



GMS Flash Alert

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Hong Kong – Budget Offers One-Off Relief on Salaries Tax

The new Financial Secretary, the Hon. Paul MP Chan, has presented his first Hong Kong Budget speech¹ a little over one month into his new role. The Budget measures affecting individuals, including those on international assignment and their employers, featured a reduction of Salaries Tax, Profits Tax, and tax under personal assessment payable for 2016-17 by 75 percent, subject to a ceiling of HKD 20,000.

For a full analysis of the Budget, see “[Hong Kong Budget Summary 2017-2018](#),” a publication of the KPMG International member firm in Hong Kong.² Also, visit the Hong Kong member firm’s dedicated [Budget site](#).

In this *GMS Flash Alert*, we focus on the Budget proposals affecting individuals – including those on international assignment – and their multinational employers.

WHY THIS MATTERS

The proposed one-off reduction will be welcomed by many taxpayers, who will see their tax burdens lightened (at least for this tax cycle). Employers should take steps in regards to their tax equalized assignees and, in particular, those who have departed Hong Kong during the year of assessment 2016-2017.

International assignment cost projections and budgets for assignments to and from Hong Kong made prior to the Budget proposals should still remain relevant.

Salaries Tax, Personal Allowances, and Deductions

The Financial Secretary has proposed a one-off reduction of 75 percent of Salaries Tax (and tax under personal assessment) for 2016-17, subject to a ceiling of HKD 20,000. The reduction will be reflected in the final tax payable for 2016-17.

The tax charge for 2016-17 and 2017-18 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, allowable deductions, and personal allowances, charged at the progressive rates.

The Financial Secretary has proposed widening the progressive rate bands from HKD 40,000 to HKD 45,000.

2016-17	Rate	HKD	2017-18	Rate	HKD
First HKD 40,000	2%	800	First HKD 45,000	2%	900
Next HKD 40,000	7%	2,800	Next HKD 45,000	7%	3,150
Next HKD 40,000	12%	4,800	Next HKD 45,000	12%	5,400
Balance	17%		Balance	17%	

The standard rate of Salaries Tax for 2016-17 and 2017-18 is 15 percent.

The Financial Secretary has proposed changes to two personal allowances under Salaries Tax and personal assessment. The disabled dependant allowance will be increased to HKD 75,000 and the dependent brother/sister allowance to HKD 37,500. Personal allowances are considered when calculating the tax payable at the progressive rates. The personal allowances for 2016-17 and 2017-18 are set out below.

		2016-17 HKD	2017-18 HKD
Personal allowances	(basic)	132,000	132,000
	(married)	264,000	264,000
Single parent allowance		132,000	132,000
Child allowances	1st to 9th child (each)		
	- Year of birth	200,000	200,000
	- Other years	100,000	100,000
Dependent parent allowance	(aged 60 or above)	46,000	46,000
	(aged between 55 and 59)	23,000	23,000
Dependent grandparent allowance	(aged 60 or above)	46,000	46,000
	(aged between 55 and 59)	23,000	23,000
Additional dependent parent and grandparent allowances	(aged 60 or above)	46,000	46,000
	(aged between 55 and 59)	23,000	23,000
Disabled dependant (spouse/child/parent/grandparent/brother/sister)		66,000	75,000
Dependent brother/sister allowance		33,000	37,500

Applying the above Salaries Tax rates and allowances, a family of four will have to earn more than HKD 4,619,000 in 2017-18 before paying tax at the standard rate.

Tax Deductions

The following items are deductible in determining a person's Salaries Tax liability:

Home Mortgage Interest – 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 Financial Secretary has proposed extending the period the deduction can be claimed to 20 years.

Self-Education Expenses – A deduction is available for self-education expenses. The deduction is available in respect of fees for training courses run by approved institutions. The Financial Secretary has proposed increasing the maximum amount of deductible expenses for 2017-18 to HKD 100,000 (previously HKD 80,000).

Contributions to Retirement Schemes – A deduction up to the maximum of the mandatory annual contributions payable under the Mandatory Provident Fund (MPF) scheme is available for contributions made by employees to recognized retirement schemes and MPF schemes. The maximum amount of deductible contributions for the year of assessment 2017-18 is HKD 18,000.

Care of Dependent Parent or Grandparent – 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 maximum deduction for the year of assessment 2017-18 is HKD 92,000.

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

Purchase of Regulated Health Insurance Products – To encourage the use of private health-care services, the Financial Secretary indicated that a tax deduction will be introduced for the purchase of regulated health insurance products. No further details or an indication of timing were provided.

Property Tax

The standard rate remains at 15 percent for 2017-18.

Property Rates

Rates on properties throughout the territory remain at 5 percent of the rateable value. However, rates for all four quarters will be waived in 2017-18, subject to a ceiling of HKD 1,000 per quarter for each rateable property.

Stamp Duty

Property Transactions

No changes were proposed to the Stamp Duty rates and banding on property transactions in the Budget.

Sales/Transfers of Stock

No changes were announced to the rate of Stamp Duty 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 the transfer date, whichever is higher. The trading of all exchange-traded funds remains exempt from Stamp Duty.

Profits Tax

Persons conducting 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 2017-18. As in previous years, a 'one-off' reduction of 75 percent of the Profits Tax payable for 2016-17 has been proposed, with a ceiling of HKD 20,000.

The reduction will be reflected in taxpayers' final tax payable for 2016-17.

The Profits Tax rate for corporations will remain at 16.5 percent for 2017-18, and, for unincorporated businesses, it will remain at 15 percent.

The rate of deeming assessable profits from royalty type payments for the use of intellectual property will remain at 30 percent or 100 percent of the payment, as the case may be. Therefore, the effective tax rate on such payments will remain at 4.95 percent or 16.5 percent for 2017-18.

KPMG NOTE

Legislative proposals – as contained in this Budget speech – do not generally become law until their enactment and may be modified by the Legislative Council before enactment.

FOOTNOTES:

- 1 For the text of the Budget speech, [click here](#).
- 2 For Budget comments by KPMG China tax partner Charles Kinsley speaking on CNBC's "Rundown," [click here](#).

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HKD 1 = GBP 0.1055
HKD 1 = EUR 0.122
HKD 1 = USD 0.129
HKD 1 = JPY 14.66

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