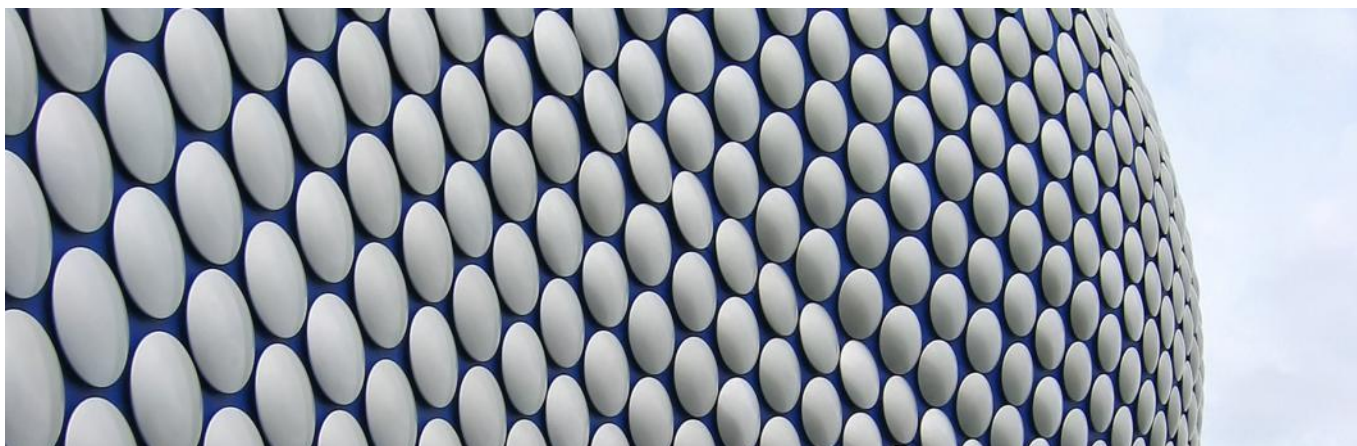


HONG KONG BUDGET NEWS 2015-2016

Hong Kong, 25 February 2015



INTRODUCTION

On 25 February 2015, Mr John Tsang delivered his eighth government budget since he became the Financial Secretary. This year's budget aims to complement the initiatives announced in the Policy Address and seeks to address the constraints on land and manpower through the effective use of resources. Whilst seeking to reinforce the foundation for long-term economic development, Mr Tsang has pledged to explore new ideas and strive for diversity to help Hong Kong people realise their aspirations and continue to care for the disadvantaged so that people from different sectors and the next generations can share the benefits of economic growth.

Similar to prior years, the revised consolidated surplus of HK\$63.8 billion as announced by Mr Tsang is much greater than his original estimate of HK\$9.1 billion. As a result of the whopping surplus, Mr Tsang announced a number of relief measures, including the increase in the child allowance from the current HK\$70,000 to HK\$100,000.

Mr Tsang attributed the larger than expected surplus to the unexpected increase in stamp duty revenue of HK\$29.7 billion and revenue from profits tax of HK\$18.5 billion as compared to his original estimation. Of the increase in stamp duty, 75% came from the Double Stamp Duty which applies to property transactions on or after 23 February 2013. Whilst the increase in stamp duty further indicates the Hong Kong property market remains overheated, in particular the small and medium sized flats, Mr Tsang has not proposed to roll out any new measures in his budget to cool down the market. Rather, he only indicated that the government will continue monitoring the market conditions closely and will not hesitate to introduce measures when necessary. Many tax practitioners in Hong Kong, including Mazars, have repeatedly proposed to Mr Tsang the introduction of tax deduction of residential rental payment amidst



the rising property market in order to ease Hong Kong people's heavy financial burden on housing expenditure but obviously it is not on his agenda at the moment.

In the budget, Mr Tsang proposed an array of measures in promoting Hong Kong's pillar industries as well as start-up and cultural and creative industries. We welcome these measures and believe that they can further enhance Hong Kong's competitive edge and also diversify our development on emerging industries which are of small scale now but with great potential to grow further. We also welcome Mr Tsang to take forward the implementation of tax measures which were proposed in his previous budget and also propose a number of new ones in this year budget i.e. granting a concessionary tax rate for specified treasury activities and extending the scope of tax deduction for intellectual property rights. These measures will help to maintain / enhance Hong Kong's tax competitiveness among our neighboring jurisdictions.

Like in the last year's budget, Mr Tsang repeatedly emphasized while Hong Kong's public finance is still healthy at the moment, structural deficits will inevitably surface with the imminent ageing population, slowing economic growth and increasing government expenditure. Therefore, it is of utmost importance for the government to broaden the revenue base. However, instead of proposing concreate measures, Mr Tsang simply indicated the government will explore again the feasibility of broadening the tax base in due course. If an introduction of indirect tax is inevitable, we consider it will be a better time to do so when the economy is growing and the government is recording surplus rather than at the time of economic downturn. The study on introducing indirect tax may also be conducted along with a comprehensive review of our tax system which we recommended in our budget proposal submitted to Mr Tsang.

1. ECONOMIC PERFORMANCE AND OUTLOOK

Mr Tsang reported the economic performance for 2014 and forecasted the outlook for 2015 as follows:

- The Government's revised **consolidated surplus for 2014-15 is HK\$63.8 billion**, instead of the original budget surplus of HK\$9.1 billion. The substantial increase is mainly contributed by an increase in stamp duties of HK\$29.7 billion and profits tax of HK\$18.5 billion.
- For 2015-16, Mr Tsang estimated a consolidated surplus of HK\$36.8 billion.
- For 2014, **GDP grew by 2.3%** in real terms. The forecast GDP growth rate for 2015 is between 1% and 3%.
- For 2014, the annual average unemployment rate is 3.2%, continuously representing a state of full employment (2013 at 3.4%).
- Average core inflation rate for 2014 was 4.4%. Estimated core inflation rate for 2015 is 3.5%.
- **Total exports of goods and exports of services** for 2014 **grew by 1%** and **0.5%** respectively in real terms.
- Fiscal reserves are expected to be HK\$819.5 billion by 31 March 2015; HK\$856.3 billion by end of March 2016, and HK\$948.8 billion by end of March 2020.

2. 2015-2016 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. RELIEF MEASURES

Mr Tsang proposed the following measures of HK\$34 billion in order to help easing the financial burden of the public, to stimulate consumption, to stabilize the economy and preserve employment:

- To increase the child allowance and additional child allowance (i.e. for child born during the year) from the current HK\$70,000 to HK\$100,000.
- To reduce salaries tax and tax under personal assessment for 2014-15 by 75%, subject to a ceiling of HK\$20,000.
- To reduce profits tax for 2014-15 by 75%, subject to a ceiling of HK\$20,000.
- To waive rates for the first two quarters of 2015-16, subject to a ceiling of HK\$2,500 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 two months of the allowances.
- To pay one month's rent for lower income tenants living in the rental unites of the Hong Kong Housing Authority and the Hong Kong Housing Society, except those required to pay additional rent.

2.2. SUPPORTING MEASURES

Mr Tsang proposed the following measures in order to help those industries affected by the occupy movement:

- To waive the licence fees for travel agents, hotels and guesthouses, restaurant and hawkers and fees for restricted food permits for six months.
- To waive the fees for vehicle examination once for the renewal of vehicle licences of taxis, light buses, franchised and non-franchised buses, goods vehicles, trailers and special purpose vehicles within a year.

2.3. DEVELOPING OF OUR ECONOMY AND ENHANCING COMPETITIVENESS

Mr Tsang pledged to provide more supports to Hong Kong start-ups, social enterprises and cultural and creative industries including fashion industry, film industry and art and culture. He said that Hong Kong should seek opportunities created by the Silk Road Economic Belt and the 21st Century Maritime Silk Road projects and expand into new markets. Mr Tsang confirmed that government will take various actions in expanding tourism facilities, enhancing business and professional services, strengthening and reinforcing our financial and logistics industries.

2.3.1. Business and professional services

As an international business centre, Hong Kong is well placed to become a premier intellectual property (“IP”) trading hub providing high value-added IP services in the region. Mr Tsang has proposed to extend the scope of the existing tax regime regarding the tax deduction of purchase cost of specified intellectual property rights (“IPRs”) so as to bring more IPRs eligible for the tax deduction.

2.3.2. Financial industry

In order to strengthen the competitiveness of our financial service industry, Mr Tsang has already proposed in his last year’s budget the following measures:

- to waive stamp duty on the trading of all ETFs;
- to introduce an open-ended fund company structure to attract more funds to establish in Hong Kong ; and
- 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.

Progress report of last year’s proposal

Mr Tsang reported the progress of last year’s recommendations as follows:

- The relevant stamp duty amendment was passed and stamp duty waiver for ETFs has taken effect since 13 February 2015 already.
- For private equity fund, the government scheduled to table a bill in Legco to allow private equity funds to enjoy profits tax exemption available to offshore fund and are formulating legislative proposals to provide the legal framework for introducing an open-ended fund company structure.
- For corporate treasury centres, the government will amend the Inland Revenue Ordinance to allow, under specified conditions, interest deductions under profits tax for corporate treasury centres.

Additional proposals this year

In addition to last year's measures, Mr Tsang further proposed the followings:

- To provide 50% profits tax rate reduction for specific treasury activities.
- To issue another batch of inflation-linked retail bonds up to HK\$10 billion with a maturity of three years.

We welcome the measures introduced by Mr Tsang to further strengthen Hong Kong's position as one of the major international financial centres in the world.

2.4. OTHER MEASURES FOR SMEs

In the budget, Mr. Tsang emphasizes the importance of SMEs to our economy which accounting for 98% of the total local enterprises and employing 50% of the private sector workforce. In this regard, he proposed the following measures specifically aiming at supporting SMEs:

- To extend application period for special concessionary measures under the SME Financing Guarantee Scheme to 29 February 2016.
- To inject HK\$1.5 billion into the SME Export Marketing and Development Funds.
- To increase the maximum amount of funding support for each project under the SME Development Fund from HK\$2 million to HK\$5 million.
- To expand the scope of the SME Export Marketing Fund.

2.5. EXCHANGE OF INFORMATION

In the budget, Mr Tsang indicated that Hong Kong, as an international centre, will step up its efforts in combating cross-border tax evasion in accordance with the latest standard of the Organisation for Economic Co-operation and Development ("OECD"). Hong Kong has pledged to adopt the new standards. Under the new standard, financial institutions will be required to report to the Inland Revenue Department specified financial account information on a regular basis to enable Hong Kong to exchange tax information with other jurisdictions by the end of 2018. The government will consult the industry in the second quarter of this year and introduce the relevant amendment bill in 2016.

TAX FACTS

PROFITS TAX

The profits tax rates for corporations and unincorporated businesses will remain unchanged for 2015-16 and are summarized below:

2015-16 & 2014-15

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 2015-16 and are summarized below:

2015-16 & 2014-15

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 has been increased to HK\$30,000 with effect from 1 June 2014.

The allowances / deductions are summarized below:

In HK\$	2015-16	2014-15
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	80,000
Contribution to retirement scheme *	18,000	17,500
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	100,000	70,000
■ Additional child allowance in the year of birth, each	100,000	70,000
Dependent parent / grandparent		
■ Basic		
Aged 55 – 59	20,000	20,000
Aged 60 or above	40,000	40,000
■ Additional		
Aged 55 – 59	20,000	20,000
Aged 60 or above	40,000	40,000
Disabled dependent	66,000	66,000
Dependent brother / sister	33,000	33,000

The break-even points for 2015-16 and 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	
No. of children	2015-16	2014-15
None	1,620,000	1,620,000
1	2,470,000	2,215,000
2	3,320,000	2,810,000

In HK\$	Joint assessment / Single parent	
No. of children	2015-16	2014-15
None	2,640,000	2,640,000
1	3,490,000	3,235,000
2	4,340,000	3,830,000

Income level for break-even points will be increased by HK\$850,000 for each additional Child Allowance entitled (HK\$595,000 for 2014-15)

PROPERTY TAX

Property tax rate will remain at 15%.

STAMP DUTY

Stamp Duty on property transactions will remain unchanged:

Double Stamp Duty

DSD rates on sale of both residential and non-residential properties are effective from 23 February 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.



Stock transactions

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

OTHER DUTIES & TAXES

Private cars first registration tax

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

“2015-2016 HONG KONG BUDGET NEWS” is issued in summary form exclusively for the information of clients of Mazars Hong Kong and other parties interested in our services and should not be used or relied upon as a substitute for detailed advice or as a basis for formulating business decisions

About Mazars

Mazars is an international, integrated and independent organisation, specialising in audit, accounting, tax and advisory services. We rely on the skills of more than 14,000 professionals in the 73 countries which make up our integrated partnership.

In China, Mazars has 600 highly-qualified professionals based in Beijing, Guangzhou, Hong Kong and Shanghai. They are fully committed to serving the growing and diversified needs of both Chinese companies and international firms.

CONTACTS

MAZARS HONG KONG

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

Anthony Tam

Managing Tax Partner
Tel: (+852) 2909 5604
Email: anthony.tam@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