

HONG KONG

2008/09 Budget Highlights



- By Chu & Chu -

February 27, 2008

The Financial Secretary, Mr. John Tsang, presented his first budget for the year 2008/09 to the Legislative Council on February 27, 2008. Following a vibrant year of the Hong Kong economy with continuous economic upturn in 2007, Mr. Tsang forecasts a surplus in the Operating and Consolidated Accounts for the year 2007/08 to be HK\$63.7 billion and HK\$115.6 billion respectively, where a great variances of which in multiples of the original estimates in the last budget.

For 2008/09, the Financial Secretary forecasts a consolidated deficit of HK\$4.84 billion, however the fiscal reserves will only face with a little bit downturn and remain at a level of HK\$477 billion as at March 31, 2009, of which the reserves still well cover for 18 months of government expenditure.

To ensure the principles and management of public finances including commitment to society, sustainability and pragmatism into practice, the Financial Secretary focuses on the following main areas in terms of resources allocations:

- U Promoting the long-term development of Hong Kong to continue to invest in the three industries which are the pillars of the economic prosperity including financial services, logistics and tourism**
- U Development human capital by extending the free education from 9 to 12 years and implementing the small-class teaching in primary schools from 2009/10 school year**
- U Setting aside HK\$50 billion from the budget surplus for future health care financing purpose**
- U Supporting the disadvantages and improving people's livelihood including to subsidize \$1,800 into each domestic electricity account and a one-off grant of \$3,000 to each Old Age Allowance recipient**
- U Relieving the burden of taxation and leaving wealth with the people to share the fruits of economic development (Please refer to the tax highlights as follow)**



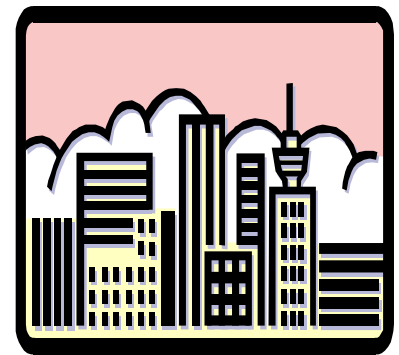
Below are the budget highlights of items and 2008/09 tax facts that may be significant to you in affecting your tax position:

ECONOMIC INDICATORS

- I The real Gross Domestic Product (GDP) forecast at 4% to 5% for 2008 and 4.5% for subsequent years.
- I In the next 5 years, the fiscal reserves forecast at a level between \$477 billion and \$723 billion, equivalent to 18 to 25 months of government expenditure.

PROFITS TAX

- u For corporations: deduct 1% from 17.5% to 16.5%.
- u For unincorporated businesses: deduct 1% from 16% to 15%.
- u One-off rebate of 75% Profits Tax for 2007/08, subject to a ceiling of HK\$25,000 and to be deducted from final tax payable.



SALARIES TAX



- I One-off rebate of 75% of salaries tax and tax under personal assessment for 2007/08, however subject to a ceiling of HK\$25,000 and to be deducted from final tax payable.
- I Marginal tax bands increased from HK\$35,000 to HK\$40,000.

PROPERTY TAX

- I The property tax rate will be deducted 1% from 16% to 15%.
- I One-off rebate of 75% Property Tax for 2007/08, subject to a ceiling of HK\$25,000 and to be deducted from final tax payable.



STAMP DUTY

- I No change in both rates and banding for property transactions
- I No change in stamp duty on stock transactions. The rate remains at 0.2%.



RATES

Waiver of rates for 2008/09, subject to a ceiling of HK\$5,000 a quarter of each tenement.

OTHERS

- I Propose to waive the Business Registration Fee for 2008/09 for all companies.
- I Propose 100% profits tax deduction for capital expenditure on environmentally friendly machinery and equipment in the first year of purchase and depreciation period shorten from 25 years to 5 years.
- I Propose to waive the hotel accommodation tax.
- I Propose to exempt the duties on wine, beer and all other alcoholic beverages except spirits with immediate effect.
- I Propose to make a one-off injection of HK\$6,000 into the MPF accounts of those who earn not more than HK\$10,000 each month.



A summary of the proposed Hong Kong Tax Rates and Allowances for the year 2008/09 together with brief relevant information is attached as appendices for your information and reference.

Disclaimer: The above highlights and the attached appendices are issued for general information only, and should not be solely relied upon without further professional advice.

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Brief Information of Tax Rates
The 2008/09 Budget
(February 27, 2008)

	<u>2007/08</u>	Proposed for <u>2008/09</u> %
Profits Tax		
I Corporations	17.5	16.5
I Individuals	16	15
I Corporate partner in a partnership	17.5	16.5
I Partnership	16	15
Salaries Tax/ Personal Assessment		
I Standard rate	15	15
I Progressive rates		
On the first \$35,000	2	
On the first \$40,000		2
On the second \$35,000	7	
On the second \$40,000		7
On the third \$35,000	12	
On the third \$40,000		12
On the remainder	17	17
Property Tax	15	15

Brief Information of Allowances and Deductions
The 2008/09 Budget
(February 27, 2008)

	2007/08	Proposed for 2008/09
Allowances	HK\$	HK\$
Personal allowances:		
- Basic allowance (Note 1)	100,000	108,000
- Married allowance (Note 2)	200,000	216,000
- Single parent allowance	100,000	108,000
First and second child allowance	50,000	50,000
Third to ninth child allowance	50,000	50,000
One-off child allowance in year of birth	50,000	50,000
Dependent parent/grandparent (each)		
Aged 60 and above		
- residing with taxpayer	60,000	60,000
- not residing with taxpayer	30,000	30,000
Aged 55 to 59		
- residing with taxpayer	30,000	30,000
- not residing with taxpayer	15,000	15,000
Dependent brother/sister	30,000	30,000
Additional allowance for disabled dependent	60,000	60,000
Deductions (of Maximum)		
Approved self-education expenses	60,000	60,000
- For 2001/02 and 2002/03		
Home mortgage interest (Note 3)	100,000	100,000
- For 2001/02 and 2002/03		
Elderly residential care expenses (Note 4)	60,000	60,000
Contributions to retirement schemes (Note 5)	12,000	12,000
Approved charitable donations	25%	35%

Note:

1. *Granted to a single person or to each of a married couple who are separately assessed.*
2. *Granted to a married person whose spouse does not have any assessable income, or to a person who, together with his or her spouse, has elected to be jointly assessed.*
3. *Granted to taxpayer in respect of mortgage interest paid for properties used for self-occupation. *The deduction (with effect from 1998/99) can be claimed in any ten tax years in a life time with maximum deduction limit at HK\$150,000 for the years of assessment 2001/02 and 2002/03 only, and HK\$100,000 for other years*
4. *Granted to taxpayer who is supporting an elderly dependent in residential care. (with effect from 1998/99)*
5. *Granted to taxpayer effective after the Mandatory Provident Fund Scheme comes into operation. (with effect from 1 December 2000)*

Tax Thresholds for Salaries Tax and Personal Assessment
Income Level

		Proposed for	
		2007/08	2008/09
No tax payable			
Single person	up to	100,000	100,000
Married person/no children		200,000	200,000
Married person/two children (one new born)		350,000	350,000
Married person/two children (one new born) and two dependants (not residing)		410,000	410,000
 Tax at standard rate			
Single person	from	2,750,000	1,518,000
Married person/no children		4,450,000	2,436,000
Married person/two children (one new born)		7,000,000	3,711,000
Married person/two children (one new born) and two dependants (aged above 60 and not residing)		8,020,000	4,221,000

Effects of the various deductions not included.

Brief Information of Stamp Duty and Estate Duty
The 2008/09 Budget
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Stamp Duty

- (1) Share Transfer : 0.2%
(2) Property Transfer : no change

Value of Properties

Stamp Duty Rate/Amount

	2007/08	2008/09
Below \$2,000,000	\$100	\$100
\$2,000,001 to \$3,000,000	1.50%	1.50%
\$3,000,001 to \$4,000,000	2.25%	2.25%
\$4,000,001 to \$6,000,000	3.00%	3.00%
\$6,000,001 and over	3.75%	3.75%