



國富浩華（香港）會計師事務所有限公司
Crowe (HK) CPA Limited

Hong Kong 2020/21 Budget

Key Measures



Audit / Tax / Advisory

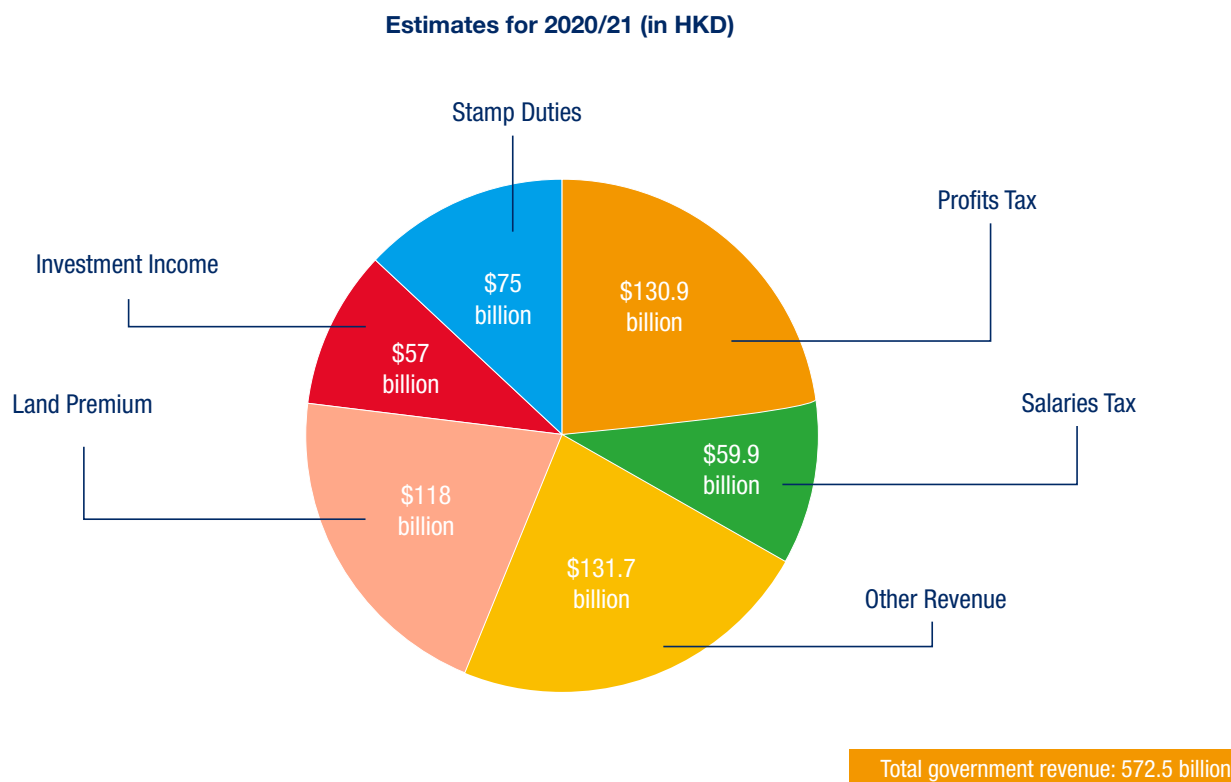
A. Government Revenue Budget

Revised Estimates for 2019/20

The 2019/20 revised estimates on government revenue is HK\$567.3 billion, lower than the original estimate by 9.4%. This is mainly because revenues from profits tax, salaries tax and stamp duties decreased.

On one hand, revenues from profits tax and salaries tax dropped substantially due to economic condition, enhanced tax concessions and a deferred tax assessment cycle as compared with previous years. On the other hand, stamp duty revenue was significantly lower than the original estimate, attributed to smaller-than-expected trading volumes in the property and stock markets over the year.

In addition, the Government estimates an annual fiscal deficit of HK\$37.8 billion, the first time for Hong Kong in 15 years.



Source: 2020/21 Budget Highlights, HKSAR Government

The Government estimates that the revenue for the year 2020/21 will mainly come from land premium and profits tax. The total revenue is estimated to be HK\$572.5 billion, while the total expenditure is estimated to be HK\$731.1 billion, resulting in an all-time high estimated deficit of HK\$139.1 billion or approximately 4.8 % of GDP. GDP growth is forecast to range from -1.5% to 0.5% in real terms in 2020. The headline inflation rate and the underlying inflation rate are predicted to be 2.9% and 3.0% respectively.

B. Key Relief Measures Proposed

B1. One-off Measures for Enterprises

- Reduce profits tax for 2019/20 assessment year by 100%, subject to a HK\$20,000 ceiling for each business
- Waive rates for non-domestic properties for 2020/21, subject to a ceiling of HK\$5,000 per quarter in first two quarters and HK\$1,500 per quarter for remaining two quarters for each rateable non-domestic property
- Waive business registration fees for 2020/21; and waive registration fees for company annual returns for 2 years
- Provide a subsidy to each eligible non-domestic household accounts for four extra months to cover 75% of their monthly billed electricity charges, subject to a monthly cap of HK\$5,000 per account
- Waive 75% of water and sewage charges payable by non-domestic households for four extra months, subject to a monthly cap of HK\$20,000 and HK\$12,500 respectively per household
- Introduce a concessionary low-interest loan under the SME Financing Guarantee Scheme, under which 100% guarantee will be provided by the Government. The application period will last for six months. The maximum amount of loan for eligible enterprises is based on their salary and rental expenditures for six months, subject to a ceiling of HK\$2 million. The repayment period is up to three years and, on an opt-in basis, a principal moratorium is available for the first six months during which only interest payments have to be made
- Reduce rental by 50% for six months for eligible operators of properties covered by short-term waivers, tenants of government properties, government land and EcoPark
- Provide hirers of civic centres under the Leisure and Cultural Services Department (LCSD) with a 50% reduction of hire charges for six months
- Offer for six months reduction of fees and rent for cruise lines and existing tenants of the Cruise Terminal
- Provide HK\$100 million rental subsidy for 6 months to local recycling enterprises

B2. One-off Measures for Individuals

- HK\$10,000 cash payout to Hong Kong permanent residents aged 18 or above
- Reduce salaries tax and tax under personal assessment for 2019/20 assessment year by 100%, subject to a ceiling of HK\$20,000 per case
 - For salaries tax, the ceiling is applied to each individual taxpayer; but for married couples jointly assessed, the ceiling is applied to each married couple (i.e. capped at HK\$20,000 in total)
 - For personal assessment, the ceiling is applied to each single taxpayer or married person who elects for personal assessment separately from his/her spouse. If a taxpayer elects for personal assessment jointly with his/her spouse, the tax reduction is capped at HK\$20,000 for the married couple
 - The proposed tax reduction is not applicable to property tax. Individuals with rental income, if eligible for personal assessment, may be able to enjoy such reduction under personal assessment
- Waive rates of domestic properties for four quarters of 2020/21, subject to a HK\$1,500 ceiling per quarter for each rateable property
- Extra 1 month allowance of standard CSSA payment, Old Age Allowance, Old Age Living Allowance or Disability Allowance. Similar arrangements will apply to Work Incentive Transport Subsidy
- Pay 1 month's rent for lower income tenants living in public rental units
- Pay examination fees for candidates sitting for the 2021 HKDSE Examination

Tax Concessions

In the 2018/19 budget, the Government increased various allowances and raised deduction ceilings; widened and increased the number of the tax bands; and adjusted marginal tax rate, for salaries tax. No additional adjustment is proposed this year.

C. Salaries Tax Marginal Bands for the Year 2020/21 (No Adjustment)

2019/20 and 2020/21	
Tax Band Net chargeable income (HK\$)	Marginal Tax Rate (%)
First \$50,000	2
Next \$50,000	6
Next \$50,000	10
Next \$50,000	14
Remainder	17
	Standard Rate (%)
	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.

D. Personal Allowances and Deductions for the Year 2020/21 (No Adjustment)

2019/20 and 2020/21		HK\$
Personal allowances:		
Single		132,000
Married		264,000
Other allowances:		
Child (1 st to 9 th child):		
Year of birth		240,000
Other years		120,000
Dependent parent/grandparent:		
a. Aged 55 to 59		
Basic		25,000
Additional		25,000
b. Aged 60 or above		
Basic		50,000
Additional		50,000
Single parent		132,000
Disabled		75,000
Disabled dependent		75,000
Dependent brother/sister		37,500
Additional deductions:		
Self-education expenses		100,000
Home loan interest (Number of years of deduction)		100,000 (20 years of assessment)
Elderly residential care expenses		100,000
Contributions to recognised retirement schemes		18,000
Approved charitable donations	35% of income after allowable expenses and depreciation allowances	
Voluntary health insurance		8,000
Annuity premiums and MPF voluntary contributions		60,000

E. Key Measures for Developing a Diversified Economy

- Waive the stamp duty on stock transfers paid by ETF market makers in the course of creating and redeeming ETF units listed in Hong Kong in order to strengthen the competitiveness of Hong Kong as an ETF listing platform. This initiative will further reduce the transaction cost of ETFs listed in Hong Kong
- Prepare new legislation on the establishment of a limited partnership regime that meets the operational needs of funds. Provide tax concession for carried interest issued by private equity funds operating in Hong Kong subject to the fulfilment of certain conditions in order to attract more private equity funds to domicile and operate in Hong Kong
- Lower the minimum entry age of the HKMC Annuity Plan from 65 to 60 so as to facilitate early participation by those in need
- Launch a pilot scheme to offer fixed-rate mortgage loans to reduce the risks of interest rate volatility. The total loan amount under the scheme is HK\$1 billion
- Issue a total amount of no less than HK\$13 billion of inflation-linked bonds and silver bonds to promote the further development of the retail bond market and silver market
- Issue green bonds totaling HK\$66 billion within the next five years
- Allocate an additional amount of over HK\$700 million for the Hong Kong Tourism Board to step up promotion and revive the tourism industry when the epidemic is over
- Allocate an additional funding of HK\$150 million to the Trade Development Council (TDC) for organising various initiatives to promote Hong Kong and explore market opportunities for Hong Kong companies
- Earmark HK\$6.5 billion for implementing a number of harbourfront development initiatives
- Provide an additional annual funding of HK\$30 million to enhance the employment programmes of the Labour Department
- Inject HK\$2 billion into the ITF for launching the Re-industrialisation Funding Scheme
- Provide the Hong Kong Science and Technology Parks Corporation (HKSTPC) with an additional funding of HK\$2 billion for converting an old factory in the Yuen Long Industrial Estate into a Microelectronics Centre; and earmark HK\$3 billion for exploring the feasibility of Phase 2 of the Science Park Expansion Programme
- Explore the establishment of a third InnoHK research cluster



F. Comments

In the second half of 2019 and early this year, the US-China trade war, the local social incidents and the outbreak of novel coronavirus have taken a heavy toll on the short-term economy of Hong Kong. In his third budget in February last year, the Financial Secretary was optimistic about a 2-3% GDP growth in Hong Kong but the estimate has later been revised to 0% to -1% due to the rapid deterioration of the economic situation in Hong Kong. In view of the tough economic environment, the Government adopts an expansionary fiscal stance and makes optimal use of the fiscal reserves to implement counter-cyclical measures, with the objective of "supporting enterprises, safeguarding jobs, stimulating the economy and relieving people's burden", so as to help Hong Kong tide over the difficulties. The expected fiscal deficit, though huge, is mainly related to the cash payout scheme and other one-off relief measures, which will not incur long-term financial commitments. However, with the estimated decrease in the revenue from taxes and land premium as well as rapidly increasing recurrent expenditures, the proposed expansionary fiscal policies, including the counter-cyclical measures, will be hard to continue and subject to cutbacks in the coming years unless new areas of economic growth and sources of revenue are identified or the tax base is broadened.

Also, it has been mentioned in the budget that the Organisation for Economic Co-operation and Development (OECD) is actively exploring the proposal of setting rules for imposing a global minimum tax rate. Under this proposal, if the tax paid by a multinational corporation in Hong Kong is lower than the new global minimum tax rate, its parent company will be subject to additional taxes or defensive measures imposed by the jurisdictions where they are located. The imposition of a global minimum tax rate may undermine the attractiveness of Hong Kong's low tax policy to multinational corporations, thus posing challenges to our territorial-source-based tax regime. The proposal may also bring additional tax burden and compliance costs to multinational corporations and affect their incentives in investing and operating in Hong Kong. The Government will discuss with scholars and the business community to devise corresponding measures, and will continue to implement investment-friendly tax policies that comply with international rules to maintain Hong Kong's unique advantage.

The cash payout as well as other sweeteners proposed in the budget are believed to be welcome by citizens as these measures will help lessen their economic burden. However, raising personal and other allowances would certainly benefit an even greater number of people given that no adjustments have been made in this regard for the past two years.





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