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Hong Kong – Stability Underscores 2014/2015 Budget Measures for Individuals

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Hong Kong's 2014/2015 Budget, which was presented in February 2014, contained some relief measures for individuals. Individual taxpayers will benefit from proposed one-off "relief" measures including a Salaries Tax reduction of up to 75 percent for 2013/2014, capped at HKD 10,000. The government also proposed an increase in the allowances available for those with dependent parents and grandparents. The deduction allowed for contributions made by employees to recognized retirement schemes and Mandatory Provident Fund schemes has been increased to HKD 17,500 for the year of assessment 2014/2015, in line with the increase in mandatory contributions.

Why This Matters

On the whole, the budget proposals should keep an individual's tax burden stable, at the least; however, some taxpayers could see their burden eased slightly.

On 26 February 2014, Hong Kong's Financial Secretary, Mr. John Tsang, delivered his seventh budget speech to the Legislative Council.¹ Below we highlight the main measures impacting individuals.

Salaries Tax

The Financial Secretary has proposed a one-off reduction of 75 percent of Salaries Tax (and tax under personal assessment) for 2013/2014, subject to a ceiling of HKD 10,000. The reduction will be reflected in the final tax payable for 2013/2014.

The tax charge for 2013/2014 and 2014/2015 is the lower of the:

- a) net assessable income less charitable donations and allowable deductions at the standard rate; or
- b) net assessable income less charitable donations and allowable deductions and personal allowances, charged at the following progressive rates:

2013/2014	Tax	HKD	2014/2015	Tax	HKD
First HKD 40,000	2%	800	First HKD 40,000	2%	800
Next HKD 40,000	7%	2,800	Next HKD 40,000	7%	2,800
Next HKD 40,000	12%	4,800	Next HKD 40,000	12%	4,800
Balance	17%		Balance	17%	

[HKD 1 = USD 0.129 // EUR 0.0935 // GBP 0.077 // AUD 0.139]

The standard rate of Salaries Tax for 2013/2014 and 2014/2015 is 15 percent.

Allowances and Deductions

The Financial Secretary has proposed an increase in allowances for maintaining dependent parents or grandparents when calculating the tax payable at progressive rates. This is intended to alleviate the financial burden on tax-paying providers/carers.

No other changes to personal allowances were proposed.

The personal allowances for 2013/2014 and 2014/2015 are set out below.

		2013/2014 HKD	2014/2015 HKD
Personal allowances	(basic)	120,000	120,000
	(married)	240,000	240,000
Single parent allowance		120,000	120,000
Child allowances 1st to 9th child (each)			
- Year of birth		140,000	140,000
- Other years		70,000	70,000
Dependent parent allowance			
- (aged 60 or above)		38,000	40,000
- (aged between 55 and 59)		19,000	20,000
Dependent grandparent allowance			
- (aged 60 or above)		38,000	40,000
- (aged between 55 and 59)		19,000	20,000
Additional dependent parent and grandparent allowances			
- (aged 60 or above)		38,000	40,000
- (aged between 55 and 59)		19,000	20,000
Disabled dependant (spouse/child/parent/grandparent/ brother/sister) allowance		66,000	66,000
Dependent brother/sister allowance		33,000	33,000

KPMG Note

Applying the above Salaries Tax rates and allowances, a family of four will have to earn more than HKD 3,830,000 in 2014/2015 before paying tax at the standard rate.

Tax Deductions

The below-noted items are deductible in determining a person's Salaries Tax liability.

Mortgage Relief – Home mortgage interest payments are deductible against income subject to Salaries Tax. Owner-occupiers may claim a deduction for mortgage interest payments up to a maximum of HKD 100,000 per year for one property. The deduction can be claimed for up to 15 years.

Caring for the Elderly – As an alternative to the allowance for maintaining a dependent parent/grandparent, a deduction is available for the expenses incurred in maintaining a dependent parent/grandparent in residential care. The Financial Secretary has proposed that this deduction be increased from HKD 76,000 to HKD 80,000 for the year of assessment 2014/2015.

Contributions to Retirement Schemes – A deduction up to the maximum of the mandatory annual contributions payable under the Mandatory Provident Fund scheme is available for contributions made by employees to recognized retirement schemes and Mandatory Provident Fund schemes. The maximum amount of deductible contributions will be HKD 17,500 for the year of assessment 2014/2015, and HKD 18,000 for the year of assessment 2015/2016 onwards. The maximum deduction for 2013/2014 is HKD 15,000.

Self-Education Costs – A deduction is available for self-education expenses. The deduction is available in respect of fees for training courses run by approved institutions. The maximum amount of deductible expenses for 2014/2015 is HKD 80,000, the same as in 2013/2014.

Charitable Donations – A deduction of up to a maximum of 35 percent of assessable income is available for approved charitable donations.

Profits Tax

Persons carrying on a trade, profession, or business in Hong Kong are liable to Profits Tax on profits arising in or derived from Hong Kong.

The Financial Secretary did not change the Profits Tax rates and allowances for 2014/2015. As in previous years, a one-off reduction of 75 percent of Profits Tax for 2013/2014 has been proposed, with a ceiling of HKD 10,000. The reduction will be reflected in the taxpayer's final tax payable for 2013/2014.

The Profits Tax rate for corporations will remain at 16.5 percent for 2014/2015, and for unincorporated businesses, it will remain at 15 percent.

Property Tax

The standard rate of Property Tax remains at 15 percent for 2014/2015.

Stamp Duty

Property Transactions

No changes were proposed to the Stamp Duty rates and banding on property transactions in the budget. The banding for 2014/2015 is set out below.

Property Consideration		
HK\$	HK\$	HK\$
Exceeds	Does not exceed	
	2,000,000	1.5%
2,000,000	2,176,470	30,000 + 20% of excess over 2,000,000
2,176,470	3,000,000	3.0%
3,000,000	3,290,330	90,000 + 20% of excess over 3,000,000
3,290,330	4,000,000	4.5%
4,000,000	4,428,580	180,000 + 20% of excess over 4,000,000
4,428,580	6,000,000	6.0%
6,000,000	6,720,000	360,000 + 20% of excess over 6,000,000
6,720,000	20,000,000	7.5%
20,000,000	21,739,130	1,500,000 + 20% of excess over 20,000,000
21,739,130		8.5%

Lower rates may apply to Hong Kong permanent residents on the purchase of their only residential property.

In addition, Special Stamp Duty (SSD) is imposed on the sales price or market value of the property as at the date of sale (whichever is higher). SSD was originally introduced with effect from 20 November 2010. However, with effect from 27 October 2012, SSD is imposed at the following penal rates, depending on when the property is bought and sold.

Property Holding Period	
Six months or less	20%
More than six months but not exceeding 12 months	15%
More than 12 months but not exceeding 36 months	10%

Both the seller and the buyer will be jointly and severally liable for paying the Special Stamp Duty.

A further Buyer's Stamp Duty at 15 percent is payable on purchases of residential property by non-natural persons, or natural persons not permanently resident in Hong Kong.

Sales and Purchases of Hong Kong Stock

No changes were announced to the Stamp Duty rate, payable in respect of transfers of Hong Kong stock. This remains at an aggregate ad valorem rate of 0.2 percent of the actual consideration or the value of the stock as at transfer date, whichever is higher.

Other Points of Interest

The Financial Secretary also announced several one-off relief measures to meet the aspirations of different sectors. These measures include:

- Waiving rates for the first two quarters for 2014/2015, subject to a ceiling of HKD 1,500 per quarter for each rateable property;
- Paying one month's base rent for public housing tenants who are required to pay extra rent to the Housing Authority;
- Providing an extra month's allowance to recipients of Comprehensive Social Security Assistance and Old Age Allowance, Old Age Living Allowance, and Disability Allowance.

Next Steps

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

For more in-depth coverage of Hong Kong's 2014/2015 Budget, see the Web page devoted to the Budget by the KPMG International member firm in Hong Kong, SAR at:

<http://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Pages/Hong-Kong-budget-summary-201402.aspx>

Footnote:

1 For the Budget speech and related budget documents, see the following Web page for Hong Kong's government: <http://www.budget.gov.hk/>.

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For further information or assistance, please contact your local IES/People Services professional or Barbara Forrest (tel. +852 2978 8941 or email: barbara.forrest@kpmg.com) with the KPMG International member firm in Hong Kong.

The information contained in this newsletter was submitted by the KPMG International member firm in Hong Kong. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

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