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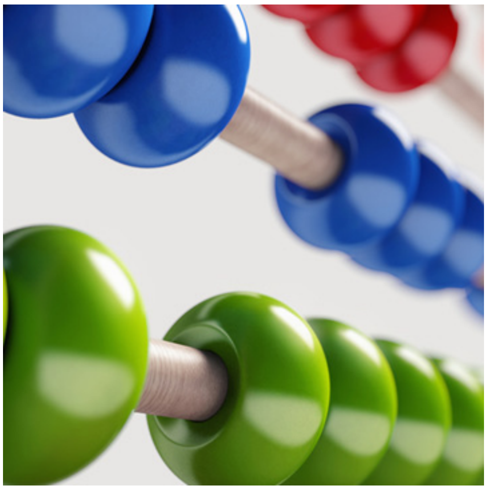

2013/14 HONG KONG Budget (Highlights)

The 2013/14 Hong Kong Budget has been approved by the Hong Kong Legislative Council on 26 June 2013. Conpak issues this summary with the purpose of introducing key areas of work and changes of tax policies for the coming year as set out in the budget by the government. We hope that our analysis on these measures will provide a useful reference for potential investors who is planning to invest in Hong Kong.

The budget addresses several areas which can be broadly classified as follows:
(1) Developing the economy and increasing employment;
(2) investing in education and optimising human capital;
(3) investing in infrastructure;
(4) stabilising land supply; and
(5) caring for people's livelihood.

A number of measures in areas such as consolidating trading and logistics industry, developing financial services industry, developing human capital, enhancing vocational training, investing in infrastructure, increasing residential land and commercial land, enhancing social welfare, reinforcing healthcare services, and promoting environmental protection and conservation have been proposed in the budget to meet the above objectives.

Economic Data

For 2012 as a whole, Gross Domestic Product ("GDP") grew by 1.4% in real terms, which is much lower than the average of 4.5% over the past 10 years. GDP growth of 1.5 to 3.5% is forecasted for 2013.

The average inflation rate for 2012 is 4.1%. The inflation rate for 2013 as a whole is estimated to be around 4.5% on average.

The government revised its consolidated budget estimate to be HK$64.9 billion surplus for 2012/13, while the original estimate is $3.4 billion deficit.

The government predicts a consolidated deficit of HK$4.9 billion in 2013/14.

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Tax Measures

The tax measures include the followings:

(1) Raise child allowances from HK$126,000 to HK$140,000 for the year of birth, and from HK$63,000 to HK$70,000 each for other years, applicable to the 1st to 9th child.

(2) Increase the deduction ceiling for self-education expenses from HK$60,000 to HK$80,000.

(3) Waive 75% of profits tax for 2012/13, subject to a ceiling of HK$10,000, to be deducted from the taxpayer's final tax payable for the year.

(4) Waive 75% of salaries tax and tax under personal assessment for 2012/13, subject to a ceiling of HK$10,000, to be deducted from the taxpayer's final tax payable for the year.

(5) Waive business registration fees for 2013/14.

(6) Reduce profits tax rate for offshore insurance business of captive insurance companies.

(7) Allow private equity funds to enjoy the same profits tax exemption as offshore funds.

Other Non-Tax Measures

Some of the other non-tax measures are highlighted as follows:

(1) Waive rates for 2013/14, subject to a ceiling of $1,500 per quarter for each rateable property.

(2) Provide a $1,800 subsidy to each residential electricity account.

(3) Pay two months' rent for public housing tenants.

(4) Provide one additional month of Comprehensive Social Security Assistance (CSSA) payment, Old Age Allowance, Old Age Living Allowance and Disability Allowance.

(5) Issue "iBond" (i.e. inflation-linked retail bonds) worth not more than $10 billion.

(6) Allocate an additional HK$100 million for short-term food assistance services when necessary.

(7) Expand Government Bond Programme from HK$100 billion to HK$200 billion.

(8) Extend application period for the special concessionary measures under the Small and Medium Enterprise (“SME”) Financing Guarantee Scheme by one year.

(9) Increase the cumulative amount of the grant under the SME Export Marketing Fund from HK$150,000 to HK$200,000.

(10) Introduce a small business policy scheme to be run by the Hong Kong Credit Insurance Corporation.

(11) Give all student loan borrowers who complete their studies in 2013 the option to start repaying their student loans one year after completion of studies.

(12) Inject $15 billion into the Employees Retraining Board.

Conclusion

In general, the budget is regarded as being set in the right direction. However, more can be done and more concrete actions can be put forward in view of the large reserve on hand.

Regarding the tax measures, two new tax policies are proposed in the 2013/14 budget when compared to that of 2012/13. Firstly, the government has proposed profits tax exemption for offshore funds to include transactions in private companies which are incorporated or registered outside Hong Kong and do not hold any Hong Kong properties nor carry out any business in Hong Kong. Secondly, it has also proposed a reduction in profits tax rate for offshore insurance business of captive insurance companies so as to attract more enterprises to form captive insurance companies in Hong Kong. These are generally welcome by those beneficial industries and are expected to attract more investments in the fund and asset management and insurance businesses in Hong Kong. However, there are remarks that these policies should be proposed earlier and more could be done.

It is encouraging that the government has taken a positive initiative in combating tax evasion and tax avoidance activities by putting more resources in these areas. This is important in protecting the income of the territory.

To facilitate the development of the local retail bond market, same as last year, the government has proposed to issue another tranche of iBond, capped at HK$10 billion. It is welcome by the public and is suggested that a larger sum should be issued. In the long run, issuing other kinds of bonds such as conventional fixed-rate bonds and Islamic bonds will help developing a mature bond market in Hong Kong.

Same as last year, the budget also contains some one-off relief measures, but the value of these benefits has actually fallen. For example, the budget has proposed to waive 75% of profits tax, salaries tax and tax under personal assessment for 2012/13 subject to a ceiling of HK$10,000 while the ceiling in last year was HK$12,000. It is welcome that the budget has proposed to increase the basic child allowance and additional child allowance in the year of birth from HK$63,000 to HK$70,000 and from HK$126,000 to HK$140,000 respectively, and to increase the ceiling for deduction on self-education expenses to HK$80,000. Apart from the aforesaid, other tax allowances remain unchanged. As such, the middle class can not benefit much from this budget. In addition, the budget does not take the effect of inflation into consideration.

For the long term fiscal problem, the public welcomes the formation of a working group to study and explore for a comprehensive planning of public finance in order to raise Hong Kong competitiveness. Concrete actions and measures are awaited.

Despite that many people had proposed a number of tax proposals, such as to allow super-deduction in research and development expenditure and to conduct a comprehensive review of the tax system, many of them have not been adopted in the budget. Therefore, with regard to the fiscal reserves, the government has been suggested that more should be done in improving the tax policies so as to increase the long term competitiveness of Hong Kong.

Overall, this budget is generally welcome by the public but more concrete plans and actions should be put forward to increase the competitiveness of Hong Kong.

Tax Rates Table

Salaries Tax

Tax Rates	2013/14
First HK $40,000	2%
Next HK $40,000	7%
Next HK $40,000	12%
On the remainder	17%
Standard rate	15%

Personal Allowances	2012/13	2013/14
Basic allowance	HK$ 120,000	HK$ 120,000
Married person's allowance	HK$ 240,000	HK$ 240,000
Child allowance		
1st to 9th child (each)		
Year of birth	HK$ 126,000	HK$ 140,000
Other years	HK$ 63,000	HK$ 70,000
Dependent parent / grandparent allowance		
Aged 60 or above		
not residing with taxpayer	HK$ 38,000	HK$ 38,000
residing with taxpayer throughout the year	HK$ 76,000	HK$ 76,000
Aged 55 to 59		
not residing with taxpayer	HK$ 19,000	HK$ 19,000
residing with taxpayer throughout the year	HK$ 38,000	HK$ 38,000
Dependent brother / sister allowance (for whom no child allowance has been claimed by his / her parent)	HK$ 33,000	HK$ 33,000
Single parent allowance	HK$ 120,000	HK$ 120,000
Disabled dependent allowance (in addition to any allowances already granted for the disabled person)	HK$ 66,000	HK$ 66,000

Maximum Deductions	2012/13	2013/14
Self - education expenses	HK$ 60,000	HK$ 80,000
Home loan interest	HK$ 100,000	HK$ 100,000
Elderly residential care expenses	HK$ 76,000	HK$ 76,000
Contributions to recognised retirement schemes	HK$ 14,500	HK$ 15,000
Charitable donations	35% of assessable income	35% of assessable income

Profits Tax

Tax Rates	2013/14
Corporation (i.e. limited company)	16.5%
Unincorporated business (i.e. sole-proprietor or partnership)	15%

Plant and Machinery	2013/14
	Allowance Rate on Qualifying Expenditure
Environmental protection machinery and vehicles	100%
Other qualifying expenditures	
Initial allowance	60%
Annual allowance (depends on the nature of the asset)	10%, 20% or 30%

Environmental Protection Installations Ancillary to Buildings	2013/14
	Allowance Rate on Qualifying Expenditure
Annual allowance	20%

Prescribed Fixed Assets	2013/14
	Allowance Rate on Qualifying Expenditure
Outright deduction	100%

Industrial Building Allowance	2013/14
	Allowance Rate on Qualifying Expenditure
Initial allowance	20%
Annual allowance	4%

Commercial Building Allowance	2013/14
	Allowance Rate on Qualifying Expenditure
Annual allowance	4%

Refurbishment Allowance	2013/14
	Allowance Rate on Qualifying Expenditure
Annual allowance	20% until residue is reduced to nil

Property Tax

Property tax is charged on the owner of any land or buildings in Hong Kong at the standard rate of 15% for 2012/13 and 2013/14 on the net assessable value of such land or buildings.

Stamp Duty

1.Ad Valorem Stamp Duty

Subject to enactment of the relevant legislations, if:
(a) any company or individual who acquires a residential or non-residential property in Hong Kong on or before 22 February 2013; or
(b) a Hong Kong Permanent Resident acquires a Hong Kong residential property on or after 23 February 2013, and he / she does not own any residential property in Hong Kong at the time of acquisition; then

stamp duty is chargeable at the higher of the purchase consideration or market value of the acquired property at ad valorem rates specified in **Table A** below.

Ad Valorem Stamp Duty (Table A) Consideration or market value of the property (whichever is higher)	Duty Rate
Up to HK$ 2,000,000	HK$ 100
HK$ 2,000,001 – HK$ 2,351,760	HK$ 100 + 10% of excess over HK$ 2,000,000
HK$ 2,351,761 – HK$ 3,000,000	1.5%
HK$ 3,000,001 – HK$ 3,290,320	HK$ 45,000 + 10% of excess over HK$ 3,000,000
HK$ 3,290,321 – HK$ 4,000,000	2.25%
HK$ 4,000,001 – HK$ 4,428,570	HK$ 90,000 + 10% of excess over HK$ 4,000,000
HK$ 4,428,571 – HK$ 6,000,000	3%
HK$ 6,000,001 – HK$ 6,720,000	HK$ 180,000 + 10% of excess over HK$ 6,000,000
HK$ 6,720,001 – HK$ 20,000,000	3.75%
HK$ 20,000,001 – HK$ 21,739,120	HK$ 750,000 + 10% of excess over HK$ 20,000,000
Above HK$ 21,739,120	4.25%

Higher ad valorem rates specified in **Table B** below should be applied instead under the following situations:

(a) any company or non-Hong Kong Permanent Resident who acquires a residential or non-residential property in Hong Kong on or after 23 February 2013; or

(b) a Hong Kong Permanent Resident who acquires a non-residential property in Hong Kong on or after 23 February 2013; or

(c) a Hong Kong Permanent Resident who acquires a residential property in Hong Kong on or after 23 February 2013, and he / she already owned a residential property in Hong Kong at the time of acquisition.

Ad Valorem Stamp Duty (Table B) **Consideration or market value of the property (whichever is higher)**	**Duty Rate**
Up to HK$ 2,000,000	1.5%
HK$ 2,000,001 – HK$ 2,176,470	HK$ 30,000 + 20% of excess over HK$ 2,000,000
HK$ 2,176,471 – HK$ 3,000,000	3%
HK$ 3,000,001 – HK$ 3,290,330	HK$ 90,000 + 20% of excess over HK$ 3,000,000
HK$ 3,290,331 – HK$ 4,000,000	4.5%
HK$ 4,000,001 – HK$ 4,428,580	HK$ 180,000 + 20% of excess over HK$ 4,000,000
HK$ 4,428,581 – HK$ 6,000,000	6%
HK$ 6,000,001 – HK$ 6,720,000	HK$ 360,000 + 20% of excess over HK$ 6,000,000
HK$ 6,720,001 – HK$ 20,000,000	7.5%
HK$ 20,000,001 – HK$ 21,739,130	HK$ 1,500,000 + 20% of excess over HK$ 20,000,000
Above HK$ 21,739,130	8.5%

2.Special Stamp Duty

On top of the ad valorem stamp duty, special stamp duty is also imposed on any individual or company for disposal of residential properties acquired during certain relevant periods and resold within specific time limit of ownership.

Subject to enactment of the relevant legislation, if the residential property is acquired between 20 November 2010 and 26 October 2012, the Special Stamp Duty is chargeable at the following rates on the higher of the purchase consideration or the market value of the residential property:

Holding Period (Months)	**Rate**
≤6	15%
>6 but ≤12	10%
>12 but ≤24	5%

Subject to enactment of the relevant legislation, if the residential property is acquired on or after 27 October 2012, higher Special Stamp Duty rates will apply:

Holding Period (Months)	Rate
≤6	20%
>6 but ≤12	15%
>12 but ≤36	10%

3.Buyer's Stamp Duty

Subject to enactment of the relevant legislation and on top of the ad valorem stamp duty and the Special Stamp Duty, 15% Buyers' Stamp Duty is imposed on any person, including Hong Kong companies and overseas companies, on the acquisition of Hong Kong residential properties on or after 27 October 2012, except for buyer who is a Hong Kong Permanent Resident.