiveness of Hong Kong :

- To further issue iBond of HK\$10 billion as a short-term measure to develop the retail bond market, whilst leaving room for developing both local bond market and secondary bond market in the long run.
- To introduce an open-ended fund company structure to attract more funds to establish in Hong Kong.

- To waive stamp duty on the trading of all ETFs to lower transaction costs.
- To review requirements under the Inland Revenue Ordinance for interest deduction for corporate treasury activities to encourage multinational enterprises to set up their global or regional treasury functions in Hong Kong.
- To set up an Enterprise Support Scheme ("ESS") under the Innovation and Technology Fund ("ITF") of up to HK\$10 million to support R&D activities in private companies.
- To extend application period for special concessionary measures under the SME Financing Guarantee Scheme for one year until the end of February 2015.

In his last year's budget, Mr. Tsang had proposed to allow private equity funds to enjoy the same tax exemption as for offshore funds. The government has completed industry consultation and will commence legislative process as soon as possible.

Together with the above measures, the government aims to further promote Hong Kong as the Asset Management Centre and encourage multinational enterprises to locate their global or regional treasury functions in Hong Kong.

2.4. TAX AUDIT

This is the second year in a row Mr. Tsang talked about tax evasion and avoidance in his budget speech. He mentioned that the Inland Revenue Department ("IRD") will step up tax enforcement and make use of IT to combat tax evasion and avoidance.

It is beyond doubt that the IRD will put more resources in field audit and tax investigation in the coming year.

TAX FACTS

PROFITS TAX

The profits tax rates for corporations and unincorporated businesses will remain unchanged for 2014-15 and are summarized below:

2014-15 & 2013-14

Corporations	16.5%
Others	15%

SALARIES TAX AND PERSONAL ASSESSMENT

Tax rates & allowances

Tax rates and tax bands for salaries tax and personal assessment will remain unchanged for 2014-15 and are summarized below:

2014-15 & 2013-14

Progressive rates	
Income net of allowances (HK\$)	
Under 40,001	2%
40,001–80,000	7%
80,001–120,000	12%
Over 120,000	17%
Standard rate	15%

* The maximum level of relevant income under Mandatory Provident Fund Scheme Ordinance will be increased to HK\$30,000 with effect from 1 June 2014. Subject to the passage of the Inland Revenue (Amendment) (No. 3) Bill 2013 by the Legislative Council, the maximum amount of deductible contribution will be HK\$17,500 for 2014-15 and HK\$18,000 for 2015-16 onwards.

The allowances / deductions are summarized below:

In HK\$	2014-15	2013-14
Deduction limits		
Self-education	80,000	80,000
Home loan interest	100,000	100,000
Approved charitable donations	35% of income	35% of income
Elderly residential care	80,000	76,000
Contribution to retirement scheme	17,500*	15,000
Allowances		
Personal		
■ Basic	120,000	120,000
■ Married person	240,000	240,000
■ Single parent	120,000	120,000
Child		
■ 1 st to 9 th child, each	70,000	70,000
■ Additional child allowance in the year of birth, each	70,000	70,000
Dependent parent / grandparent		
■ Basic		
Aged 55 – 59	20,000	19,000
Aged 60 or above	40,000	38,000
■ Additional		
Aged 55 – 59	20,000	19,000
Aged 60 or above	40,000	38,000
Disabled dependent	66,000	66,000
Dependent brother / sister	33,000	33,000

The break-even points for 2014-15 where the progressive rates of tax will not apply for a person being assessed under separate assessment and a married couple who are jointly assessed (or a single parent who is entitled to single parent allowance) with up to two children are shown below:

In HK\$	Separate assessment	Joint assessment / Single parent
No. of children	2014-15 & 2013-14	2014-15 & 2013-14
None	1,620,000	2,640,000
1	2,215,000	3,235,000
2	2,810,000	3,830,000

Income level for break-even points will be increased by HK\$595,000 for each additional child allowance entitled in 2014-15, same as 2013-14.

PROPERTY TAX

Property tax rate will remain at 15%.

STAMP DUTY

In order to cool down the overheated property market, the Financial Secretary has announced several measures to increase stamp duty on the sale of immovable properties, including Double Stamp Duty (DSD), Special Stamp Duty (SSD) and Buyer's Stamp Duty (BSD).

The Stamp Duty (Amendment) Bill 2012, which covered the amendments on SSD and BSD, has just been passed on 22 February 2014 whereas the DSD is subject to passage of the relevant legislation.

Double Stamp Duty

DSD rates on sale of both residential and non-residential properties, effective from 23 February 2013, are subject to the passage of Stamp Duty (Amendment) Bill 2013. For a residential property acquired by a Hong Kong Permanent Resident who does not own any other residential property in Hong Kong at the time of acquisition, the old stamp duty rates will apply.

The threshold values for various stamp duty bands and duty rates are shown below:

HK\$Million	DSD rates since 23/02/2013	Old rates
0-2	1.50%	HK\$100
2-3	3.00%	1.50%
3-4	4.50%	2.25%
4-6	6.00%	3.00%
6-20	7.50%	3.75%
Over 20	8.50%	4.25%

Special Stamp Duty

Any residential property acquired on or after 27 October 2012 and resold within 36 months is subject to the rates of SSD as follows:

Holding period (month)	Property acquired on or after 27/10/2012	Property acquired between 20/11/2010 and 26/10/2012
0-6	20%	15%
6-12	15%	10%
12-24	10%	5%
24-36	10%	-

Buyer's Stamp Duty

BSD is charged at 15% on the stated consideration or the market value (whichever is higher) of all residential properties in Hong Kong acquired by non-Hong Kong permanent residents and corporations on or after 27 October 2012.



Stock transactions

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

Stamp duty for the trading of all ETFs will be waived for 2014-15 onwards.

OTHER DUTIES & TAXES

Tobacco duty

The tobacco duty on cigarettes will be increased by HK\$0.2 to HK\$1.906 per stick and duties on other tobacco products will also be increased by similar ratio.

Private cars first registration tax

The exemption from the First Registration Tax for buyers of electric vehicles will be extended to 31 March 2017.

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CONTACTS

MAZARS HONG KONG

42nd Floor, Central Plaza,
18 Harbour Road
Wanchai, Hong Kong
Tel.: (+ 852) 2909 5555

Alexander Mak

Managing Tax Partner

Tel: (+852) 2909 5660

Email: alexander.maki@mazars.hk

Alexandra Hui

Tax Partner

Tel: (+852) 2909 5678

Email: alexandra.hui@mazars.hk

Catherine Tse

Tax Partner

Tel: (+852) 2909 5665

Email: catherine.tse@mazars.hk

More information on
www.mazars.cn