

GMS Flash Alert

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Hong Kong – Budget Offers Relief from Salaries Tax, Other Measures

The Hong Kong financial secretary announced a large estimated fiscal surplus in his Budget speech on Wednesday, 28 February 2018.¹ This large surplus enabled him to propose a number of measures aimed at reducing the tax burden on individuals.

With respect to Salaries Tax – which is charged on income arising in or derived from Hong Kong from an office or employment or a pension – these measures include a one-off reduction, increases in several personal allowances, and the widening and adjusting of the progressive rate bands. The Financial Secretary also provided details of the deduction for medical contributions mentioned in last year's Budget.²

For a full analysis of the Budget see "*Hong Kong Budget Summary 2018-2019*," a publication of the KPMG International member firm in Hong Kong. Also visit the Hong Kong member firm's dedicated [Budget site](#).

WHY THIS MATTERS

The proposed relief measures for 2018-19 and the tax reduction for 2017-18 will reduce the tax payable by employees in Hong Kong. This could mean lower international assignment costs for employers.

The proposals may necessitate adjustments to tax equalisation and tax protection calculations for 2017-18 and estimates for 2018-19.

International assignment cost projections and budgets for assignments to and from Hong Kong may need to be reconsidered in light of the changes in the budget, once they come into effect.

One-Off Reduction in Salaries Tax 2017-2018, 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 2017-18, subject to a ceiling of HKD 30,000. The reduction will be reflected in the final tax payable for 2017-18.

The tax charge for 2017-18 and 2018-19 is the lower of the:

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

2017-18	Rate	HKD	2018-19	Rate	HKD
First HKD 45,000	2%	900	First HKD 50,000	2%	1,000
Next HKD 45,000	7%	3,150	Next HKD 50,000	6%	3,000
Next HKD 45,000	12%	5,400	Next HKD 50,000	10%	5,000
Balance	17%		Next HKD 50,000	14%	7,000
			Balance	17%	

[HKD 1 = EUR 0.104 | HKD 1 = USD 0.1275 | HKD 1 = GBP 0.0916]

The standard rate of Salaries Tax for 2017-18 and 2018-19 is 15 percent.

The Financial Secretary proposed increases to the child allowance and to the dependent parent / grandparent allowances. He also proposed introducing a personal disability allowance for eligible taxpayers. Personal allowances are considered when calculating the tax payable at the progressive rates.

The personal allowances for 2017-18 and 2018-19 are set out below:

		2017-18 HKD	2018-19 HKD
Personal allowance	Basic	132,000	132,000
	Married	264,000	264,000
	Single parent	132,000	132,000
	Disabled	-	75,000
Child allowance	1 st to 9 th child (each)		
	Year of birth	200,000	240,000

	Other years	100,000	120,000
Dependent parent / grandparent allowance	Aged 60 or over	46,000	50,000
	Aged 55 to 59	23,000	25,000
Additional dependent parent / grandparent allowance	Aged 60 or over	46,000	50,000
	Aged 55 to 59	23,000	25,000
Disabled dependant (spouse / child / parent / grandparent / brother / sister) allowance		75,000	75,000
Dependent brother / sister allowance		37,500	37,500

Applying the above Salaries Tax rates and allowances, a family of four would have to earn more than HKD 5,184,000 in 2018-19 before paying tax at the standard rate.

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

- 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 that can be claimed for 2018-19 is HKD 100,000.
- **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 20 years of assessment.
- As an alternative to the personal 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 increasing the maximum deduction to HKD 100,000.
- 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 recognised retirement schemes and MPF schemes**. The maximum amount of deductible contributions for the year of assessment 2018-19 is HKD 18,000.
- The Financial Secretary indicated that the tax deduction proposed in last year's Budget for **eligible health insurance products** will be capped at HKD 8,000 per insured person. Further details of the Voluntary Health Insurance Scheme are to be provided shortly.
- A deduction of up to a maximum of 35 percent of assessable income is available for **approved charitable donations**.

Next Steps

Legislative proposals 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 (in English), and related documentation and videos, [click here](#).
- 2 For coverage of last year's budget, see GMS [Flash Alert 2017-046](#) (8 March 2017).

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The information contained in this newsletter was submitted by the KPMG International member firm in Hong Kong.

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