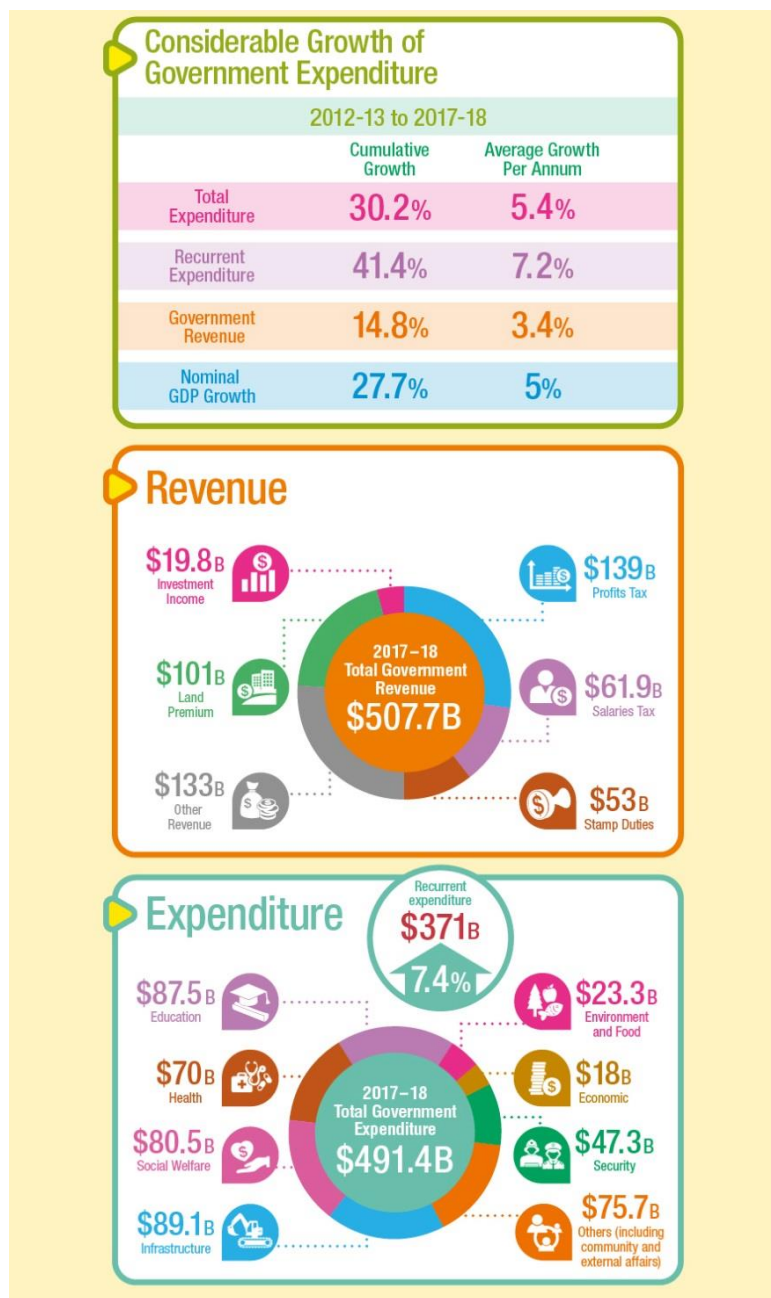


SUMMARY OF HONG KONG 2017-18 BUDGET

22 February 2017

A. ECONOMIC OUTLOOKS FOR 2017



- Forecast GDP growth in real terms at 2% to 3%
- Forecast headline inflation is 1.8% and underlying inflation is 2%.

Source : The 2017-18 Budget (<http://www.budget.gov.hk/2017/eng/index.html>)

B. MAJOR PROPOSED MEASURES

Tax Concessions and One-off Measures

Profits Tax

- Reduce profits tax for the Year of Assessment ("YOA") 2016/17 by 75%, subject to a ceiling of HK\$20,000;

Salaries Tax

- Reduce salaries tax and tax under personal assessment for the YOA 2016/17 by 75%, subject to a ceiling of HK\$20,000;
- Increase the width of marginal tax bands from \$40,000 to \$45,000;
- Increase the disabled dependant allowance from \$66,000 to \$75,000 and the dependent brother or dependent sister allowance from \$33,000 to \$37,500;
- Extend the entitlement period for deduction for home loan interest from 15 to 20 years, maintaining the current deduction ceiling of \$100,000 a year; and
- Raise the deduction ceiling for self-education expenses from \$80,000 to \$100,000.

Rate

- Waive rates for the FOUR quarters of the YOA 2017/18, subject to a ceiling of HK\$1,000 per quarter, for each ratable property.

Others

- Provide an extra allowance to social security recipients, equal to one month of the standard rate Comprehensive Social Security Assistance payments, Old Age Allowance, Old Age Living Allowance or Disability Allowance. Similar arrangements will apply to Low-income Working Family Allowance and Work Incentive Transport Subsidy.

Tax Policy

- Set up a tax policy unit in the Financial Services and the Treasury Bureau in order to examine the international competitiveness of Hong Kong tax regime and address the problem of a narrow tax base.

Support for Building Rehabilitation

- Earmark \$300 million to allow property owners to participate in the "Smart Tender" Building Rehabilitation Facilitating Services Scheme run by the Urban Renewal Authority (URA) at a concessionary rate.

Support for Small and Medium Enterprises ("SME")

- Extend the application period for the Dedicated Fund on Branding, Upgrading and Domestic Sales for five years to June 2022;
- Extend the application period for the 'Special Concessionary Measures' under the SME Financing Guarantee Scheme to 28 February 2018; and

- Raise the cap on the contingent liability of the Hong Kong Export Credit Insurance Corporation underinsurance contracts from HKD 40 billion to HKD 55 billion.

First Registration Tax for Electric Vehicles

- From 1 April 2017 to 31 March 2018, First Registration Tax of electric commercial vehicles, motor cycles and motor tricycles will continue to be fully waived; the First Registration Tax waiver for electric private cars will be capped at \$97,500.

Voluntary Health Insurance Scheme

- Provide tax deduction for the purchase of regulated health insurance.

Use of Surplus

- Earmark \$30 billion to strengthen elderly services and rehabilitation services for persons with disabilities; introduce measures to ensure the quality of residential care services and enhance community care services for the elderly; put forward initiatives to enhance pre-school training, residential care, day care, community support, employment, barrier-free facilities and transportation for persons with disabilities;
- Earmark \$20 billion for 26 projects in the coming five years to develop new or improve existing sports and recreation facilities in different districts;
- Reserve \$10 billion for supporting I&T development in Hong Kong; and
- Deploy \$1 billion for youth development.

Supporting Tourism

- Waive the licence fees for 1,800 travel agents for one year;
- Waive the licence fees for 2,000 hotels and guesthouses for one year;
- Waive the licence fees for restaurants and hawkers and fees for restricted food permits for one year, benefiting 27,000 restaurants and operators in total; and
- Allocate additional \$243 million in 2017-18 for five areas of work support the tourism industry:-
 - Support light shows, home-grown mega events and continuation of efforts to attract more small-and-medium-sized MICE events to Hong Kong;
 - Invite the Hong Kong Tourism Board (HKTB) to provide funding support to activity organisers and the tourism sector for the launch of tourism projects with local characteristics and green tourism products;
 - Implement a scheme targeting transit passengers and overnight visitors in Hong Kong through the HKTB, work with local airlines, tourist attractions, hotels and the tourism sector to provide promotional offers to transit passengers or overnight visitors; provide funding support for the trade to promote cruise tourism;
 - Continue publicity through the HKTB in the Mainland to promote the quality and honest image of Hong Kong's tourism and strengthen our efforts to publicise in overseas markets the mega events to be held in Hong; and
 - Provide funding support for the training of members of the tourism industry through the Travel Industry Council of Hong Kong to enhance service quality of the industry; continue to implement the matching fund for promoting tourist attractions and waive local traders' participation fees for overseas promotional fairs.

Commerce and Logistics

Aviation Industry

- Consider providing cross-boundary helicopter service between Hong Kong and PRD cities to further enhance cross-boundary transportation services with a view to developing more diversified commercial and other economic activities in the region;
- Facilitate transit passengers travelling between the Hong Kong International Airport (HKIA) and the PRD region via the HZMB in the future through providing two-way land-to-air shuttle bus service to take these passengers direct to the Restricted Area of the HKIA for outbound flights; and
- Provide tax concession to attract aircraft leasing companies to develop their business in Hong Kong, thereby creating job opportunities for both the financial and aviation industries.

Financial Services

Regulatory Regime

Financial Institutions

- Implemented a regulatory framework as prescribed under Basel III, taken forward a reform of the over-the-counter derivatives market, and set up an effective resolution regime for financial institutions.

Reforming the Regulatory Regime for Listed Entity Auditors

- Press ahead with the work of reforming the regulatory regime for listed entity auditors to make the oversight regime independent from the audit profession, to strengthen the functions of the Financial Reporting Council (FRC), enabling the FRC to become an independent oversight body of listed entity auditors.

Fund Industry

- Extend the profits tax exemption to onshore privately-offered open-ended fund companies, to attract more funds to domicile in Hong Kong.
- The bond market is a key component of the capital market. Apart from issuing different types of bonds to boost the bond market, the Government is studying with the relevant Mainland authorities ways to further facilitate the participation of investors of both places in the bond market, with a view to improving the connectivity between market infrastructures.

Tax Co-operation

- Seek to expand network of Comprehensive Avoidance of Double Taxation Agreements (CDTAs) with other jurisdictions, with 37 CDTAs have been signed.

Innovation and Technology

- Set up a new committee on I&T development and re-industrialisation to co-ordinate the I&T development and re-industrialisation of Hong Kong. The tax policy unit will explore enhanced tax deductions for I&T expenditure;
- Set up a \$2 billion Innovation and Technology Venture Fund (ITVF) to encourage private investment in local I&T start-ups; and

- Launch a \$500 million Innovation and Technology Fund for Better Living to finance I&T projects that improve people's daily lives and benefit the elderly or the underprivileged.

Human Capital

Whole-person Education

- Implement the free quality kindergarten education policy from the 2017/18 school year to replace the Pre-primary Education Voucher Scheme launched in the 2007/08 school year. The Government's financial commitment to pre-primary education will increase by about \$2.7 billion annually.

Continuing Education

- Inject an additional \$1.5 billion into the Continuing Education Fund (CEF); raise the tax deduction ceiling for self-education expenses from \$80,000 to \$100,000, to promote life-long learning and maintaining a quality workforce.

C. MAJOR TAX RATES FOR THE YEARS 2016/17 AND 2017/18

1. Salaries Tax

i. Personal tax allowances and deductions:

	2016/17 HK\$	2017/18 HK\$
Basic allowances :		
Single person's allowance	132,000	132,000
Married person's allowance	264,000	264,000
Additional allowances :		
Child		
- Basic	100,000	100,000
- Additional (in the year of birth)	100,000	100,000
Dependent parent / grandparent:		
a. Aged 55 to 59		
- Basic	23,000	23,000
- Additional ¹	23,000	23,000
b. Aged 60 or above		
- Basic	46,000	46,000
- Additional ¹	46,000	46,000
Dependent brother / sister ²	33,000	37,500
Single parent	120,000	120,000
Disabled dependent	66,000	66,000
Additional deductions :		
Self-education expenses ³	80,000	100,000
Home loan interest ⁴	100,000	100,000
Elderly residential care expenses	92,000	92,000
Contributions to retirement schemes	18,000	18,000
Approved charitable donations ⁵	35%	35%
Notes:		
1. For dependent living with taxpayer.		
2. For whom no child allowance is being claimed.		
3. The maximum amount that can be claimed as deductible expense for training courses attended at approved institutions.		
4. The entitlement period for tax deduction extends to 20 years since YOA 2017/18.		
5. The maximum deduction allowable is restricted to 35% of the taxpayer's assessable income after deduction of allowable expenses and depreciation allowance.		

ii. Standard salaries tax rates:

	<u>2016/17 and 2017/18</u>
Standard tax rates	15%

iii. Progressive salaries tax rates:

<u>Net Chargeable Income</u>	<u>2016/17</u>
First HK\$40,000	2%
Next HK\$40,000	7%
Next HK\$40,000	12%
Remainder	17%

<u>Net Chargeable Income</u>	<u>2017/18 and onwards</u>
First HK\$45,000	2%
Next HK\$45,000	7%
Next HK\$45,000	12%
Remainder	17%

2. Profits Tax

<u>Business Category</u>	<u>2016/17 and 2017/18</u>
Unincorporated Business	15%
Corporation	16.5%

3. Property Tax

<u>Taxpayer</u>	<u>2016/17 and 2017/18</u>
Property Owner	15%

Stamp Duty

i. Shares transactions:

Particular	2016/17 and 2017/18
Contract Note for sale or purchase of any Hong Kong stock	0.1% of the amount of the consideration or of its value on every sold note and every bought note
Transfer operating as a voluntary disposition inter vivos	\$5 + 0.2% of the value of the stock
Transfer of any other kind	\$5

ii. Property transactions *:

Sales Consideration	2016/17 and 2017/18 ^
Up to HK\$2,000,000	1.5%
HK\$2,000,001 to HK\$2,176,470	HK\$30,000 + 20% of excess over HK\$2M
HK\$2,176,471 to HK\$3,000,000	3%
HK\$3,000,001 to HK\$3,290,330	HK\$90,000 + 20% of excess over HK\$3M
HK\$3,290,331 to HK\$4,000,000	4.5%
HK\$4,000,001 to HK\$4,428,580	HK\$180,000 + 20% of excess over HK\$4M
HK\$4,428,581 to HK\$6,000,000	6%
HK\$6,000,001 to HK\$6,720,000	HK\$360,000 + 20% of excess over HK\$6M
HK\$6,720,001 to HK\$20,000,000	7.5%
HK\$20,000,001 to HK\$21,739,130	HK\$1,500,000 + 20% of excess over HK\$20M
Exceeding HK\$21,739,130	8.5%

* On top of the current ad valorem property transaction stamp duty (maximum at 4.5%), a Special Stamp Duty ("SSD") is imposed on residential properties of all values at the point of resale if the properties are acquired on or after 20 November 2010 and resold within 24 months after acquisition.

In October 2012, the Government announced to adjust the SSD rates and extend the coverage period to 36 months for any residential properties acquired on or after 27 October 2012. Transactions took place between 20 November 2010 and 26 October 2012 are subject to the original SSD regime.

The prevailing SSD will have three levels of regressive rates for different holding periods :

- (i) 20% if the property has been held for six months or less;
- (ii) 15% if the property has been held for more than six months but for 12 months or less; and
- (iii) 10% if the property has been held for more than 12 months but for 36 months or less.

In addition to SSD, a Buyer's Stamp Duty ("BSD") on residential properties acquired by any person (including a company incorporated) except a Hong Kong Permanent Resident is effected from 27 October 2012. BSD is to be charged at a flat rate of 15% on all residential properties, on top of the existing stamp duty and the special stamp duty, if applicable.

On 22 February 2013, the Financial Secretary announced that the Government would amend the Stamp Duty Ordinance to adjust the ad valorem stamp duty ("AVD") rates and to advance the charging of AVD on non-residential property transactions from the conveyance on sale to the agreement for sale. Under the Government's proposed amendments, any residential property (except that acquired by a Hong Kong Permanent Resident who does not own any other residential property in Hong Kong at the time of acquisition) and non-residential property acquired on or after 23 February 2013, either by an individual or a company, will be subject to the new rates of AVD. Transactions which took place before 23 February 2013 will be subject to the original stamp duty regime.

- [^] **Starting from 5 November 2016, a flat rate (AVD rate) of 15% applies to residential property transactions, this new measures will continue to adopt the exemptions provided under the existing doubled ad valorem stamp duty (DSD) regime, which include:**
- a) **allowing buyers to pay AVD at the basic rates (i.e. AVD rates at Scale 2) if they are Hong Kong permanent residents (HKPRs) and do not own any other residential property in Hong Kong at the time of acquisition of the residential property; and**
 - b) **setting a six-month time frame for HKPR-buyers having acquired a new residential property to dispose of their original property.**

iii. Leases:

Leasing period	2016/17 and 2017/18
Not defined or is uncertain	0.25%
Specified in the lease as not exceeding 1 year	0.25%
Exceeding 1 year but not exceeding 3 years	0.5%
Exceeding 3 years	1%

4. Estate Duty

The Government had abolished the Estate Duty with effect from 11 February 2006 pursuant to the Revenue (Abolition of Estate Duty) Ordinance 2005.

D. FURTHER INFORMATION

The above information is mainly extracted from the website of the "The Hong Kong 2017-18 Budget". Please visit <http://www.budget.gov.hk/2017/eng/index.html> or contact our Tax Service Department (email: tax@atrixbiz.com) for further details.

Disclaimer: *The general tax information on the above content is provided for your ease reference and is not intended to replace any tax advice or other professional advice. Clients should clearly acknowledge and confirm that final decision is reserved by Hong Kong Inland Revenue Department through its tax assessment process. In the event of any inconsistency between the English and Chinese versions of this content, the English version shall prevail.*