



# Hong Kong Budget Summary 2021-2022





# Commentary

Hong Kong has reported a budget deficit of HK\$257.6 billion for the 2020-21 fiscal year, the largest deficit in 20 years. This is primarily due to the one-off pandemic relief measures granted in the past year. However, even with this deficit, Hong Kong fiscal reserves remains strong at an estimated HK\$902.7 billion as at 31 March 2021. This clearly demonstrates the underlying strength of Hong Kong SAR government's books and economy in general.

While reduced from last year, the government's budget (the "Budget") will continue to provide much needed assistance those affected by the ongoing COVID-19 pandemic. We are pleased to see that the government has adopted our proposed measure of issuing electronic consumption vouchers to Hong Kong permanent residents. We believe this will be an effective and targeted measure to support business areas that have been most affected by the pandemic, and at the same time, promote Hong Kong as a smart city.

Whilst no new taxes were introduced in this year's Budget, the government proposed increasing the stamp duty on stock transfers. Given the city's robust capital markets and anticipated increased IPO activity in the coming months, this is expected to raise additional revenue of HK\$12 billion. However, it is important for Hong Kong's capital markets to stay competitive with its global peers, many of which are trending towards reducing or removing such duties. The impact of these measures should be kept under review given the ongoing challenges and uncertainties in the global economy. We agree with the Financial Secretary that this is not the time to introduce new taxes. The introduction of future taxes should always be done with careful review considering the long-term revenue needs and with as much consensus as possible with the community.

We also welcome the continued focus on strengthening Hong Kong's position as an international financial centre and a wealth and asset management hub, especially measures to support green finance and the development of relevant tax measures to support the growth of family offices in Hong Kong. The Budget also proposed various investments supporting the development of technology and innovation across multiple sectors in order to adjust to post-pandemic realities. As the pandemic continues to reshape Hong Kong's economy, the government should consider extending more support to employees of pandemic-affected industries for re-training and skills development.

In summary, this year's Budget substantially follows past years' mixed bag of measures and sweeteners designed to address a wide range of expectations from the general public. We hope that the government will release the implementation details quickly to help Hong Kong move further along the road to recovery.

The information contained in the *Hong Kong Budget Summary 2021-2022* is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Legislative proposals do not generally become law until their enactment and may be modified by the Legislative Council before enactment.

*It should be noted that the information is presented in summary form and readers are advised to seek professional advice before formulating business decisions.*

# Hong Kong economic indicators



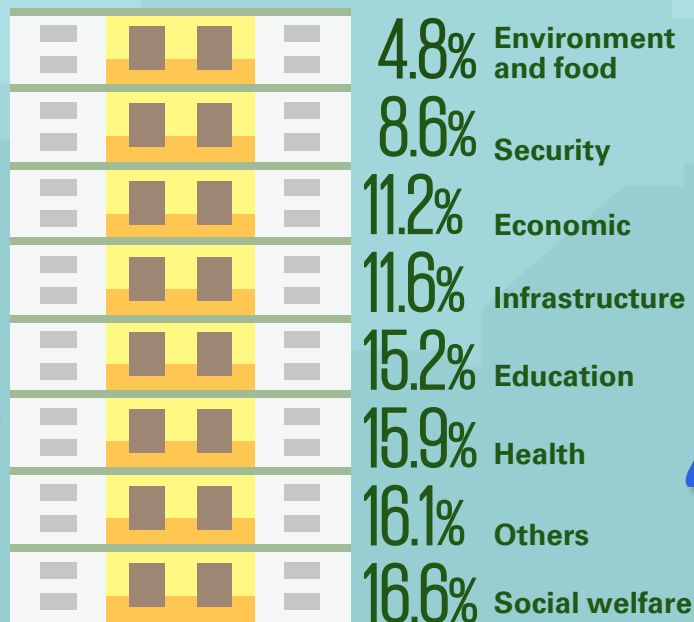




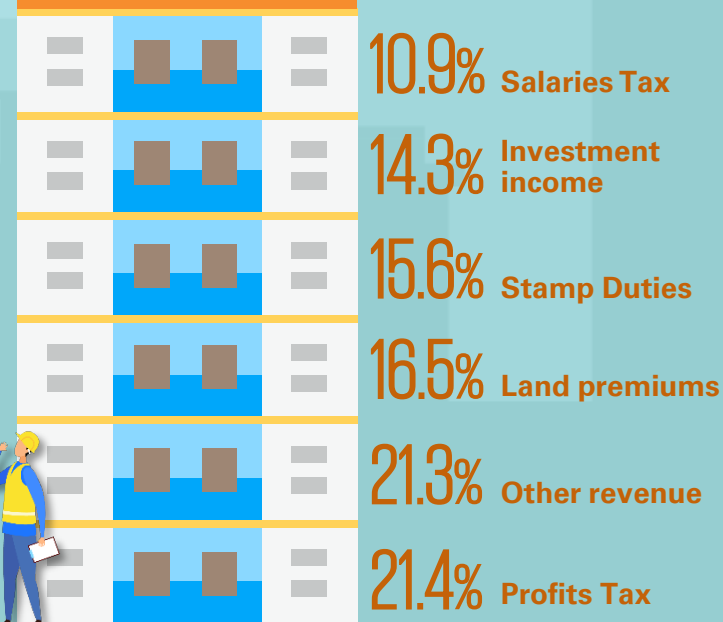
# 2021-22 government revenue and expenditure (estimated)

Total government revenue for 2021-22 is estimated to be HKD 591.1 billion (2020-21: HKD 543.5 billion), within which tax revenues (i.e., Profits Tax, Stamp Duty, Salaries Tax) account for 47.9%, followed by land premiums at 16.5% and investment income at 14.3%. Total government expenditure is estimated at HKD 727.8 billion (2020-21: HKD 820.4 billion). Education, social welfare and healthcare account for about 47.7% of total government expenditure. The government forecasts an overall consolidated deficit of HKD 101.6 billion for 2021-22. This has taken into account the launch of countercyclical fiscal measures and the continued increase of recurrent expenditure. Hong Kong's fiscal reserves are predicted to remain strong at about HKD 801.1 billion as at 31 March 2022. Fiscal reserves are estimated to be HKD 775.8 billion by the end of March 2026, which is equivalent to roughly 12 months of government expenditures.

## 2021-22 Government expenditure (estimated)



## 2021-22 Government revenue (estimated)



Source: 2021-22 Budget Speech, HKSAR Government

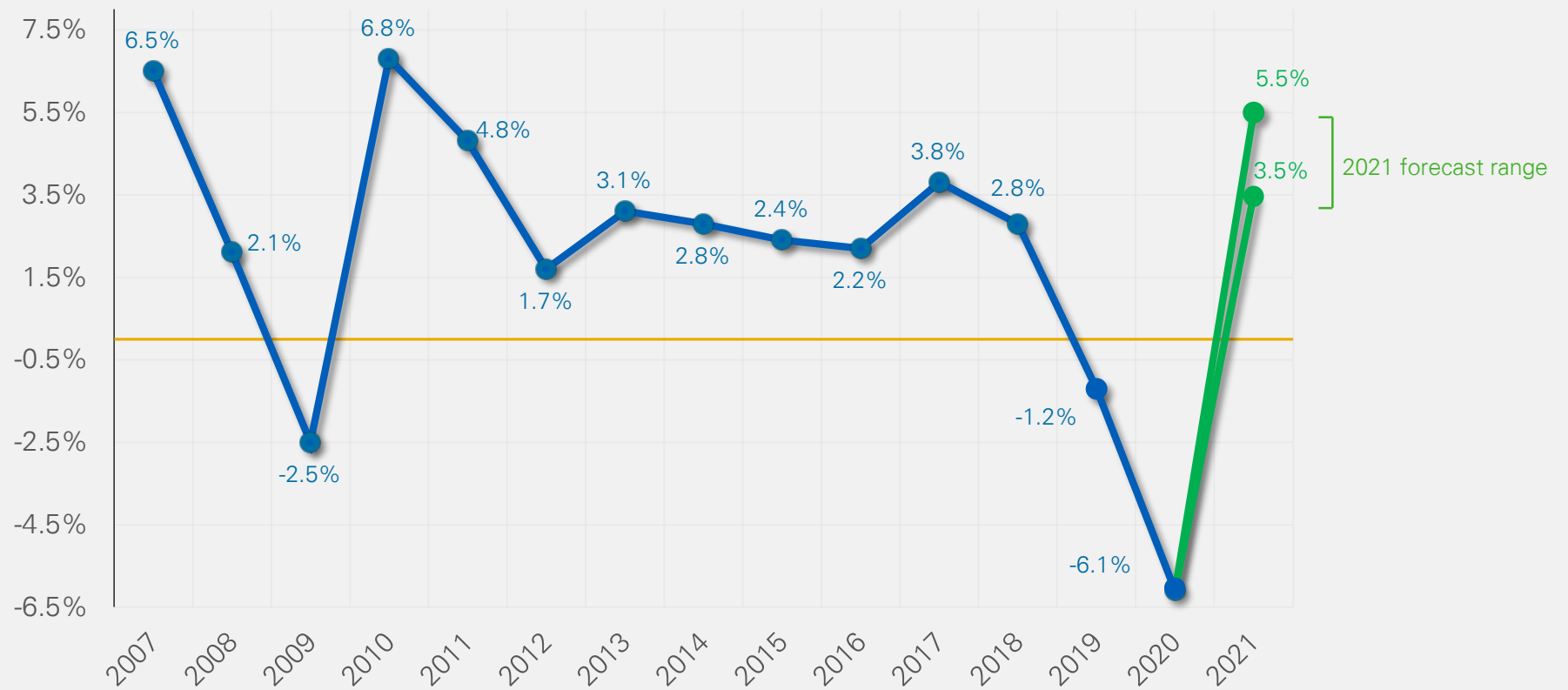




# Real gross domestic product growth rate



Overall, the Hong Kong economy contracted by 6.1% year-on-year predominantly due to the global impact of the COVID-19 pandemic. Border closures and other restrictions imposed on local economic activities continue to significantly disrupt Hong Kong's retail and tourism sectors, affecting both domestic private expenditure and inbound tourism. Whilst the economic outlook for 2021 will still be challenging, there are glimmers of optimism, with the gradual easing of COVID-19 related restrictions coupled by the planned rollout of COVID-19 vaccines to the general public. Supported by healthy fiscal reserves, Hong Kong's economy remains resilient and capable of weathering these economic headwinds.



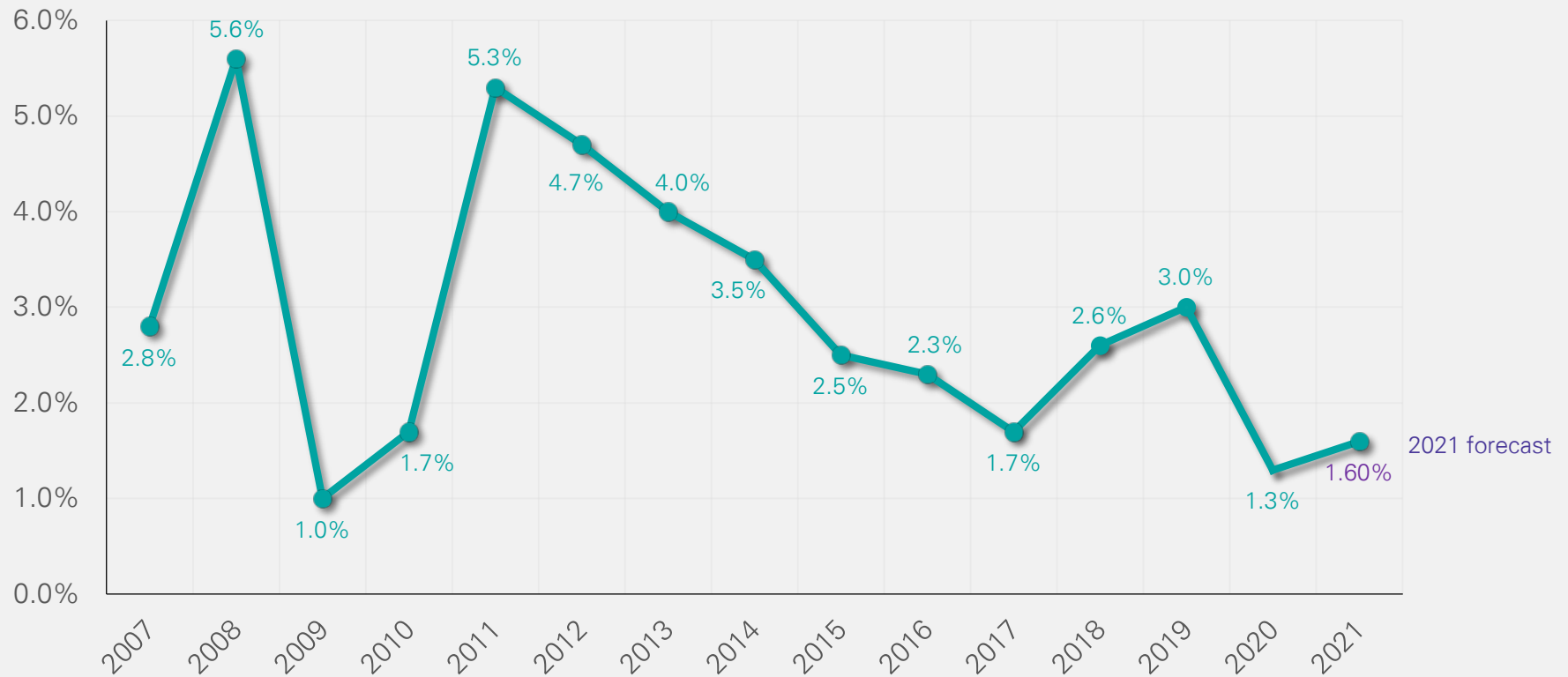
Source: Census and Statistics Department, HKSAR Government



# Underlying inflation rate



The underlying inflation rate in 2020 was estimated to be 1.3%, partly reflecting the impact of the government's various relief measures over the past year. Looking ahead, the inflation outlook for 2021 will be heavily influenced by the still uncertain pace of global recovery from the pandemic. It is estimated that domestic consumption and tourism will likely only show signs of recovery during the latter half of 2021.



Source: Census and Statistics Department, HKSAR Government

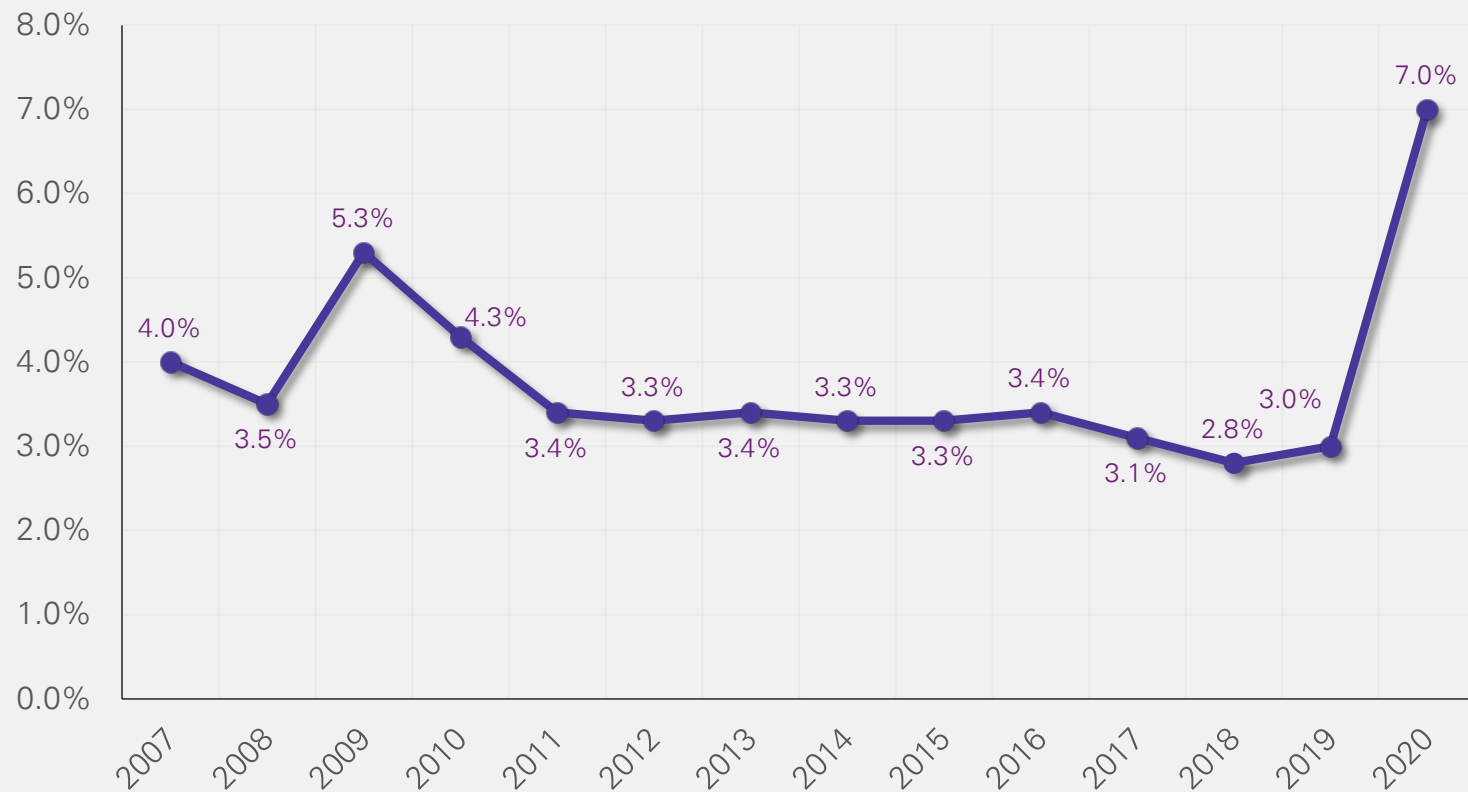




# Unemployment rate



The overall unemployment rate in Hong Kong was 7% in 2020, with retail and tourism-related sectors still significantly affected by the COVID-19 outbreak. Any future decline in the unemployment rate will largely depend on the pace of economic recovery in Hong Kong.



Source: Census and Statistics Department, HKSAR Government

# Budget proposals at a glance



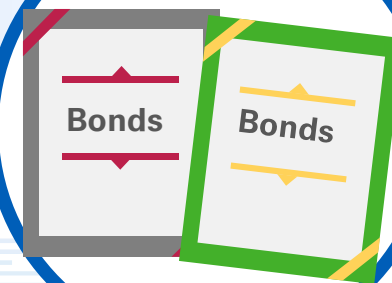
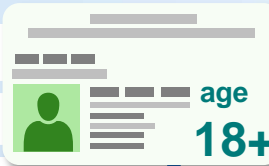


## Key measures

# Economy



HOTEL



### Stimulating the Economy

- Issue **HKD 5,000** electronic consumption vouchers in instalments to each eligible Hong Kong permanent resident and new arrival aged **18** or above to facilitate and stimulate local consumption
- Issue inflation-linked retail bonds of not less than **HKD 15 billion** and Silver Bonds of not less than **HKD 24 billion**, and lower the eligible age for Silver Bond subscription from **65** to **60**
- Issue green bonds totaling **HKD 175.5 billion** over the next 5 years and plan to issue retail green bonds
- Additional funding of more than **HKD 765 million** for Hong Kong Tourism Board in reviving the tourism industry
- Provide subsidies for qualifying Real Estate Investment Trusts ("REIT") to list in Hong Kong over the next 3 years, which will cover **70 per cent** of the expenses paid to local professional service providers, subject to a cap of **HKD 8 million** per REIT
- Provide subsidies for Open-ended Fund Companies ("OFC") to set up in or re-domicile to Hong Kong in the next 3 years, which cover **70 per cent** of the expenses paid to local professional service providers, subject to a cap of **HKD 1 million** per OFC

## Key measures

# Smart city



Earmark over **HKD 200 million** to roll out the “Knowing More About IT” Programme and subsidise primary schools to enhance students’ interests and knowledge in I&T and its applications through extracurricular activities

Inject **HKD 9.5 billion** into the Innovation and Technology (“I&T”) Fund in two yearly instalments

Continue to support the development of 5G networks and applications



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Commence progressively the operation of the first batch of about **20** R&D laboratories under the “InnoHK Research Clusters” in the first quarter of 2021



## Key measures

# Community development and infrastructure



- Earmark **HKD 1 billion** to install small-scale renewable energy systems at government buildings and infrastructure
- Inject **HKD 1 billion** into the Recycling Fund and extend the application period to 2027
- Earmark **HKD 500 million** to enhance facilities in country parks and **HKD 55 million** to enhance hiking trails in country parks
- Allocate **HKD 147 million** to enhance mental health services
- Commence operation of **two** District Health Centres in the coming two years, and set up “DHC Expresses” in another **11** districts within this year

## Key measures

# Caring society



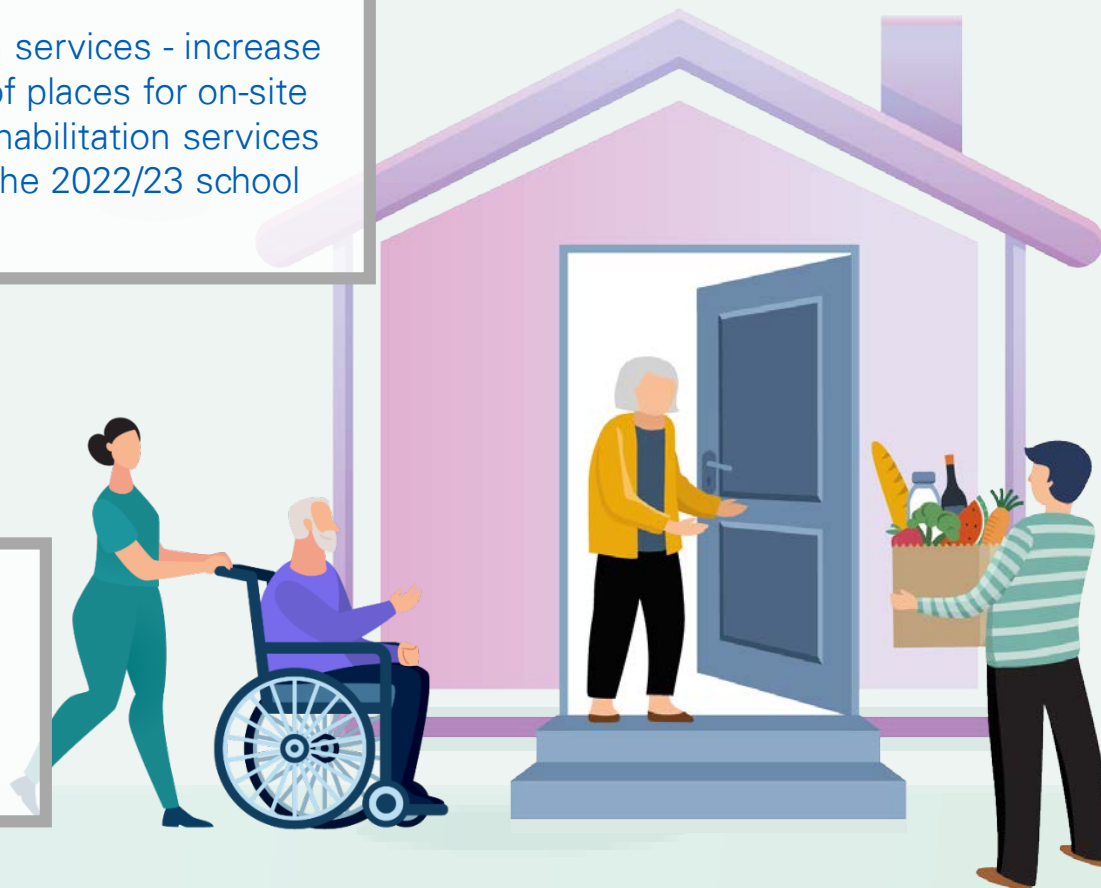
Inject **HKD 1.1 billion** into the Lotteries Fund to ensure that feasibility studies for much-needed social welfare development projects can proceed as scheduled



Rehabilitation services - increase the number of places for on-site pre-school rehabilitation services to **10,000** in the 2022/23 school year



Elderly services - provide about **8,800** residential care places and about **2,800** subsidised day care service places in the coming few years





## Key measures

# Land and housing

2021-22 land supply is expected to provide **16,500** units

Review about **40** "Government, Institution or Community" sites with joint use potential and put forward development proposals this year

Public Housing - estimated production from 2020-21 to 2024-25 is about **101,400** units, comprising about **70,000** public rental housing/Green Form Subsidised Home Ownership Scheme units and **30,000** subsidised sales units

New development area projects and other development projects under planning expected to provide a total of over **860** hectares of brownfield sites in the New Territories which can be redeveloped for housing and other land use

Examine the feasibility of rezoning **5** commercial sites in Kowloon East for residential use, which are expected to provide about **5,800** private housing units in total

Private Housing - estimated annual production from 2021 to 2025 is about **18,000** units on average

# Profits Tax





# Profits Tax

## Key highlights

No changes proposed to tax rates

Reduction of 100% in Profits Tax payable for 2020-21, subject to a ceiling of **HKD 10,000**



To review relevant tax arrangements relating to family offices

To provide tax concessions for carried interest issued by private equity funds operating in Hong Kong



To provide a 50% tax concession to eligible insurance businesses (including marine insurance and specialty insurance)





Tax rates		
	Corporations	Unincorporated businesses
<b>Standard tax rate*</b>	16.5%	15%
<b>Two-tiered Profits Tax rates regime</b> Qualifying taxpayers may be taxed at the following rates: - First HKD 2 million of assessable profits - Remaining balance <i>Note: Only one entity within a group can benefit from the two-tiered rates</i>	8.25% 16.5%	7.5% 15%

\*Concessionary regimes are available for certain specified industries or business activities.

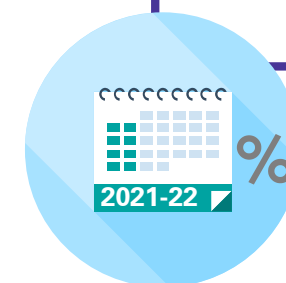
### Profits Tax on royalties paid to non-residents

When royalty payment is made to a non-resident associated person and the underlying intellectual property has once been owned by any Hong Kong taxpayer, the assessable profits of the non-resident associated person are deemed to be 100% of the payment (i.e. effective tax rate is 16.5%). In other cases, the assessable profits of the non-resident person are generally deemed to be 30% of the payment (i.e. effective tax rate is 4.95%). The effective tax rate may be reduced under the terms of the applicable double taxation agreement or election of the two-tiered Profits Tax rate.

Capital allowances	
<b>Depreciation allowances for plant and machinery</b> - Initial allowance - Annual allowance	60% 10%, 20% or 30%
<b>Industrial building allowances</b> - Initial allowance - Annual allowance	20% 4%
<b>Commercial building allowance</b>	4%
<b>Building refurbishment</b>	20% deduction for 5 years
<b>Expenditure on computer hardware and software</b>	100% deduction
<b>Expenditure on environmentally friendly machinery and equipment</b>	100% deduction
<b>Enhanced tax deduction for qualifying research and development expenditure</b>	300% (for the first HKD 2 million) 200% (for the remaining balance)

Source: Inland Revenue Ordinance

No changes  
proposed in  
tax rates for  
2021-22



# Salaries Tax





# Salaries Tax

## Key highlights



No changes proposed to tax rates and allowances for individuals

Reduction of 100% in Salaries Tax payable for 2020-21, subject to a ceiling of **HKD 10,000**









## Tax rates

The tax charge for Salaries Tax is the lower of the:

- Net assessable income less charitable donations and allowable deductions at the standard rate (15%); or
- Net assessable income less charitable donations, allowable deductions and personal allowances, charged at the progressive rates below.

2013-14 to 2016-17	Rate	HKD	2017-18	Rate	HKD	2018-19 to 2021-22	Rate	HKD
First HKD 40,000	2%	800	First HKD 45,000	2%	900	First HKD 50,000	2%	1,000
Next HKD 40,000	7%	2,800	Next HKD 45,000	7%	3,150	Next HKD 50,000	6%	3,000
Next HKD 40,000	12%	4,800	Next HKD 45,000	12%	5,400	Next HKD 50,000	10%	5,000
						Next HKD 50,000	14%	7,000
Remaining balance	17%			17%			17%	



Allowances for individuals		2015-16 HKD	2016-17 HKD	2017-18 HKD	2018-19 HKD	2019-20 HKD	2020-21 HKD	2021-22 HKD
<b>Personal allowances</b> 	Basic	120,000	132,000	132,000	132,000	132,000	132,000	132,000
	Married	240,000	264,000	264,000	264,000	264,000	264,000	264,000
	Single parent	120,000	132,000	132,000	132,000	132,000	132,000	132,000
	Disabled	-	-	-	75,000	75,000	75,000	75,000
<b>Child allowances</b> 	1st to 9th child (each)							
	- Year of birth	200,000	200,000	200,000	240,000	240,000	240,000	240,000
	- Other years	100,000	100,000	100,000	120,000	120,000	120,000	120,000
<b>Dependent parent and grandparent allowances</b> 	Aged 60 or above, or disabled	40,000	46,000	46,000	50,000	50,000	50,000	50,000
	Aged between 55 and 59	20,000	23,000	23,000	25,000	25,000	25,000	25,000
<b>Additional dependent parent and grandparent allowances</b> 	Aged 60 or above, or disabled	40,000	46,000	46,000	50,000	50,000	50,000	50,000
	Aged between 55 and 59	20,000	23,000	23,000	25,000	25,000	25,000	25,000
<b>Disabled dependent (spouse/child/parent/grandparent/brother/sister) allowances</b> 		66,000	66,000	75,000	75,000	75,000	75,000	75,000
<b>Dependent brother/sister allowances</b> 		33,000	33,000	37,500	37,500	37,500	37,500	37,500

Deductions – maximum limit	2015-16 HKD	2016-17 HKD	2017-18 HKD	2018-19 HKD	2019-20 HKD	2020-21 HKD	2021-22 HKD
<b>Self-education expenses</b>	80,000	80,000	100,000	100,000	100,000	100,000	100,000
<b>Elderly residential care expenses</b>	80,000	92,000	92,000	100,000	100,000	100,000	100,000
<b>Mandatory contributions to recognised retirement schemes</b>	18,000	18,000	18,000	18,000	18,000	18,000	18,000
<b>Home loan interest</b>	100,000						
<b>Approved charitable donations</b>	35% of assessable income						
<b>Qualifying voluntary health insurance scheme policy premiums</b>	-	-	-	-	8,000 per insured person	8,000 per insured person	8,000 per insured person
<b>Annuity premiums and MPF voluntary contributions</b>	-	-	-	-	60,000	60,000	60,000

Source: Inland Revenue Ordinance





# Property Tax, Rates and Stamp Duty

## Key highlights



### Stamp Duty

Raise the rate of Stamp Duty on stock transfers from 0.1% to 0.13% (aggregate 0.26%)

### Property Tax

No changes proposed



### Rates (domestic property)

Rates waiver for each domestic property for all 4 quarters of 2021-22, subject to a ceiling of HKD 1,500 per quarter in the first 2 quarters and HKD 1,000 per quarter in remaining 2 quarters

### Rates (non-domestic property)

Rates waiver for each non-domestic property for all 4 quarters of 2021-22, subject to a ceiling of HKD 5,000 per quarter in the first 2 quarters and HKD 2,000 per quarter in the remaining 2 quarters



## Stamp Duty



### Lease of immovable properties

Lease term	Rate
Not defined or is uncertain	0.25% of the yearly or average yearly rent
Does not exceed 1 year	0.25% of the total rent payable over the term of the lease
Exceeds 1 year but not exceeding 3 years	0.5% of the yearly or average yearly rent
Exceeds 3 years	1% of the yearly or average yearly rent

### Sale and purchase of Hong Kong stock



0.26% of the consideration or the market value of the stock as at the transfer date – whichever is higher



## Sale on transfer of immovable properties



### Ad valorem stamp duty



#### Property consideration

Exceeds	Does not exceed	Flat rate (for residential properties)	Scale 2 rates*# (for non-residential properties)	Scale 2 rates* (for Hong Kong permanent residents who do not own other residential properties and in other specified circumstances)
	HKD 2,000,000	15%	HKD 100	HKD 100
HKD 2,000,000	HKD 3,000,000		1.5%	1.5%
HKD 3,000,000	HKD 4,000,000		2.25%	2.25%
HKD 4,000,000	HKD 6,000,000		3.0%	3.0%
HKD 6,000,000	HKD 20,000,000		3.75%	3.75%
HKD 20,000,000			4.25%	4.25%

\* Subject to marginal relief

# Applicable to any instrument executed on or after 26 November 2020 for the sale and purchase or transfer of non-residential property (subject to the enactment of the relevant amendment bill by the Legislative Council)



### Special stamp duty on disposal of residential properties



### Buyer's stamp duty on acquisition of residential properties



Property holding period	Tax rate
6 months or less	20%#
More than 6 months but not exceeding 12 months	15%#
More than 12 months but not exceeding 36 months	10%#

	Tax rate
For non-permanent Hong Kong residents	15%#

# On the sales consideration or market value of property at the date of sale (whichever is higher)

## Property Tax

**Tax rate** 15%

The tax rate is applied to the "net assessable value" of the property which is calculated at the total rent receivable (net of rates) less 20% statutory allowance for repairs and outgoings.

Sources: Inland Revenue Ordinance  
Stamp Duty Ordinance  
Rating and Valuation Department's website

## Rates

**Tax rate** 5%

The tax rate is applied to the "rateable value" which is the estimated annual rental value of the property at a designated valuation reference date. As there has been no major change since 1995, the Government will review the rating system for any improvement.

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