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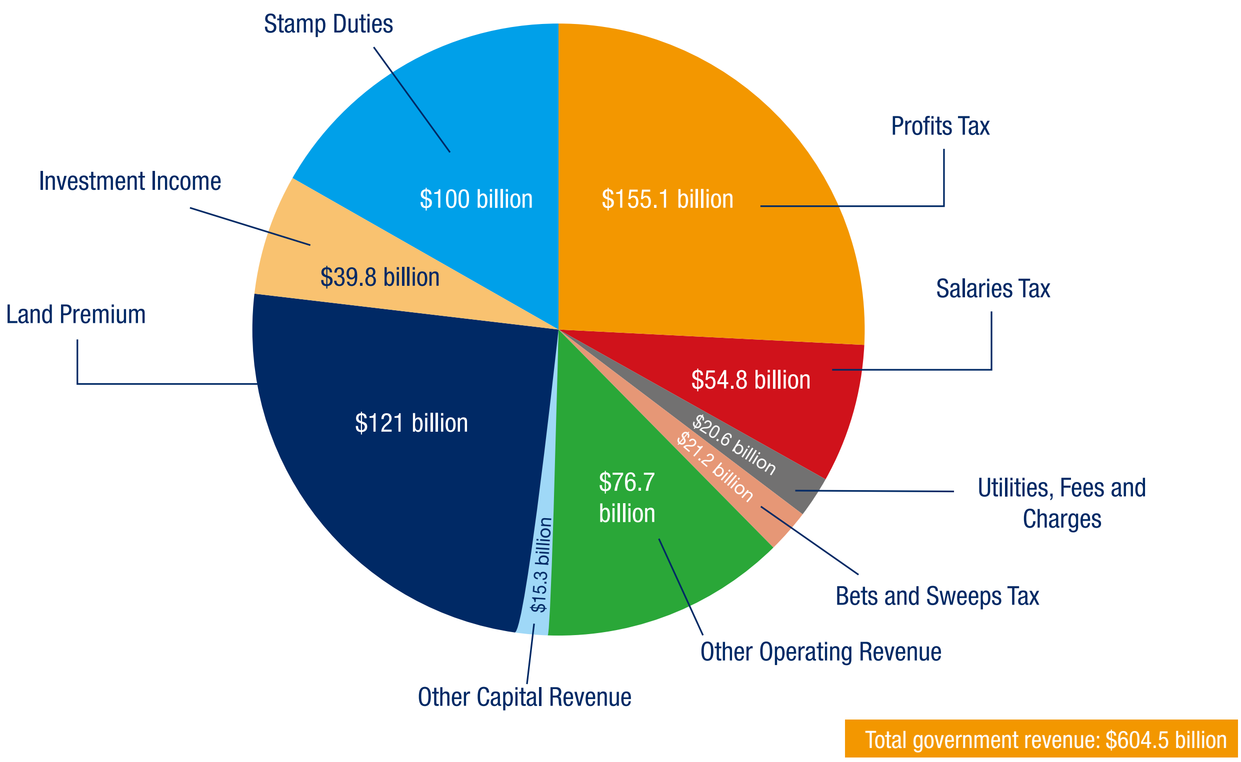
# Hong Kong 2018-19 Budget

## Key Measures

**Audit / Tax / Advisory**

# A. 2018-19 Government Revenue Budget (in HKD)




*Source: 2018-19 Budget, HKSAR Government*

# B. Diversified Economy

**1. Innovation and Technology ("I&T")**

a) An additional HK$50 billion will be set aside to support I&T development:

- HK$20 billion will be used on the first phase of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop.
- HK$10 billion will be injected into the Innovation and Technology Fund ("ITF").
- HK$10 billion will be injected to support the establishment of two research clusters on healthcare technologies and on artificial intelligence and robotics technologies.
- HK$10 billion will be allocated to the Hong Kong Science and Technology Parks Corporation to construct research-related infrastructure and facilities, and set up a Smart Campus in the Park, etc..
- HK$200 million will be allocated to Cyberport to enhance the support for start-ups and promote the development of digital technology ecosystem.
- HK$100 million will be allocated to Cyberport. The Cyberport Arcade will become a local e-sports and digital entertainment node.

b) Provision of additional tax deduction for domestic expenditure on research and development ("R&D") incurred by enterprises.

The Chief Executive announced in her Policy Address that enterprises will enjoy a 300 per cent tax deduction for the first HK$2 million qualifying R&D expenditure, and a 200 per cent deduction for the remainder. Drafting of the legislation and consultation have already commenced.

c) Promoting "Re-industrialisation", including the set up of the Committee on Innovation, Technology and Re-industrialisation last April, and expanding the Science Park, etc..

d) Relaxing the eligibility criteria for the Technology Voucher Programme such that all local enterprises, irrespective of size and duration of operation, may apply.

e) HK$500 million will be earmarked under the ITF to implement, in the second half of the year, the Technology Talent Scheme as announced in the Policy Address.

## 2. Financial Services Industry

- Authorise the Hong Kong Monetary Authority to make plans to set up an academy of finance for promoting and enhancing talented persons.

- The Financial Leaders Forum has laid down the general principles on developing Hong Kong into a preferred listing platform for emerging and innovative enterprises. The new regime should be in place in the second quarter of 2018 after the Stock Exchange of Hong Kong ("SEHK") has consulted the market on the proposed specific arrangements and the amendments to the Listing Rules. It will attract listing applications from emerging and innovative enterprises, including large enterprises with weighted voting rights structure and pre-revenue biotechnology enterprises.

- Launch an array of measures to develop the bond market, including the proposed launch of a three-year Pilot Bond Grant Scheme to attract local, Mainland and overseas enterprises to issue bonds in Hong Kong. The pilot scheme will cover eligible enterprises issuing bonds in Hong Kong for the first time. The amount of grant for each bond issuance is equivalent to half of the issue expenses, capped at HK$2.5 million. Each enterprise can apply for a grant for two bond issuances at most.

- 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 SEHK will also become eligible. Extending the scope of tax exemption for debt instruments to instruments of any duration. Under the enhanced scheme, Hong Kong investors will enjoy tax concession for interest income and trading profits derived from a more diverse range of debt instruments.

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

- Launch a green bond issuance programme with a borrowing ceiling of $100 billion. The sums borrowed will provide funding for green public works projects of the Government.

- Hong Kong has provided profits tax exemption for non-RMB (including US dollar) sovereign bonds issued in Hong Kong by the Central People's Government so as to ensure that Hong Kong continues to be the premier platform for China to issue sovereign bonds in different currencies. Moreover, to promote mutual market access between Hong Kong and the Mainland, the Government will continue to explore the possibility of including a wider range of investment products in the two-way mutual access mechanism.

- The HKMA is prepared to launch a Faster Payment System in September 2018. Moreover, the HKMA is consulting the industry on reviewing and amending the relevant guidelines for virtual banks, and will make the best endeavour to issue licences within this year.

- Authorise the Insurance Authority to issue guidelines, and enable all deferred annuity products available in the market meeting the guidelines to enjoy tax concessions. The proposed tax concessions will be applicable to MPF voluntary contributions. Voluntary contributions which have enjoyed tax deduction will be transferred to the mandatory contribution accounts, and subject to the same withdrawal restrictions on mandatory contributions.

- Set aside a dedicated provision of HK$500 million for the development of the financial services industry in the coming five years.

### 3. Trading and Logistics Industry

- Actively seek to sign Free Trade Agreement, Investment Promotion and Protection Agreement and Comprehensive Avoidance of Double Taxation Agreement with other economies, including those along the Belt and Road, to fortify Hong Kong's position as an international trade, financial and investment hub.

- Proactively strengthen and consolidate Hong Kong's edge as a trading and logistics hub. The Government will actively enhance the supporting infrastructure to increase the handling capacity of both air and maritime cargo, with a view to moving the trading and logistics industry up the value chain.

- Cap the charge for each declaration at HK$200 to enhance Hong Kong's advantage as a trading hub of high-value goods.

### 4. Tourism

- Allocate an additional HK$396 million to the tourism industry in the new financial year, of which HK$226 million will be provided for the Hong Kong Tourism Board to implement the Development Blueprint for Hong Kong's Tourism Industry released by the Tourism Commission last year.

- Allocate a total of HK$310 million 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.

### 5. Business and Professional Services

- Expand its network of Economic and Trade Offices.

- Enhance the current funding schemes for small and medium enterprises ("SMEs"), including the extent of the geographical scope of the Enterprise Support Programme under the BUD Fund from the Mainland to include the ASEAN countries. The respective cumulative funding ceiling for enterprises undertaking projects in the Mainland and ASEAN markets will be HK$1 million; increasing the cumulative funding ceiling for enterprises under the SME Export Marketing Fund from HK$200,000 to HK$400,000, and removing the existing condition on the use of the last HK$50,000 of grants.

### 6. Construction Industry

- Set up a HK$1 billion Construction Innovation and Technology Fund, eligible contractors, registered sub-contractors and consultants can apply for financial support from the Fund.

### 7. Creative Industries

- Inject another HK$1 billion into the CreateSmart Initiative to strengthen support for the development of the creative industries, especially in nurturing youths and helping start-ups.

# C. Other Major Measures

### 1. Education

- Commit an additional recurrent expenditure of $2 billion to further achieve quality education.

- Raise the subsidy ceiling of the Continuing Education Fund ("CEF") from HK$10,000 to HK$20,000 per applicant. Those who once opened a CEF account may also benefit from this initiative. In parallel, the Government will 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.

### 2. Healthcare

- Commence the 10-year hospital development plan amounting to HK$200 billion; increase the expenditure on public healthcare services by 13.3 per cent to HK$71.2 billion in 2018-19, accounting for 17.5 per cent of total recurrent expenditure.

- Allocate an additional recurrent funding of nearly HK$6 billion 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; progressively increase the recurrent provision for the HA on a triennium basis, having regard to population growth and demographic changes.

- Raise the accumulation limit of Elderly Health Care Vouchers from HK$4,000 to HK$5,000 in 2018 to allow greater flexibility to users; provide, on a one-off basis in 2018/19, an additional HK$1,000 worth of vouchers to eligible elderly persons. Elderly Health Care Vouchers can be used on services provided by medical practitioners, dentists and Chinese medicine practitioners in the non-public sector.

### 3. Arts and Culture

- Set aside HK$20 billion for the improvement and development of cultural facilities, and also allocate $500 million to the Leisure and Cultural Services Department for the acquisition of museum collections and holding exhibitions.

### 4. Sports

- Inject HK$1 billion into the sports portion of the Arts and Sport Development Fund to support sports organisations in the training of athletes and hosting competitions.

### 5. Environment

- Set aside another HK$800 million this year to further promote the installation of renewable energy facilities at government buildings, venues and community facilities.

- Enhance tax concessions for capital expenditure incurred by enterprises in procuring eligible energy efficient building installations and renewable energy devices by allowing tax deduction to be claimed in full in one year instead of the current time frame of five years.

- The current first registration tax ("FRT") concessions for electric vehicles will cease on 31 March 2018. The Government has decided to continue to waive in full the FRT for electric commercial vehicles, electric motor cycles and electric motor tricycles until 31 March 2021.

- As for electric private cars, apart from continuing with the current FRT concession of up to HK$97,500, the Government will also launch a "one-for-one replacement" scheme from 28 February 2018 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 HK$250,000. The above concessions will remain in force until 31 March 2021.

# D. Key Relief Measures Proposed

### Tax Concessions

- Widen the tax bands for salaries tax from HK$45,000 to HK$50,000, and increase the current number of tax bands from four to five, the marginal tax rates will be adjusted to 2%, 6%, 10%, 14% and 17% respectively.

- Raise the basic and additional child allowances from the current HK$100,000 to HK$120,000.

- Increase the allowance for maintaining a dependent parent or grandparent aged 60 or above from the current HK$46,000 to HK$50,000. The same increase applies to the additional allowance for 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 HK$23,000 to HK$25,000. The same increase applies to the additional allowance for taxpayers residing with parents or grandparents continuously throughout the year. If the parents or grandparents of the taxpayers are admitted to residential care homes, the deduction ceiling for elderly residential care expenses will increase from the current HK$92,000 to HK$100,000.

- Introduce a new personal disability allowance for eligible taxpayers of HK$75,000, as amount as the current disabled dependent allowance.

- Propose a tax deduction for the premium of the Voluntary Health Insurance Scheme; individuals who purchase eligible health insurance products for themselves or their dependents under the Scheme will be entitled to tax deduction, the annual tax ceiling of premium for tax deduction is capped at HK$8,000 per insured person.

- Currently, if both husband and wife have income assessable to tax and wish to elect for personal assessment, they must jointly make an election. This requirement will be relaxed by allowing the husband and wife an option to decide whether to elect for personal assessment.

- With regard to the two-tiered profits tax rates regime announced in the 2017 Policy Address, such Amendment Bill was gazetted on 29 December 2017 and is undergoing the legislative process. Under the proposed regime, the profits tax rate for the first $2 million of profits of corporations will be lowered to 8.25%. Profits above that amount will continue to be subject to the tax rate of 16.5%. For unincorporated businesses which are mostly partnerships and sole proprietorships, the two-tiered tax rates will correspondingly be set at 7.5% and 15%. To ensure that the tax benefits will target SMEs, the Government proposes to introduce restrictions to limit the application to only one enterprise nominated from among those which are connected.

### One-off Measures

- Salaries tax, tax under personal assessment and Profits tax for 2017/18 will be reduced by 75%, subject to a ceiling of HK$30,000.

- Rates for the four quarters of 2018/19 will be waived, subject to a ceiling of HK$2,500 per quarter, for each rateable property.

- Provide an additional two month allowance to recipients of Comprehensive Social Security Assistance ("CSSA"), Old Age Allowance, Old Age Living Allowance and Disability Allowance; similar arrangements will also be applied to Low-income Working Family Allowance and Work Incentive Transport Subsidy.

- Invite the Community Care Fund to consider providing short-term relief for low-income households not living in public housing and not receiving CSSA (commonly known as the "N have-nots households").

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

- Pay the examination fees for candidates sitting for the 2019 Hong Kong Diploma of Secondary Education Examination.

## E. Changes to Salaries Tax Marginal Bands for the Year 2018/19

| 2018/19 | | 2017/18 | |
|---|---|---|---|
| **Tax Band** Net chargeable income (HK$) | **Marginal Tax Rate** (%) | **Tax Band** Net chargeable income (HK$) | **Marginal Tax Rate** (%) |
| First $50,000 | 2 | First $45,000 | 2 |
| Next $50,000 | 6 | Next $45,000 | 7 |
| Next $50,000 | 10 | Next $45,000 | 12 |
| Next $50,000 | 14 | | |
| Remainder | 17 | Remainder | 17 |
| | **Standard Rate (%)** | | **Standard Rate (%)** |
| | 15 | | 15 |

*Note: Salaries tax payable is calculated at progressive rates on a taxpayer's net chargeable income or at standard rate on his/her net income (before deduction of the allowances), whichever is lower.*

## F. Changes to Personal Allowances and Deductions for the Year 2018/19

| | 2018/19 | 2017/18 |
|---|---|---|
| | HK$ | HK$ |
| **Personal allowances:** | | |
| Single | 132,000 | 132,000 |
| Married | 264,000 | 264,000 |
| | | |
| **Other allowances:** | | |
| Child (1st to 9th child) | | |
| Year of birth | 240,000 | 200,000 |
| Other years | 120,000 | 100,000 |
| | | |
| Dependent parent/ grandparent: | | |
| a. Aged 55 to 59 | | |
| Basic | 25,000 | 23,000 |
| Additional | 25,000 | 23,000 |
| b. Aged 60 or above | | |
| Basic | 50,000 | 46,000 |
| Additional | 50,000 | 46,000 |
| | | |
| Single parent | 132,000 | 132,000 |
| Disabled (new allowance) | 75,000 | - |
| Disabled dependent | 75,000 | 75,000 |
| Dependent brother/sister | 37,500 | 37,500 |
| | | |
| **Additional deductions:** | | |
| Self-education expenses | 100,000 | 100,000 |
| Home loan interest (Number of years of deduction) | 100,000 (20 years of assessment) | 100,000 (20 years of assessment) |
| Elderly residential care expenses | 100,000 | 92,000 |
| Contributions to recognised retirement schemes | 18,000 | 18,000 |
| Approved charitable donations | 35% of income | 35% of income |

# G. Comments

As anticipated, the Government's fiscal surplus this year hits a record high, which is benefited from the increase in revenue from land sales and stamp duties, and the amount of fiscal surplus has been revised from the original estimate of HK$16.3 billion to HK$138 billion.

Considering the living needs and financial burdens faced by grass-roots people and the middle class, the Financial Secretary has put forth various measures to address the livelihood problems when allocating the fiscal surplus. These include reducing salaries tax, widening the marginal tax bands for salaries tax and increasing the child allowances and dependent parent/grandparent allowances, etc., among which the widening of the tax bands for salaries tax is the first time since Hong Kong sovereignty was returned to China.

The magnitude of tax rebate and rates concession, and adjustments to the amounts of Comprehensive Social Security Assistance, Old Age Allowance, Old Age Living Allowance raised in the Budget have all increased over the previous year. This can directly help to relief the burden on the public and ease the social atmosphere.

In view of the ever-changing international competitive environment, the Budget also proposes various measures to promote the development of diversified economy, attract companies from new economy sectors / new technology sectors to come to Hong Kong and actively enhance Hong Kong's superiority as a financing and listing platform.

We are delighted to see that the Government has proposed a number of livelihood and other measures to promote a diversified economy. We also expect the Government to make good use of resources in implementing the relevant policies, make appropriate use of taxpayers' money to improve the environment and make investment for the future, and avoid wastage or purposeless backlog of surplus.

However, the Budget has not done much to address the problem of narrow tax base in Hong Kong. To reduce the long-term revenue volatility of the Government, we hope the Government can continue to explore the feasibility of levying new taxes (such as sales tax) to help stabilize revenue and ensure that Hong Kong will have sufficient funds to support the medium and long-term sustainable development of public services and infrastructure in the future.

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