

HONG KONG BUDGET NEWS 2012 / 2013



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The Financial Secretary, Mr. John Tsang presented his fifth budget, which is also the last budget of the current-term Government to the Legislative Council today. Though Hong Kong has been highly ranked by international economic / financial organizations, Mr. Tsang pointed out that the external economic uncertainties caused by the Eurozone sovereign debt crisis and sluggish economy in the United States could bring a more serious blow to the global economy than the 2008 financial tsunami. **The theme of this budget is “stabilising the economy, safeguarding people’s livelihood and investment in the future”.** With an estimated consolidated surplus of HK\$66.7 billion for 2011-12, Mr. Tsang proposed a basket of one-off and recurring measures to stabilise the economy and safeguard people’s livelihood, aiming to help the community facing economic difficulties.

Despite many neighboring jurisdictions have gradually reduced their corporate tax rates and introduced many tax relief measures, making Hong Kong’s comparable advantage for setting up businesses deteriorated, Mr. Tsang has not proposed any reduction in corporate profits tax rate, group loss relief and tax concession for specific business sectors. He took the view that such measures would narrow Hong Kong’s tax base and make our tax revenue unstable.

ECONOMIC PERFORMANCE AND OUTLOOK

Mr. Tsang reported the economic performance for 2011 and forecasted the economic outlook for 2012 as follows:

- The Government’s revised **consolidated surplus for 2011-12 is HK\$66.7 billion**, compared with the original budget surplus of HK\$3.9 billion, the substantial increase is mainly caused by an increase in tax revenue of approximately HK\$30 billion and an increase in sale of land of HK\$21.1 billion.
- For 2012-13, estimated government expenditure is HK\$393.7 billion and revenue is HK\$390.3 billion, with a consolidated deficit of HK\$3.4 billion.
- For 2011, **GDP grew by 5%** in real terms. The forecast GDP growth for 2012 is 1 to 3%.
- Recently, unemployment rate was 3.3%, which signifies **full employment**.
- Average inflation rate for 2011 was 5.3%, a significant increase from 1.7% in 2010. Estimated inflation rate for 2012 is 3.5%.
- **Exports of goods** for 2011 only **grew by 3.6%** in real terms, compared with a growth rate of 17.3% in 2010.
- Fiscal reserves are expected to be HK\$662.1 billion by 31 March 2012; HK\$658.7 billion by end-March 2013, and HK\$670.4 billion by end-March 2017.



2012-13 BUDGET HIGHLIGHTS

The main budget proposals have been summarized in below. Please note that they 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.

Tax Changes

To address the request of many middle class to ease their hardship and tax burden, the Financial Secretary proposed **7 tax measures** starting from 2012-13:

1. To increase the basic allowance and the single parent allowance from HK\$108,000 to HK\$120,000; the married person's allowance from HK\$216,000 to HK\$240,000.
2. To increase the dependent parent / grandparent allowances and deduction ceiling for elderly residential care expenses by around 5.6% (please refer to the tax fact section for details).
3. To increase the child allowance and additional child allowance (for the year of birth) by 5% to HK\$63,000 for each child.
4. To increase the dependent brother / sister allowance by 10% to HK\$33,000.
5. To increase the disabled dependant allowance by 10% to HK\$66,000.
6. To extend the entitlement period for the tax deduction for home loan interest for 5 more years of assessment to 15 while maintaining the current deduction ceiling of HK\$100,000 a year.
7. To increase the maximum annual tax deduction for mandatory contributions to Mandatory Provident Fund schemes ("MPFS") from HK\$12,000 to HK\$15,000 with effect from 1 June 2012 in line with the change in the maximum relevant income level under the MPFS Ordinance from HK\$20,000 to HK\$25,000.

Apart from the above proposed tax changes, the Financial Secretary also proposed to **reduce salaries tax and tax under personal assessment for 2011-12 by 75%, subject to a ceiling of HK\$12,000.**



Other Proposals

Stabilise the economy

Supporting enterprises

In the time of economic downturn, the following measures are proposed to support the enterprises, in particular the small and medium enterprises (“SMEs”), in order to lower their operating costs:

- To waive business registration fees for 2012-13.
- To reduce profits tax for 2011-12 by 75%, subject to a ceiling of HK\$12,000.
- To **enhance the SME Financing Guarantee Scheme** by increasing the maximum loan guarantee ratio to 80% for which the Government will provide a guarantee commitment of HK\$100 billion while the guarantee fee will be substantially reduced.
- To offer more favorable policy terms by the Hong Kong Export Credit Insurance Corporation which allow SME policyholders to insure their exports only for places and buyers of their choice and be entitled to various premium discounts.
- To reduce the import and export declaration charges by 50%.
- To abolish capital duty levied on authorized capital of Hong Kong companies.

Preserving employment

Although the current unemployment rate is at full employment level, the Financial Secretary proposed additional funding to **enhance manpower training** to prepare ourselves to counter any upward pressure on the unemployment rate.

Increasing land supply

The Financial Secretary reaffirmed the Government’s policy to **increase the supply of both residential and business sites as well as subsidized housing**. Moreover, renewal and redevelopment of old industrial areas and buildings are accelerated.

Improving people’s livelihood

The following measures are introduced to help ease the pressure on the community with particular emphasis on the middle class:

- To waive rates for 2012-13 capped at HK\$2,500 per quarter for each rateable property.
- To provide subsidy of HK\$1,800 to each residential electricity account.
- To pay two months’ rent for public housing tenants, two months’ basic rent for tenants who are required to pay extra rent to the Hong Kong Housing Authority and two-thirds of the rent for two months payable by non-elderly tenants of the Hong Kong Housing Society’s Group B estates.
- To pay an extra allowance equal to one month’s payment to Comprehensive Social Security Assistance recipients, Old Age Allowance and Disability Allowance recipients.
- To allow student loan borrowers who complete their studies in 2012 to defer repayment of student loans for one year.
- To allocate another HK\$100 million (on top of the HK\$100 million contributed in late 2011) to short-term food assistance services when necessary.



Invest in the future

The Financial Secretary proposed the following measures to promote the 4 pillar industries (i.e. trading and logistics, financial services, business and professional services and tourism) and the 6 industries where Hong Kong enjoys clear advantages (i.e. cultural and creative industries, medical services, education services, innovation and technology, environmental industries, and testing and certification services) and to fulfil the Government's policy objective of promoting economic growth through infrastructural development:

- To further issue iBond of not more than HK\$10 billion as a short-term measure to develop the retail bond market, whilst leaving room for developing other kinds of bonds for the development of a more mature retail bond market in the long run.
- To allocate HK\$150 million to the Mega Event Fund and extend its operation for 5 years.
- To treble the cash rebate under the R&D Cash Rebate Scheme, raise the ceiling of the Small Entrepreneur Research Assistance Programme to HK\$6 million per project and increase the monthly allowance of the Internship Programme under the Innovation and Technology Fund by nearly 20%.
- To introduce time-limited measures to encourage the use of industrial buildings and industrial lots for data centres.
- To set up a HK\$1 billion fund to help Hong Kong enterprises tap the Mainland market by restructuring and upgrading their operations, developing their brands and expanding domestic sales in the Mainland.
- To expend HK\$62.3 billion on capital works for 2012-13 with expected increase to over HK\$70 billion per year and to take forward projects of various scales at the district level.
- To consider the proposal of building the third airport runway.



TAX FACTS

PROFITS TAX

The profits tax rates for corporations and unincorporated businesses will remain unchanged for 2012/13. The profits tax rates are summarized in Table 1 below

Table 1: Profits tax rate (%)	2012/13 & 2011/12
Corporations	16.5
Others	15.0

SALARIES TAX AND PERSONAL ASSESSEMENT

Tax Rates & Allowances

Tax rates and tax bands for salaries tax and personal assessment will remain unchanged for 2012/13 and are summarized in Table 2:

Table 2: Salaries / Personal Assessment Tax Rates (%)	
	2012/13 & 2011/12
Progressive Rates	
Income net of allowances (HK\$)	
<i>Under 40,001</i>	<i>2</i>
<i>40,001–80,000</i>	<i>7</i>
<i>80,001–120,000</i>	<i>12</i>
<i>Over 120,000</i>	<i>17</i>
Standard Rate	15



The Financial Secretary proposed to increase allowances and deduction limits. Allowances and deductions are summarized in Table 3:

Table 3: Deductions / Allowances	2012/13 HK\$	2011/12 HK\$
Deduction Limits		
Self-education	60,000	60,000
Home loan interest (Note 1)	100,000	100,000
Approved charitable donations	35% of income	35% of income
Elderly residential care	76,000	72,000
Contribution to retirement scheme (Note 2)	14,500	12,000
Allowances		
Personal		
• Basic	120,000	108,000
• Married person	240,000	216,000
• Single parent	120,000	108,000
Child		
• 1 st to 9 th child, each	63,000	60,000
• Additional child allowance in the year of birth, each	63,000	60,000
Dependent parent / grandparent		
• Basic		
- Aged 55 – 59	19,000	18,000
- Aged 60 or above	38,000	36,000
• Additional		
- Aged 55 – 59	19,000	18,000
- Aged 60 or above	38,000	36,000
Disabled dependant	66,000	60,000
Dependent brother/sister	33,000	30,000

Note 1: Number of years of deduction has extended from 10 to 15 years of assessment.

Note 2: The maximum relevant income level under the Mandatory Provident Fund Schemes Ordinance will be increased from \$20,000 to \$25,000 with effect from 1 June 2012. Hence, the maximum amount of deductible contributions is \$14,500 for 2012/13 and \$15,000 for 2013/14 onwards.



The break-even points for 2012/13 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 will change due to the increase in personal and child allowances. The break even points are shown in Table 4.

Table 4: Break-Even Points				
	Separate Assessment HK\$		Joint Assessment / Single Parent HK\$	
No. of children	2012/13	2011/12	2012/13	2011/12
None	1,620,000	1,518,000	2,640,000	2,436,000
1	2,155,500	2,028,000	3,175,500	2,946,000
2	2,691,000	2,538,000	3,711,000	3,456,000
Income level for break-even points will be increased by HK\$535,500 for each additional child allowance entitled in 2012/13 (HK\$510,000 for 2011/12).				

PROPERTY TAX

Property tax rate will remain at 15%.

STAMP DUTY

Property transactions

Stamp duty on property transactions will remain unchanged. The threshold values for various stamp duty bands and duty rates are shown in Table 5.

Table 5: Stamp Duty on Property Transactions	
HK\$Million	Rate 2012/13 & 2011/12
0-2	HK\$100
2-3	1.50%
3-4	2.25%
4-6	3.00%
6-20	3.75%
Over 20	4.25%



Special Stamp Duty

Special Stamp Duty (SSD) on transactions of residential properties will remain unchanged. The following SSD will be imposed on sale proceeds of a residential property acquired by vendor on or after 20 November 2010 and resold within 24 months after acquisition.

Table 6 : Special Stamp Duty on Residential Property

Holding period (month)	Rate
0-6	15%
6 –12	10%
12- 24	5%

Stock transactions

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

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