

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2016–17	Original estimate 2017–18	Revised estimate 2017–18	Estimate 2018–19
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	21,118,983	21,552,423	21,439,208	21,212,000
030 Earnings and profits tax—				
(020) Profits tax	139,238,084	139,000,000	135,600,000	155,143,000 †
(030) Personal assessment	5,219,954	4,800,000	5,200,000	4,870,000 †
(040) Property tax	3,371,739	3,200,000	3,400,000	3,600,000
(050) Salaries tax	59,077,484	61,855,000	61,855,000	54,835,000 †
Sub-total	206,907,261	208,855,000	206,055,000	218,448,000
050 Estate duty	18,833	15,000	15,000	15,000
070 Stamp duties.....	61,898,965	53,000,000	92,700,000	100,000,000
080 Air passenger departure tax	2,597,908	2,719,840	2,748,154	2,849,000
Total.....	292,541,950	286,142,263	322,957,362	342,524,000

† After Budget revenue measures but subject to the passage of the relevant legislation by the Legislative Council.

Description of Revenue Sources

This revenue head covers direct taxes on earnings and profits, which include profits tax, property tax and salaries tax. A number of indirect taxes are also included.

Bets and sweeps tax is charged on horse racing bets, lotteries and football betting.

Profits tax is levied on individuals, corporations, bodies of persons and partnerships in respect of assessable profits arising in or derived from Hong Kong. The rate is 16.5% for corporations. The rate for non-corporate persons is 15%.

Property tax is charged on the owner of land and/or buildings at the standard rate of 15% on the net assessable value of the property for each year of assessment.

Salaries tax is charged on all income arising in or derived from Hong Kong from any office or employment or any pension. The total salaries tax payable by an individual is restricted to an amount not exceeding the standard rate of 15% on his total income.

An individual may elect for *personal assessment* of his total income which provides for the deduction of all probable personal allowances, and would, in appropriate circumstances, reduce the total tax liability of the individual.

The Government has proposed in the 2018-19 Budget some adjustments in salaries tax and tax under personal assessment with effect from the year of assessment 2018/19, including an increase in the number of tax bands from four to five with marginal rates at 2%/6%/10%/14%/17% respectively and widening of tax bands from \$45,000 to \$50,000 each; an increase in child allowance from \$100,000 to \$120,000, dependent parent/grandparent allowance and additional dependent parent/grandparent allowance from \$46,000 to \$50,000 (for aged 60 or above, or disabled) and from \$23,000 to \$25,000 (for aged 55 or above but below 60), and deduction ceiling for elderly residential care expenses from \$92,000 to \$100,000; and the introduction of a new personal disability allowance of \$75,000.

Estate duty is charged on assets situated in Hong Kong valued at more than \$7.5 million according to a schedule scaled from 5% on estates of value up to \$9 million to 15% on estates of value over \$10.5 million. The duty was abolished on 11 February 2006 with retrospective effect to estates of persons who passed away on or after 15 July 2005.

Stamp duties are charged at a fixed rate on certain documents, and *ad valorem* on others. Fixed duties vary from \$3 to \$100, whereas *ad valorem* duties range from 0.1% to 15%. The *ad valorem* duties on stock transactions are 0.1% for each side per transaction. The Government introduced a special stamp duty on residential properties at the point of resale if the properties are acquired on or after 20 November 2010 and resold within 24 months (for the properties acquired between 20 November 2010 and 26 October 2012) or 36 months (for the properties acquired on or after 27 October 2012) after acquisition. The Government also introduced a buyer's stamp duty on residential properties acquired on or after 27 October 2012 by any person, except a Hong Kong permanent resident ("HKPR") acting on his or her own behalf. Besides, immovable properties acquired on or after 23 February 2013 are subject to *ad valorem* stamp duty at the higher (Scale 1) rates, unless the property is a residential property and the buyer is a HKPR acting on his or her own behalf and not a beneficial owner of any another residential property in Hong Kong at the time of acquisition. The Government introduced a new residential stamp duty to increase the *ad valorem* stamp duty chargeable on instruments of acquiring residential property executed on or after 5 November 2016 to a flat rate of 15%, in lieu of the existing rates at Scale 1. The Government also announced on 11 April 2017 the tightening of the

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exemption arrangement for HKPR buyers under the new residential stamp duty regime, where acquisition of more than one residential property under a single instrument executed on or after 12 April 2017 is subject to the flat rate at 15%, even if the buyer is a HKPR who is acting on his or her own behalf and not a beneficial owner of any other residential property in Hong Kong at the time of acquisition. The Stamp Duty (Amendment) (No.2) Bill 2017, which seeks to tighten the exemption arrangement for HKPR buyers, is still under the scrutiny of the Legislative Council. Further, the stamping of *ad valorem* stamp duty for non-residential property transactions carried out on or after 23 February 2013 is advanced from the conveyance on sale to the agreement for sale.

Air passenger departure tax is charged at a fixed rate of \$120 for a passenger 12 years of age or above departing from the Hong Kong International Airport, or by helicopter from Hong Kong at the Hong Kong Macau Ferry Terminal Heliport.

Revenue from internal revenue generated 73.7% of total revenue in 2017–18.

Underlying Changes in Revenue Yield

The **2017–18** revised estimate of \$322,957,362,000 reflects a net increase of \$36,815,099,000 (12.9%) over the original estimate.

Under *Subhead 070 Stamp duties*, the increase of \$39.7 billion (74.9%) is mainly due to the higher-than-expected turnover in the property and stock market, and the additional receipts to be collected after the enactment of the Stamp Duty (Amendment) Ordinance 2018.

The **2018–19** estimate of \$342,524 million reflects a net increase of \$19,566,638,000 (6.1%) over the revised estimate for 2017–18.