



## **2018/19 Hong Kong Budget Summary**



## Summary

Mr. Paul Chan Mo-po, the Financial Secretary of the Hong Kong SAR Government presented the 2018-19 Hong Kong Budget in the Legislative Council on 28 February 2018 with the following major proposed measures:

- Reduce profits tax, salaries tax and tax under personal assessment for 2017-18 by 75%, capped at HK\$30,000
- Widen the marginal bands for salaries tax from HK\$45,000 to HK\$50,000
- Adjustment of the marginal tax rates for salaries to 2%, 6%, 10%, 14% and 17%
- Introduce personal disability allowance of HK\$75,000
- Introduce a tax deduction of up to HK\$8,000 per person (including dependents) for premium paid for qualified health insurance products
- Raise basic and additional child allowances to HK\$120,000
- Raise basic and additional dependent parent or grandparent allowances to HK\$50,000 (aged 60 or above) and HK\$25,000 (aged 55 to 59)
- Raise deduction ceiling for elderly residential care expenses to HK\$100,000
- Relax the requirement for election of Personal Assessment by married persons
- Waive government rates for 2018-19, capped at HK\$2,500 per quarter for each rateable property
- Provide two additional months of various social security payments



## A) Economic Outlooks 2018

### 2018/19 Total Government Estimated Revenue – \$604.5B

- \$155.1B (Profits Tax); \$100B (Stamp Duties); \$121B (Land Premium); \$54.8B (Salaries Tax); \$39.8B (Investment Income) and \$133.8B (Other Revenue)

### 2018/19 Total Government Estimated Expenditure – \$557.9B

- \$113.7B (Education); \$92.2B (Social Welfare); \$85.6B (Infrastructure); \$78B (Health); \$53.3B (Security); \$26.7B (Environment and Food); \$21.3B (Economic) and \$87.1B (Others including community and external affairs)

Economy Review and Forecast		
	<u>2017 Performance</u>	<u>2018 Forecast</u>
<b>GDP Growth</b>	<b>3.8%</b>	<b>3% - 4%</b>
<b>Headline Inflation</b>	<b>1.5%</b>	<b>2.2%</b>
<b>Underlying Inflation</b>	<b>1.7%</b>	<b>2.5%</b>



## B) Major Proposed Measures

### Profits Tax

- Reduce profits tax for the Year of Assessment (“YOA”) 2017/18 by 75%, subject to a ceiling of HK\$30,000;
- Working towards the implementation of the two-tiered profits tax rates system.

### Salaries Tax

- Reduce salaries tax and tax under personal assessment for the YOA 2017/18 by 75%, subject to a ceiling of HK\$30,000;
- Increase the width of marginal tax bands from \$45,000 to \$50,000; implementing 5 tax bands with adjusting the marginal tax rates to 2%, 6%, 10%, 14% and 17% respectively;
- Increase basic and additional child allowances from the current \$100,000 to \$120,000;
- Increase the allowance for maintaining a dependent parent or grandparent aged 60 or above from the current \$46,000 to \$50,000. The same applies to taxpayers residing with parents or grandparents continuously throughout the year;
- Increase the allowance for maintaining a dependent parent or grandparent aged between 55 and 59 from the current \$23,000 to \$25,000. The same increase applies to taxpayers residing with parents or grandparents continuously throughout the year;
- Raise the deduction ceiling for elderly residential care expenses from the current \$92,000 to \$100,000 for taxpayers whose parents or grandparents are admitted to residential care homes;
- Introduce a personal disability allowance for eligible taxpayers, at a rate on par with the current disabled dependent allowance of \$75,000; and
- Husband and wife have the option to elect for personal assessment starting from the year of assessment 2018-19.



## B) Major Proposed Measures (Con't)

### Rates

- Waive rates for the FOUR quarters of the YOA 2018/19, subject to a ceiling of HK\$2,500 per quarter, for each ratable property.

### Others

- Provide an extra allowance to social security recipients, equal to two months 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;
- Pay the examination fees for candidates sitting for the 2019 Hong Kong Diploma of Secondary Education Examination, involving an expenditure of about \$180 million.



## Innovation and Technology

- \$20 billion will be used on the first phase of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop for, inter alia, site formation, infrastructure, superstructure and initial operation. The estimated project cost will eventually cost far more than \$20 billion;
- Inject \$10 billion into the Innovation and Technology Fund (ITF). The ITF will continue to support applied R&D work in Hong Kong with the additional resources;
- Earmark \$10 billion to support the establishment of two research clusters on healthcare technologies and on artificial intelligence and robotics technologies, to attract the world's top scientific research institutions and technology enterprises to Hong Kong for conducting more midstream and downstream R&D projects in collaboration with local universities and scientific research institutions; and
- Allocate \$10 billion to Hong Kong Science and Technology Parks Corporation (HKSTPC) so as to reinforce the role of the Science Park as Hong Kong flagship technology infrastructure.



## Financial Services Industry

### Financial Talent

- Hong Kong Monetary Authority (HKMA) will make plans to set up an academy of finance in collaboration with the Financial Services Development Council, the financial sector, tertiary institutions, professional training bodies and regulators for promoting cross-sector expertise sharing and collaboration in applied research.

### Pilot Bond Grant Scheme

- Proposed to launch a three-year Pilot Grant Scheme to attract local, Mainland and overseas enterprises to issue bonds in Hong Kong. The amount of grant for each bond issuance is equivalent to half of the issue expenses, capped at \$2.5 million. Each enterprise can apply for a grant for two bond issuance at most. The HKMA will announce the details in due course.

### Qualifying Debt Instrument Scheme

- Proposed to amend the qualifying debt instrument scheme by increasing the types of qualified instruments
- In addition to instruments lodged and cleared by the Central Moneymarkets Unit of the HKMA, debt securities listed on the Stock Exchange of Hong Kong Limited will also become eligible.
- Extended the scope of tax exemption from debt instruments with an original maturity of not less than seven years to instruments of any duration.



## Financial Services Industry (Con't)

### Government Bond Programme

- Proposed to continue the issuance of Silver Bonds in 2018 and 2019, targeting Hong Kong residents aged 65 or above.

### Green Bond and Green Finance

- Proposed to launch a green bond issuance programme with a borrowing ceiling of \$100 billion. The sums borrowed will be credited to the Capital Works Reserve Fund to provide funding for a green public works projects of the Government;
- The Hong Kong Quality Assurance Agency launched the Green Finance Certification Scheme in January 2018 to provide third-party certification service for potential green bond issuers;

### Asset and Wealth Management

- The regime for open-ended fund companies to be used as a fund vehicle and the relevant tax exemption arrangements can commence operation later in the year of 2018; and
- Review the existing tax concession arrangements applicable to the fund industry with regard to international requirements on tax co-operation.

### Corporate Treasury Centres

- The Government will further amend the Inland Revenue Ordinance to extend the coverage of profits tax concession to specified treasury services provided by qualifying corporate treasury centres to all their onshore associated corporations.



## Supporting Tourism

- Allocate an additional \$396 million to the tourism industry in the new financial year, of which \$226 million will be provided for the Hong Kong Tourism Board (HKTB) to implement the Development Blueprint for Hong Kong's Tourism Industry released by the Tourism Commission in the year 2017;
- The Development Blueprint sets out four development strategies, they are (1) to develop a diversified portfolio of visitor source markets for Hong Kong, with a focus on attracting high value-added overnight visitors; (2) to nurture and develop tourism products and initiatives with local and international characteristics; (3) to develop smart tourism; and (4) to upgrade the service quality of our tourism industry; and
- Allocate a total of \$310 million in the next few years to support the Ocean Park in developing education and tourism projects. For the benefits of local students, the Ocean Park will distribute 10 000 complimentary admission tickets to primary and secondary school students in the coming year.



## Support for Small and Medium Enterprises (“SME”)

- Inject \$1.5 billion into Dedicated Fund on Branding, Upgrading and Domestic Sales (BUD Fund);
- Inject \$1 billion into the SME Export Marketing and Development Funds; and
- Extend the geographical scope of the Enterprise Support Programme under the BUD Fund from the Mainland to include the Association of Southeast Asian Nations (ASEAN) countries. The respective cumulative funding ceiling for enterprises undertaking projects in the Mainland and ASEAN markets will be \$1 million;



## Construction Industry

- Propose to set up a \$1 billion Construction Innovation and Technology Fund to boost the capacities of enterprises and practitioners in the construction industry to adopt new technology, and support the industry to harness innovative technology. Eligible contractors, registered sub-contractors and consultants can apply for financial support from the Fund to acquire the software and hardware as well as to nurture the expertise required for using local and overseas innovative construction technologies, such as BIM, steel reinforcing bar products produced in local prefabrication yards and MiC when carrying out construction projects. The Fund will also support students and practitioners of the construction industry to receive training on innovative construction technologies.

## Creative Industries

- Intend to inject another \$1 billion into the CreateSmart Initiative to strengthen support for the development of the creative industries, especially in nurturing youths and helping start-ups, and also to enable the Hong Kong Design Centre to implement initiatives to enhance public understanding of the value of creativity and design.



## Education

- Propose to commit an additional recurrent expenditure of \$2 billion to achieve quality education;
- Propose to allocate \$2.5 billion for launching the eighth round of Matching Grant Scheme to help the ten publicly-funded post-secondary institutions tap more funding sources, promote community involvement and improve the quality of education;
- Invite the Quality Education Fund Steering Committee to consider allocating \$3 billion for application by primary and secondary schools, kindergartens and special schools, through simplified procedures, for launching school-based curriculum development and student support measures, as well as the relevant school improvement works and procurement of supplies;
- Make an additional provision of \$2 billion to expedite installation of lifts for public sector schools as needed to build barrier-free campuses;
- Regularise the Pilot Scheme in the 2018/19 school year on Promoting Interflows between Sister Schools in Hong Kong and the Mainland, under which participating schools will receive a grant of \$150,000 per annum;



## Education (Con't)

- Increase the nursing support of schools for children with intellectual disability, schools for children with physical disability and schools for children with visual impairment cum intellectual disability. Nurses will also be provided for schools for children with visual impairment as well as schools for children with hearing impairment;
- Propose to inject \$800 million into the Gifted Education Fund in 2018-19 to enhance the development of gifted students. Another \$800 million will be injected into the HKSAR Government Scholarship Fund to increase the number of scholarships starting from the 2019/20 academic year to incentivise students to pursue excellence in both academic and non-academic areas; and
- Earmark \$2.5 billion to set up a new Student Activities Support Fund. The Fund will continue to provide support for students with financial needs to participate in life-wide learning activities for whole-person development.



## Continuing Education

- Raise the subsidy ceiling of the Continuing Education Fund (CEF) from \$10,000 to \$20,000 per applicant. Those who once opened a CEF account may also benefit from this initiative;
- Extend the upper age limit for CEF applicants to 70, lift the restrictions on the validity period and the number of claims, and expand the scope of the CEF to include all courses in the Qualifications Register; and
- Further inject an additional \$8.5 billion into the CEF.

## Youth Development

- Set aside \$1 billion to support the work of the Youth Development Commission, with a view to giving young people more room to unleash their potential and more opportunities for upward mobility.

## Sharing Fruits of Success

- Provide a one-off grant of HKD 2,000 to each student in need to support learning



## Land Resources

- As for the actual supply of housing units, the estimated public housing production for the next five years is about 100 000 units, of which about 75 000 are public rental housing units and about 25 000 are subsidised sale flats. On private housing flats, based on the preliminary estimation, the private sector will, on average, complete about 20 800 residential units annually in the next five years, representing an increase of about 50 per cent over the past five years;
- In the short to medium term, the Government will provide about 380 000 residential flats in total by rezoning sites, increasing development density as appropriate, and taking forward projects at the Kai Tak Development Area and Anderson Road Quarry, railway property development projects and urban renewal projects;
- In the medium to long run, the Government will press ahead with a number of projects in new development areas and railway property development projects such as Siu Ho Wan, in order to provide about 220 000 residential units;
- 2018-19 Land Sale Programme includes 4 commercial/hotel sites, capable of providing about 530, 000 square metres of floor area; and
- Set aside \$1 billion to subsidise eligible projects, to optimize the use of vacant government sites or school premises.



## Healthcare

- An additional recurrent funding of nearly \$6 billion will be allocated to the Hospital Authority (HA) in 2018-19 to increase the number of hospital beds, operating theatre sessions, the quota for general out-patient and specialist out-patient services and the manpower required;
- Invited the Hospital Authority to start planning the second 10-years hospital development plan which will cover the study of in-situ redevelopment of Princess Margaret Hospital and Tuen Mun Hospital, construction of a new hospital at the King's Park site (i.e. the existing Queen Elizabeth Hospital site) and expansion of North Lantau Hospital. It is expected to deliver 3 000 to 4 000 additional hospital beds, provide additional facilities and quota for consultation; and
- Propose to provide a tax deduction for people who purchase eligible health insurance products for themselves or their dependants under the Scheme. The annual tax ceiling of premium for tax deduction is \$8,000 per insured person. Subject to the passage by the Legislative Council, the measure will be implemented from the following YOA.



## First Registration Tax for Electric Vehicles

- Continue to waive in full the First Registration tax (FRT) for electric commercial vehicles, electric motor cycles and electric motor tricycles until 31 March 2021; and
- Apart from continuing with the current FRT concession of up to \$97,500, the Government will also launch a "one-for-one replacement" scheme from today to allow eligible private car owners who buy a new electric private car and scrap an eligible private car they own to enjoy a higher FRT concession of up to \$250,000. The above concessions will remain in force until 31 March 2021. The Environmental Protection Department and Transport Department will announce the details later.

## Elderly Services

- Make an additional provision of about \$63 million to provide speech therapy services for elderly service units which will benefit some 22 000 elderly persons with swallowing difficulties or speech impairment.



## Rehabilitation Services

- Allocate \$50 million to set up a dedicated office for the provision of trust services for parents whose children have special needs.
- Make an additional annual provision of \$660 million to improve the rehabilitation services through various measures

## Support for Employment

- Make an additional annual funding of \$48 million to enhance the special employment programmes of the Labour Department. These initiatives include:
  - a. Providing an on-the-job training allowance of up to \$4,000 per month for a period of six to 12 months for employers engaging people aged 60 or above who have left the workforce or are unemployed;
  - b. Raising the monthly on-the-job training allowance ceiling under the Youth Employment and Training Programme by \$1,000 to \$4,000 per month for a period of six to 12 months; and
  - c. Extending the work adaptation period under the Work Orientation and Placement Scheme from two months to three months and increasing the maximum amount of allowance payable to employers engaging people with disabilities by \$16,000 to \$51,000.



## C) Major Changes of Tax Rates 2018/19

### Personal Tax Allowance and Deductions

	<u>2017/18</u>	<u>2018/19</u>
<b>Additional allowance:</b>		
Child		
- Basic	100,000	120,000
- Additional (in the year of birth)	100,000	120,000
Dependent parent / grandparent		
a. Aged 55 to 59		
- Basic	23,000	25,000
- Additional (Note 1)	23,000	25,000
b. Aged 60 or above		
- Basic	46,000	50,000
- Additional (Note 1)	46,000	50,000
Personal disability	-	75,000
<b>Additional deductions:</b>		
Elderly residential care expenses	92,000	10,000



## C) Major Changes of Tax Rates 2018/19 (Con't)

### Progressive Salaries Tax Rates

	<u>2017/18</u>	<u>2018/19</u>
<b>Net Chargeable Income:</b>		
<u>First</u>	2%	2%
- HK\$45,000 for 2017/18		
- HK\$50,000 for 2018/19		
<u>Next</u>	7%	6%
- HK\$45,000 for 2017/18		
- HK\$50,000 for 2018/19		
<u>Next</u>	12%	10%
- HK\$45,000 for 2017/18		
- HK\$50,000 for 2018/19		
<u>Next</u>	-	14%
- HK\$45,000 for 2017/18		
- HK\$50,000 for 2018/19		
Remainder	17%	17%

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