



Hong Kong Budget Summary 2023-2024



Commentary

The Financial Secretary has forecast a budget deficit of HKD 139.8 billion for the 2022-23 fiscal year, more than double its original estimate of HKD 56.3 billion. This is primarily due to less-than-expected land related revenue and stamp duty revenue. Despite the third deficit in four years, fiscal reserves of Hong Kong (SAR) remain strong, at an estimated HKD 817.3 billion as at 31 March 2023.

While Hong Kong's fiscal reserves remain healthy, they have been reduced by approximately HKD 340 billion over the past three years mainly due to the economic downturn and various measures to support citizens and businesses during the pandemic. With the borders now reopen and most anti-pandemic measures removed, the Hong Kong (SAR) Government should take the lead to capture opportunities and prepare for the expected economic revival. Specifically, the government should provide measures to consolidate and further strengthen Hong Kong's position as a top-tier international finance and business centre. It should provide more targeted incentives and policies to attract businesses and investors to be based in Hong Kong, to help drive sustainable economic growth. The government should also align the formulating and administering of tax policies to enhance Hong Kong's overall tax competitiveness amid a continually evolving international tax environment.

We are pleased to see that the government has adopted our proposal of issuing another round of electronic consumption vouchers to Hong Kong permanent residents and new arrivals, which will support citizens and businesses in the short term and stimulate local consumption.

In summary, this year's Budget provides a range of immediate and short-term measures to support citizens and businesses to prepare for the economic turnaround. We are also pleased to see other new measures including a Capital Investment Entrant Scheme and a mechanism to attract overseas companies to re-domicile in Hong Kong. These measures will be crucial in improving Hong Kong's competitiveness in the medium to long term and the help the city to maintain sustainable growth.

The information contained in the *Hong Kong Budget Summary 2023-2024* 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 SAR economic indicators



Estimated consolidated fiscal position

In Hong Kong dollars

Hong Kong (SAR) Government's
estimated 2023/24
deficit: 54.4 billion



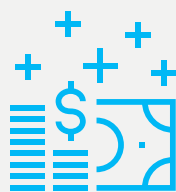
Hong Kong (SAR)
Government's
revised estimated
2022/23
deficit: 139.8 billion



Hong Kong (SAR) Government's
original estimated 2022/23
deficit: 56.3 billion



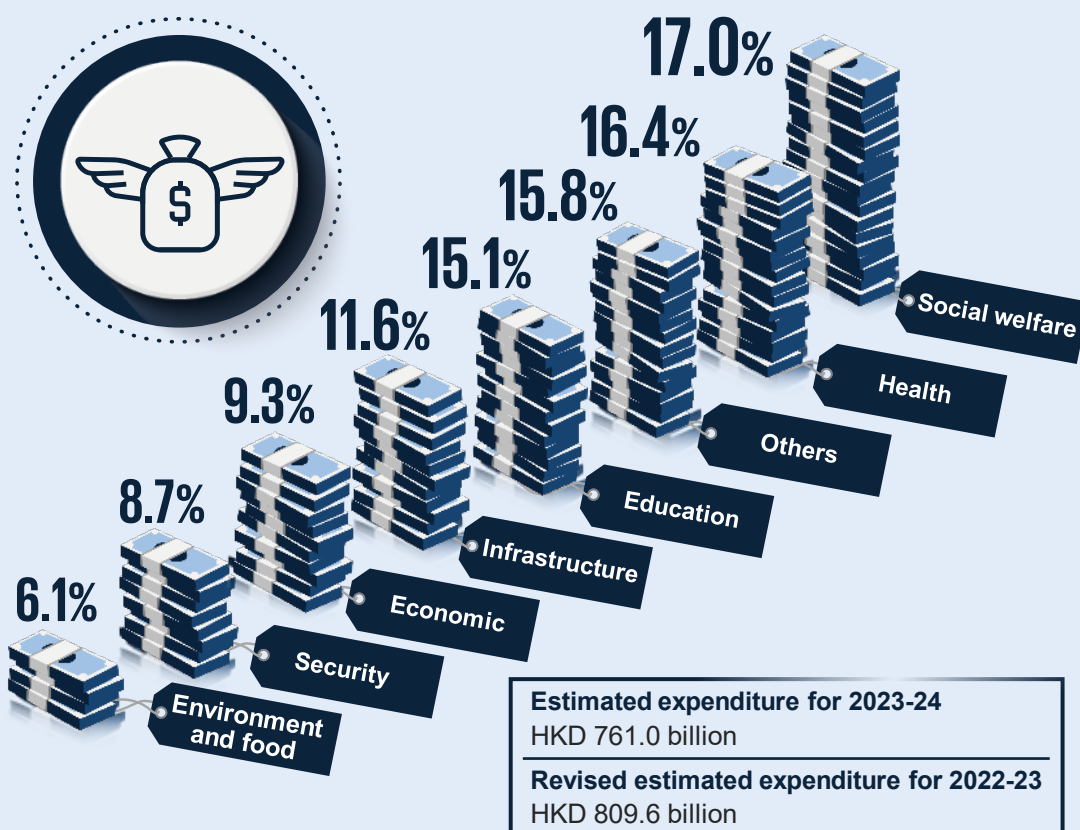
**Estimated fiscal
reserves as at
31 March 2023:
817.3 billion**



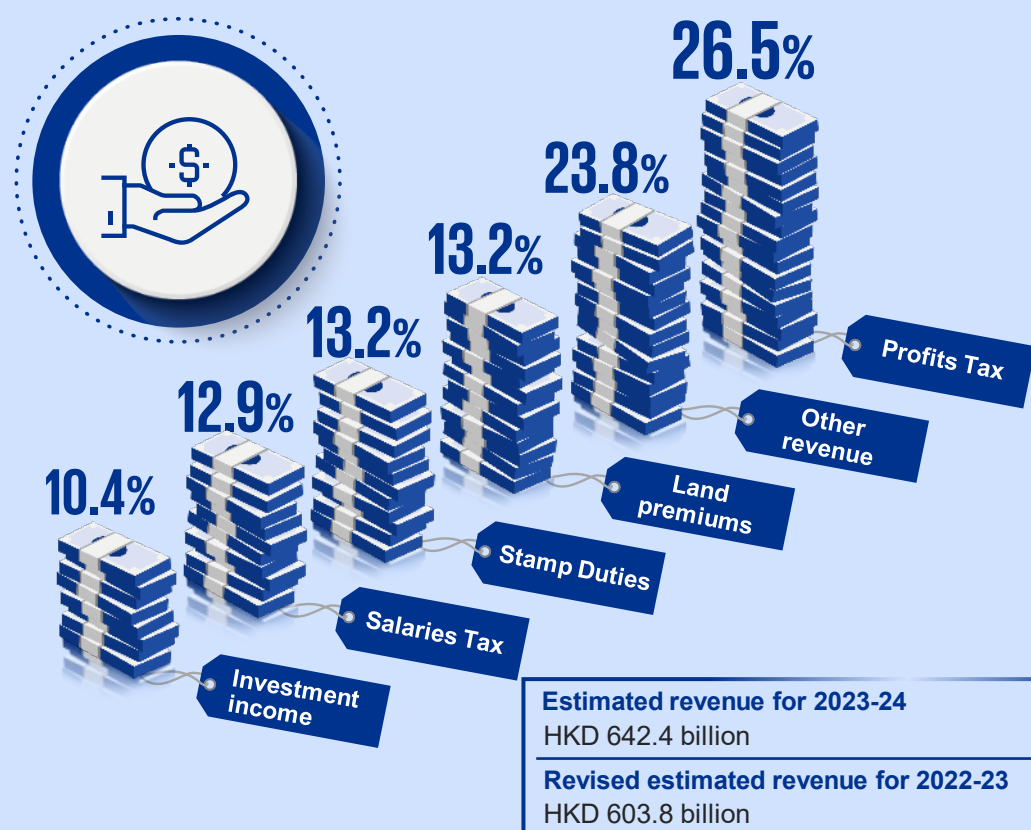
2023-24 government revenue and expenditure (estimated)

Total government revenue for 2023-24 is estimated to be HKD 642.4 billion (2022-23: HKD 603.8 billion) within which tax revenues (i.e., Profits Tax, Stamp Duty, Salaries Tax) account for 52.6%, followed by land premiums at 13.2% and investment income at 10.4%. Total government expenditure is estimated at HKD 761.0 billion (2022-23: HKD 809.6 billion). Education, social welfare and healthcare account for about 48.5% of total government expenditure. The government forecasts an overall consolidated deficit of HKD 54.4 billion for 2023-24. This has taken into account the new sources of revenue, including the annual special football betting duty to be collected from the Hong Kong Jockey Club and the issuance of government bonds. Hong Kong's fiscal reserves are predicted to remain healthy at about HKD 762.9 billion as at 31 March 2024. Fiscal reserves are estimated to stand at HKD 983.7 billion by the end of March 2028, which is equivalent to roughly 14 months of government expenditures.

2023-24 Government expenditure (estimated)



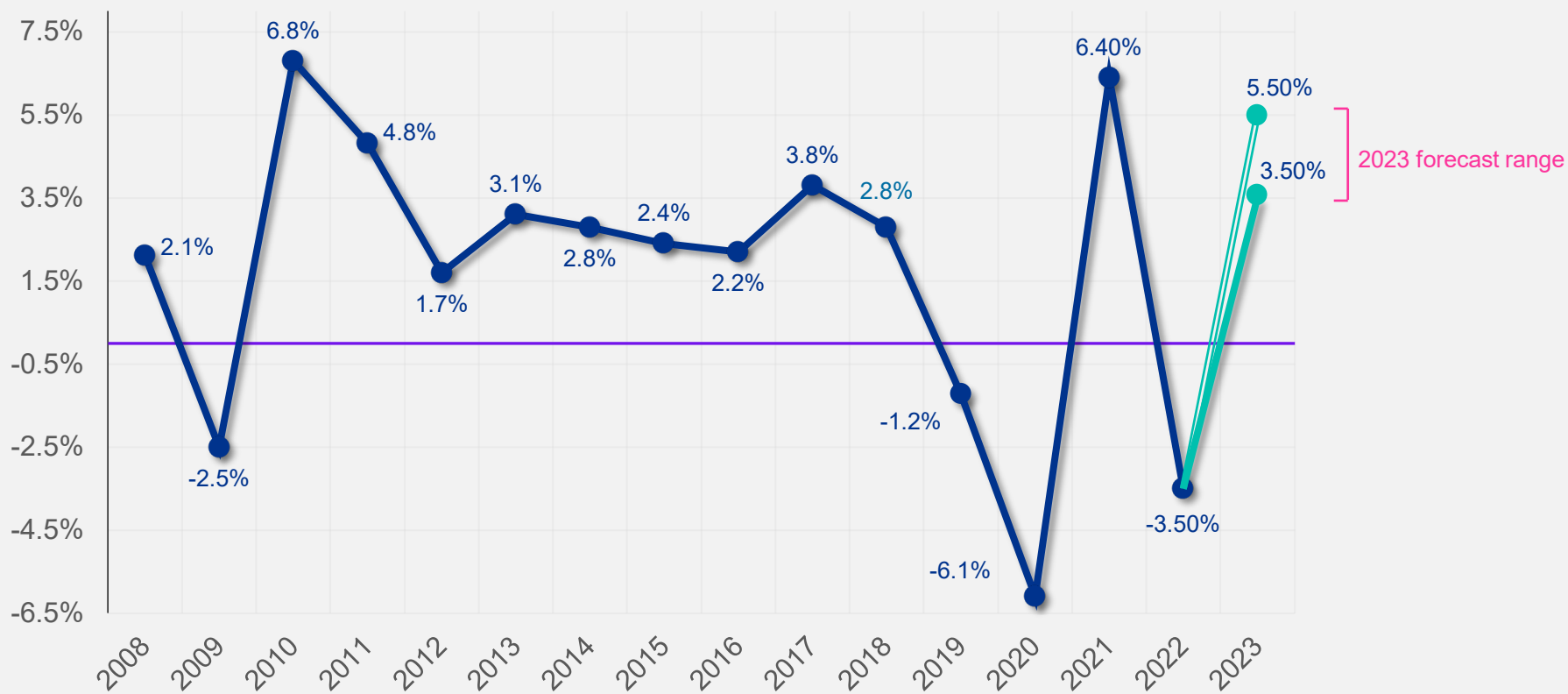
2023-24 Government revenue (estimated)



Source: 2023-24 Budget Speech, HKSAR Government

Real gross domestic product growth rate

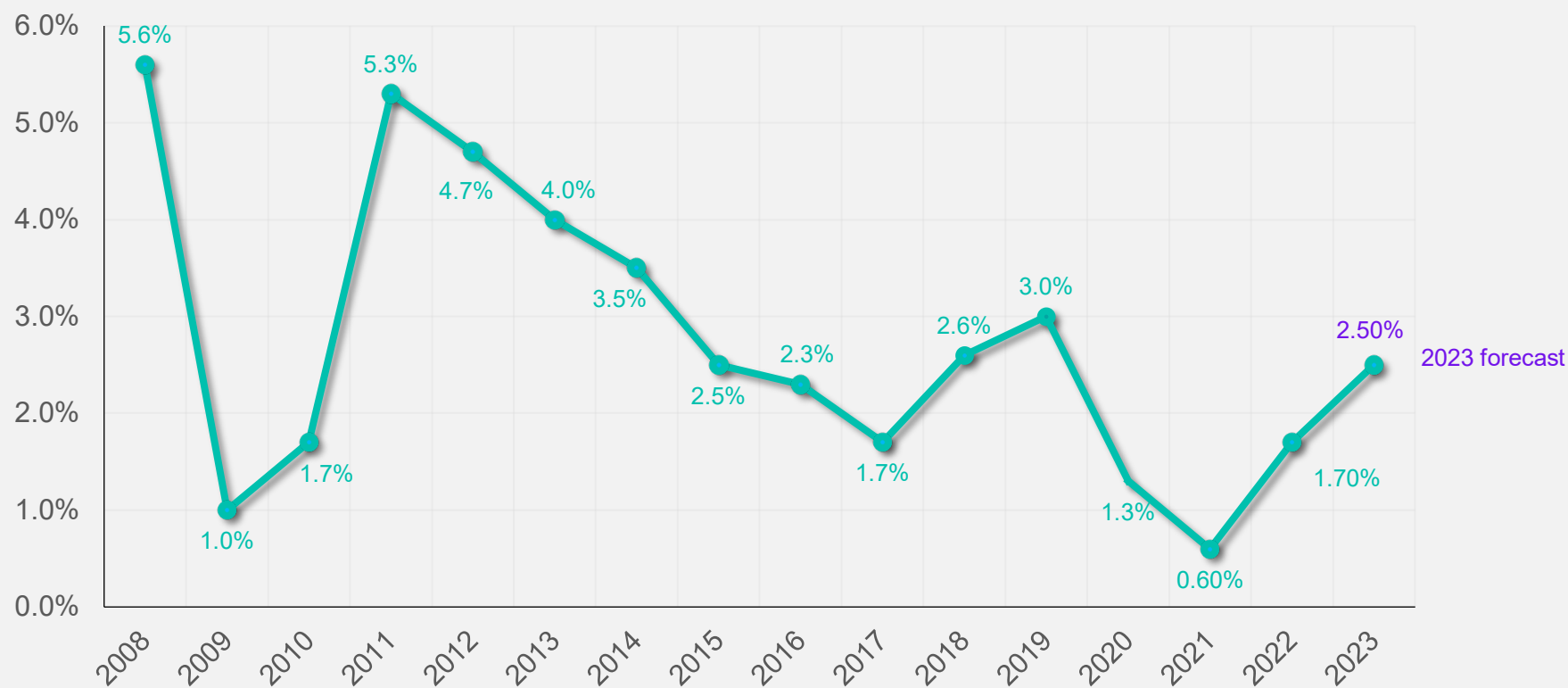
Overall, the Hong Kong economy showed a contraction of 3.5% year-on-year, predominantly as a result of domestic outbreak of the fifth wave of the epidemic and deterioration in the external environment last year. Nevertheless, with the relaxation of most of the local pandemic measures and the lifting of cross-boundary restrictions, a solid recovery in the performance of Hong Kong's catering, retail and tourism sectors is expected and the economic outlook for 2023 stays positive. With timely targeted measures rolled out by the government supported by healthy fiscal reserves, Hong Kong's economy remains resilient and capable of weathering any economic headwinds.



Source: Census and Statistics Department, HKSAR Government

Underlying inflation rate

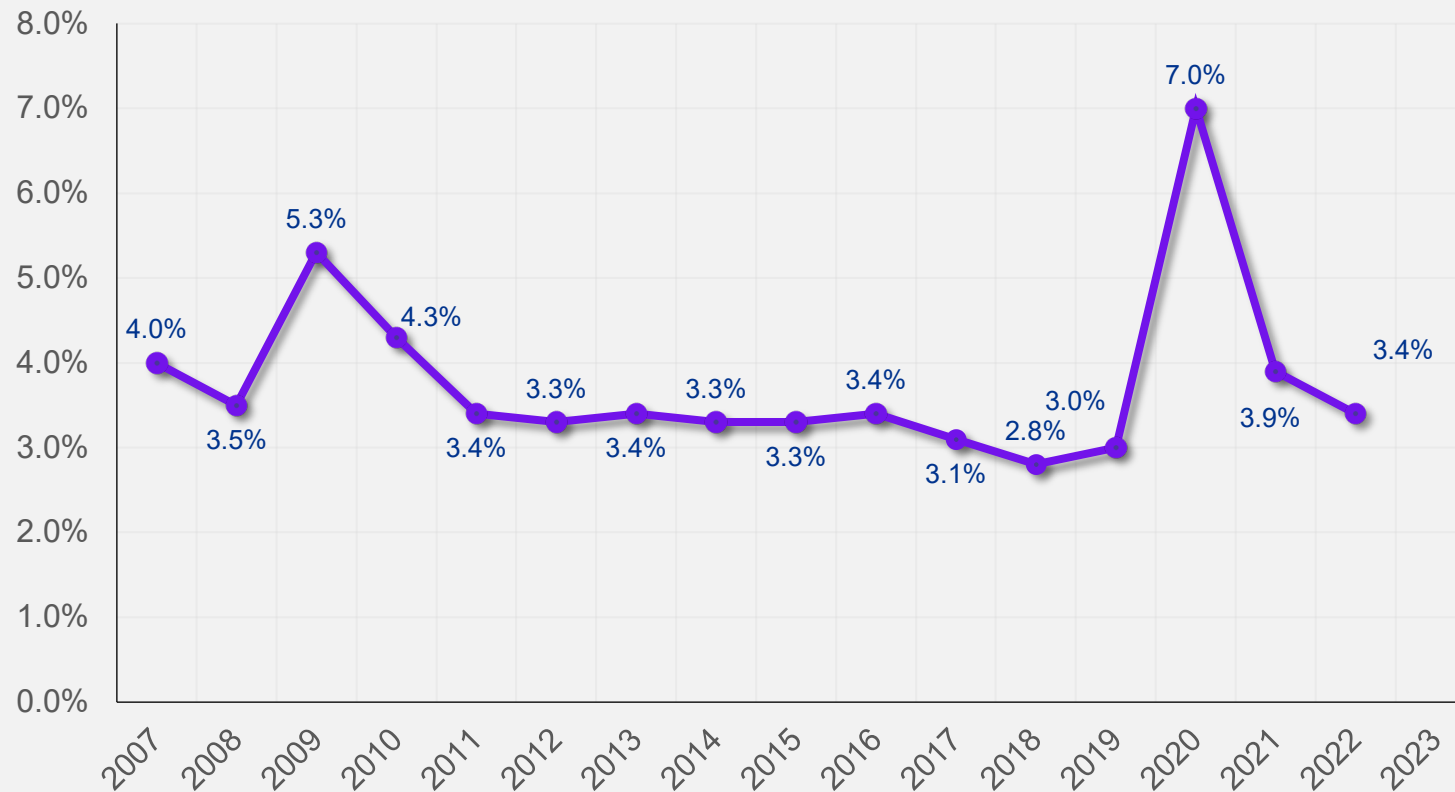
The underlying inflation rate in 2022 is estimated to be 1.7%, up 1.1 percentage point from the year before. Looking ahead, the inflation outlook for 2023 will be heavily influenced by the recovery in domestic economic activity and the pace of the global economic recovery. The inflation pressure in Hong Kong should remain moderate in overall terms. There have been signs of recovery in the local economy and the growing momentum is expected to continue in the foreseeable future.



Source: Census and Statistics Department, HKSAR Government

Unemployment rate

The unemployment rate in Hong Kong for the period from November 2022 to January 2023 was 3.4%. Looking ahead, the unemployment rate will largely depend on the recovery in the economy after the relaxation of pandemic measures and other restrictions on local economic activities.



Source: Census and Statistics Department, HKSAR Government

Budget proposals at a glance

Economy



Issue **HKD 5,000** electronic consumption vouchers to each eligible Hong Kong permanent resident and new arrival aged **18** or above in two instalments



Issue no less than **HKD 50 billion** of Silver Bond and **HKD 15 billion** of retail green bonds in the next financial year



Introduce a mechanism to provide facilitation for companies domiciled overseas for re-domiciliation to Hong Kong



Provide an additional funding of **HKD 550 million** to the Hong Kong Trade Development Council to assist enterprises in opening up markets



HKD 20 million reserved to expedite strategic studies and exchanges of the high-end maritime service industry, and expand the scale of the Hong Kong Maritime Week



Over **HKD 250 million** to be spent on mega events



About **HKD 300 million** reserved for staging more mega events, international meetings, incentive travels, conventions and exhibitions in Hong Kong

Key measures

Smart city



HKD 500 million earmarked to launch a Digital Transformation Support Pilot Programme, to assist SMEs in applying ready-to-use basic digital solutions



HKD 200 million to enhance the operation of the “iAM Smart” platform to improve user experience



HKD 3 billion earmarked to enhance basic research in frontier technology fields such as artificial intelligence and quantum technology



Over **HKD 260 million** reserved for Cyberport to nurture smart living start-ups



HKD 50 million to expedite development of the Web3 ecosystem



Community development and infrastructure



Inject **HKD 200 million** into the Maritime and Aviation Training Fund to support manpower training



HKD 75 million for conducting studies on establishing the Building Testing and Research Institute, constructing an advanced construction industry building, and strengthening the supply chain of Modular Integrated Construction modules



Set aside **HKD 350 million** for subsidising in-harbour ferry operators to construct and test electric ferries and related charging facilities



Additional **HKD 62 million** for food waste collection to cover more premises, and extending the food waste collection trial scheme for public rental housing estates



Introduce a new Capital Investment Entrant Scheme: applicants may reside and pursue development in Hong Kong after making investment at a certain amount in the local asset market, excluding property



Caring society



Set aside **HKD 100 million** to strengthen support for women's development



Enhance support for pre-school children with special needs - allocate an additional annual recurrent expenditure of about **HKD 170 million** to regularise Tier 1 Support Services



Grant each eligible residential electricity account a subsidy of **HKD 1,000**



Encourage employment of elderly employees: increase the tax deduction for the Mandatory Provident Fund voluntary contributions made by employers for their employees aged 65 or above, from **100%** to **200%**



Inject an additional **HKD 500 million** into the Chinese Medicine Development Fund



Land and housing



Additional **HKD 100 million** to provide on-the-job training allowance to trainees who have enrolled in construction-related programmes



12 residential sites under the 2023/24 Land Sale Programme, railway property development, private development and redevelopment projects as well as the URA's projects to provide about **20,000 units**; **3** commercial sites and **3** industrial sites to provide about **200,000** square metres of commercial floor area and **170,000** square metres of industrial floor area respectively



Public housing - identified sufficient land for the provision of about **360,000** public housing units



Private housing - completion of private residential units to average over **19,000** units annually in the 5 years from 2023 onwards. The expected first-hand private residential unit supply for the next 3 to 4 years is about **105,000** units



Secure land for the production of no less than **72,000** private housing units in the coming **5** years



Transitional housing units - about **14,000** additional units will be coming on stream in the next two years



Profits Tax



Profits Tax

Key highlights



No changes proposed to tax rates

Reduction of 100% in Profits Tax payable for 2022-23, subject to a ceiling of **HKD 6,000**



To provide tax deduction for the spectrum utilisation fees to be paid by the telecommunications network operators which successfully bid for radio spectrum



To enhance the aircraft leasing preferential tax regime by allowing tax deduction for the acquisition cost of aircraft and expanding the scope of leases and aircraft leasing activities



To introduce a “patent box” tax incentive to provide tax concessions for profits sourced in Hong Kong from qualifying patents generated through R&D activities to encourage the I&T sector to create more patented inventions with market potential



To apply the global minimum effective tax rate on large multinational enterprise groups and implement the domestic minimum top-up tax starting from 2025 onwards



To review the existing tax concession measures applicable to funds and carried interest

Tax rates		
	Corporations	Unincorporated businesses
Standard tax rate*	16.5%	15%
Two-tiered Profits Tax rates regime 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.

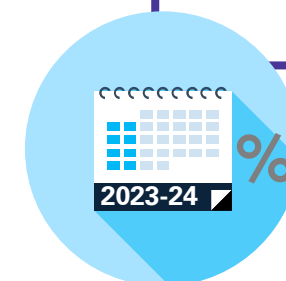
Profits Tax on royalties paid to non-residents

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 15% or 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 4.5% or 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 rates.

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

Source: Inland Revenue Ordinance

No changes proposed in tax rates for 2023-24



Salaries Tax



Salaries Tax

Key highlights

Increase the basic child allowance and the additional child allowance for each child born from **HKD 120,000** to **HKD 130,000** starting from 2023-24







Reduction of 100% in Salaries Tax payable for 2022-23, subject to a ceiling of **HKD 6,000**

Tax rates

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

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

2016-17	Rate	HKD	2017-18	Rate	HKD	2018-19 to 2023-24	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		2017-18 HKD	2018-19 HKD	2019-20 HKD	2020-21 HKD	2021-22 HKD	2022-23 HKD	2023-24 HKD
Personal allowances 	Basic	132,000	132,000	132,000	132,000	132,000	132,000	132,000
	Married	264,000	264,000	264,000	264,000	264,000	264,000	264,000
	Single parent	132,000	132,000	132,000	132,000	132,000	132,000	132,000
	Disabled	-	75,000	75,000	75,000	75,000	75,000	75,000
Child allowances 	1st to 9th child (each)							
	- Year of birth	200,000	240,000	240,000	240,000	240,000	240,000	260,000
	- Other years	100,000	120,000	120,000	120,000	120,000	120,000	130,000
Dependent parent and grandparent allowances 	Aged 60 or above, or disabled	46,000	50,000	50,000	50,000	50,000	50,000	50,000
	Aged between 55 and 59	23,000	25,000	25,000	25,000	25,000	25,000	25,000
Additional dependent parent and grandparent allowances 	Aged 60 or above, or disabled	46,000	50,000	50,000	50,000	50,000	50,000	50,000
	Aged between 55 and 59	23,000	25,000	25,000	25,000	25,000	25,000	25,000
Disabled dependent (spouse/child/parent/grandparent/brother/sister) allowances 		75,000	75,000	75,000	75,000	75,000	75,000	75,000
Dependent brother/sister allowances 		37,500	37,500	37,500	37,500	37,500	37,500	37,500

Deductions – maximum limit	2017-18 HKD	2018-19 HKD	2019-20 HKD	2020-21 HKD	2021-22 HKD	2022-23 HKD	2023-24 HKD
Self-education expenses	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Elderly residential care expenses	92,000	100,000	100,000	100,000	100,000	100,000	100,000
Mandatory contributions to recognised retirement schemes	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Home loan interest	100,000						
Approved charitable donations	35% of assessable income						
Qualifying voluntary health insurance scheme policy premiums	-	-	8,000 per insured person	8,000 per insured person	8,000 per insured person	8,000 per insured person	8,000 per insured person
Annuity premiums and MPF voluntary contributions	-	-	60,000	60,000	60,000	60,000	60,000
Domestic rents deduction	-	-	-	-	-	100,000	100,000

Source: Inland Revenue Ordinance

Property Tax, Rates and Stamp Duty

Property Tax, Rates and Stamp Duty

Key highlights



Rating System

A progressive rating system for domestic properties will be introduced in 2024-25



Stamp Duty

Adjust value bands of the ad valorem stamp duty payable under Scale 2 for sale and purchase or transfer of residential and non-residential properties



Property Tax

No changes proposed



Rates (domestic property)

Rates waiver for each domestic property for the first two quarters of 2023-24, subject to a ceiling of HKD 1,000 per quarter for each rateable property



Rates (non-domestic property)

Rates concession for each non-domestic property for the first 2 quarters of 2023-24, subject to a ceiling of HKD 1,000 per quarter for each rateable property

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

Tax rate
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 3,000,000	15%	HKD 100	HKD 100
HKD 3,000,000	HKD 4,500,000		1.5%	1.5%
HKD 4,500,000	HKD 6,000,000		2.25%	2.25%
HKD 6,000,000	HKD 9,000,000		3.0%	3.0%
HKD 9,000,000	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 22 February 2023 for the sale and purchase or transfer of residential and non-residential property



Special stamp duty on disposal 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% [#]

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

Property Tax

Tax rate	15%
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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%
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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. A progressive rating system for domestic properties will be introduced in 2024-25.



Buyer's stamp duty on acquisition of residential properties



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

Proposed progressive rating system for domestic properties from 2024-25 onwards

Annual rateable value (Equivalent monthly rental)	Proposed rates
HKD 550,000 or below (monthly rental of HKD 45,833 or below)	5% (unchanged)
HKD 550,001 - HKD 800,000 (monthly rental of around HKD 45,833 to HKD 66,667)	First HKD 550,000: 5% Next HKD 250,000: 8%
Above HKD 800,000 (monthly rental of over HKD 66,667)	First HKD 550,000: 5% Next HKD 250,000: 8% Above HKD 800,000: 12%

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