

THE POWER  
OF BEING  
UNDERSTOOD

## RSM Tax Advisory (Hong Kong) Limited

### 羅 申 美 稅 務 諮 詢 有 限 公 司

Welcome to Tax Flash – RSM Tax Advisory (Hong Kong) Limited’s Newsletter Covering Technical Development in Taxation

#### HONG KONG BUDGET – 2016/17

*The Financial Secretary, Mr. John Tsang, delivered the 2016-17 Budget Speech at the Legislative Council on 24 February 2016.*

*In this Tax Flash, we set out a summary of the following:-*

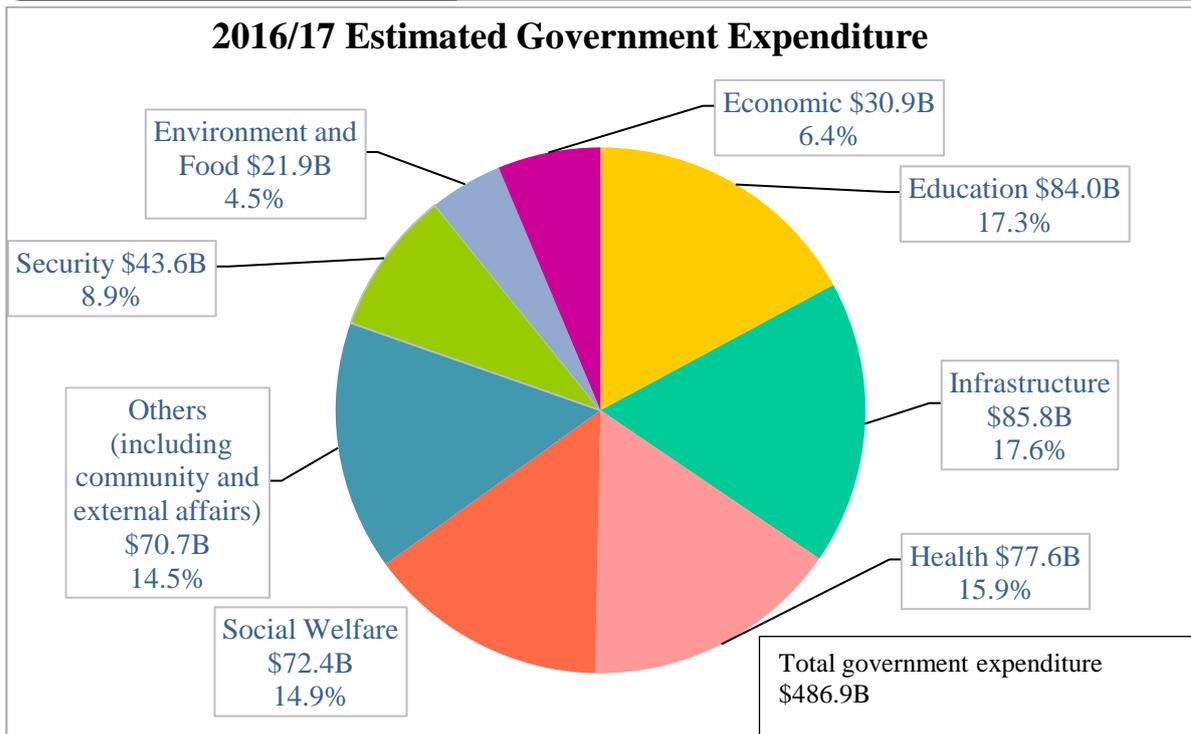
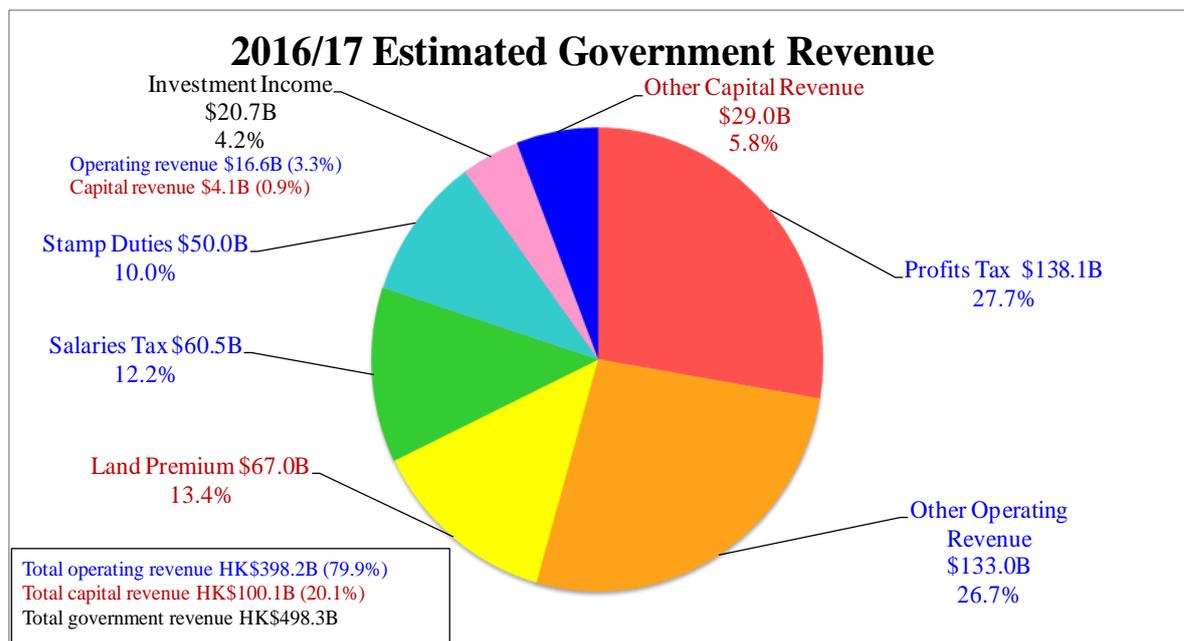
- *Economic Performance and Outlook*
- *Financial Highlights*
- *Relief and Measures*
- *Strategy on Developing Economy, Enhancing Competitiveness and Supporting Enterprises*
- *Our Commentary*

#### **1. Economic Performance and Outlook**

- ◆ GDP grew by 2.4% in real terms and GDP per capita became HK\$328,900 in 2015. GDP growth rate is forecasted to be 1 – 2% in 2016. GDP per capita is forecasted to be HK\$334,500 – HK\$337,800 in 2016.
- ◆ Unemployment rate was 3.3% in 2015.
- ◆ The underlying average inflation rate was 2.5% in 2015. The underlying inflation rate is forecasted to be 2% in 2016.
- ◆ Hong Kong is the world’s largest offshore RMB business hub, with the world’s largest pool of RMB liquidity.
- ◆ Hong Kong ranked first globally in terms of funds raised through initial public offerings, which amounted to HK\$260 billion in 2015.

## 2. Financial Highlights

- ♦ A surplus of HK\$48.3 billion in the Operating Account and a surplus of HK\$30.5 billion in the Consolidated Account are forecasted for the year ending 31 March 2016. By 31 March 2016, the Hong Kong's fiscal reserves will be increased to HK\$859.0 billion.
- ♦ A surplus of HK\$21.4 billion in the Operating Account and a surplus of HK\$11.4 billion in the Consolidated Account are forecasted for the fiscal year 2016/17. By 31 March 2017, fiscal reserves are expected to reach HK\$870.4 billion. Breakdowns of 2016/17 estimated total government revenue and total government expenditure are as follows:-



### 3. Relief and Measures

#### ➤ Profits Tax

##### Comparison Tables on Profits Tax Reduction

|                   | 2014/15  | 2015/16  |
|-------------------|--|--|
| One-off Reduction | Reduce 2014/15 tax by 75% ceiling @ HK\$20,000 | Reduce 2015/16 tax by 75% ceiling @ HK\$20,000 |

##### Comparison Tables on Profits Tax Rate

| Tax Rate                  | 2015/16 | 2016/17 |
|---------------------------|---------|---------|
| Corporations              | 16.5%   | 16.5%   |
| Unincorporated businesses | 15%     | 15%     |

#### ➤ Salaries Tax

##### Comparison Tables on Salaries Tax Reduction

|                   | 2014/15  | 2015/16  |
|-------------------|--|--|
| One-off Reduction | Reduce 2014/15 tax by 75% ceiling @ HK\$20,000 | Reduce 2015/16 tax by 75% ceiling @ HK\$20,000 |

##### Comparison Tables on Salaries Tax Rate

| Tax Rate                   | 2015/16 | 2016/17 |
|----------------------------|---------|---------|
| 1 <sup>st</sup> HK\$40,000 | 2%      | 2%      |
| 2 <sup>nd</sup> HK\$40,000 | 7%      | 7%      |
| 3 <sup>rd</sup> HK\$40,000 | 12%     | 12%     |
| Balance                    | 17%     | 17%     |

The total tax payable is limited to 15% on net assessable income (before deduction of personal allowances).

##### Comparison Tables on the Personal Allowances on Salaries Tax

| Personal Allowances                             | 2015/16          | 2016/17                |
|---|------------------|------------------------|
| Basic (Single Person)                           | HK\$120,000      | <b>HK\$132,000</b>     |
| Married Person                                  | HK\$240,000      | <b>HK\$264,000</b>     |
| Single Parent                                   | HK\$120,000      | <b>HK\$132,000</b>     |
| Child (1 <sup>st</sup> – 9 <sup>th</sup> child) |                  |                        |
| Year of Birth                                   | HK\$200,000 each | HK\$200,000 each       |
| Other Years                                     | HK\$100,000 each | HK\$100,000 each       |
| Dependent Parent/Grandparent 60+                |                  |                        |
| Residing Together                               | HK\$80,000 each  | <b>HK\$92,000 each</b> |
| Not Residing Together                           | HK\$40,000 each  | <b>HK\$46,000 each</b> |

|                                       |                 |                        |
|---------------------------------------|-----------------|------------------------|
| Dependent Parent/Grandparent<br>55-59 |                 |                        |
| Residing Together                     | HK\$40,000 each | <b>HK\$46,000 each</b> |
| Not Residing Together                 | HK\$20,000 each | <b>HK\$23,000 each</b> |
| Disable Dependent                     | HK\$66,000 each | HK\$66,000 each        |
| Dependent Brother / Sister            | HK\$33,000 each | HK\$33,000 each        |

Comparison Tables on the Deductions on Salaries Tax

| Deductions                       | 2015/16               | 2016/17               |
|----------------------------------|-----------------------|-----------------------|
| Approved Training Course         | HK\$80,000            | HK\$80,000            |
| MPF Contribution                 | HK\$18,000            | HK\$18,000            |
| Home Loan Interest               | HK\$100,000; 15 Years | HK\$100,000; 15 Years |
| Elderly Residential Care         | HK\$80,000            | <b>HK\$92,000</b>     |
| Approved Charitable<br>Donations | 35% of income         | 35% of income         |

➤ **Rates**

Waiving rates for four quarters of 2016-17, subject to a ceiling of \$1,000 per quarter for each rateable property.

➤ **Miscellaneous**

- ♦ Waiving the business registration fees for 2016-17.
- ♦ Providing an extra allowance to Comprehensive Social Security Assistance, Old Age Allowance and Disability Allowance recipients, equal to one month of the allowances.

➤ **Support measures for tourism industry**

- ♦ Waiving the licence fees for 1,800 travel agents for one year.
- ♦ Waiving the licence fees for 2,000 hotels and guesthouses for one year.
- ♦ Waiving the licence fees for restaurants and hawkers and fees for restricted food permits for one year, benefiting 27,000 restaurants and operators.

#### 4. Strategy on Developing Economy, Enhancing Competitiveness and Supporting Enterprises

To withstand the foreseeable tough economic environment, the Government will implement measures in the following areas:-

➤ **Supporting Small and Medium Enterprises (SME) and Tourism**

- ♦ Extending the application period for the "special concessionary measures" under the "SME Financing Guarantee Scheme" to 28 February 2017.
- ♦ Reducing the annual guarantee fee rate for the measures by 10%.
- ♦ Removing the minimum guarantee fee for the measures.
- ♦ Launching the Pilot Technology Voucher Programme to subsidise the use of technology services and solutions by SME.
- ♦ Allocating additional HK\$240 million to promote Hong Kong and attract tourists.
- ♦ Upgrading tourism infrastructures including Hong Kong Disneyland and Ocean Park.

➤ ***Boosting Innovation, Research and Developments***

- ◆ Investing HK\$8.2 billion to promote smart production and research.
- ◆ Earmarking HK\$500 million to set up an Innovation and Technology Fund for Better Living.
- ◆ Allocating an additional HK\$200 million to install traffic detectors to provide the public with more real-time traffic information and enhance transport efficiency.
- ◆ Injecting HK\$2 billion to launch a Midstream Research Programme for Universities.
- ◆ Increasing the level of cash rebate under the R&D Cash Rebate Scheme to 40%.
- ◆ Extending the Public Sector Trial Scheme to cover the incubatees of the Cyberport and the Science Park.
- ◆ Investing HK\$4.4 billion to expand the Science Park.
- ◆ Setting up a HK\$2 billion Innovation and Technology Venture Fund.

➤ ***Boosting Creative Industries***

- ◆ Injecting HK\$400 million into CreateSmart Initiative to assist the trade in organising projects for the development of creative industries.
- ◆ Strengthening the promotion of local fashion designers and emerging fashion brands in Hong Kong and overseas.
- ◆ Establishing an incubation programme for fashion designers, drawing on the experience of other fashion capitals like London, New York and Seoul.
- ◆ Setting up a resource centre to provide technical training and support for young designers.
- ◆ Injecting an additional HK\$20 million into the Film Development Fund.
- ◆ Launching Art Development Matching Grants Pilot Scheme.

➤ ***Enhancing Financial Services***

- ◆ Promoting mutual capital market access between Hong Kong and Mainland China.
- ◆ Attracting more private equity funds and corporate treasury centres to Hong Kong.
- ◆ Publicising the capital market and developing green financial products.
- ◆ Launching another iBond issue of up to HK\$10 billion with a maturity period of three years following the existing practice.

➤ ***Enhancing Trade and Logistics***

- ◆ Examining the use of tax concession to boost aircraft leasing business and exploring business opportunities in aerospace financing.
- ◆ Expanding tax deduction for capital expenditure incurred for the purchase of more categories of Intellectual Property rights.
- ◆ Pursuing trade and investment agreements to expand commercial and trading networks.
- ◆ Launching the three-runway system by the Airport Authority.
- ◆ Establishing a “single window” to facilitate trading in goods.

➤ ***Optimising Land Utilisation and Increasing Land Supply***

- ◆ Adopting the public housing supply target of 280,000 units for the ten-year period from 2016-17 to 2025-26.
- ◆ Making available for sale of 29 residential sites capable for providing 19,000 units.
- ◆ Providing 8 commercial/business sites and 3 hotel sites, capable of providing 540,000 square metres of floor area and 2,100 hotel rooms respectively.



➤ ***Belt and Road Initiative***

- ◆ Continuing the promotion efforts to deepen the understanding of the business sector and the community of these new markets along the route.
- ◆ Facilitating the financing of infrastructure projects and providing a platform for pooling the efforts of investors, banks and the financial sector.
- ◆ Pursuing the possibility of joining the Asian Infrastructure Investment Bank as a non-sovereign territory.
- ◆ Pursuing the opportunity to issue the third sukuk.

➤ ***Improving the Quality of Manpower***

- ◆ Offering more internships and exchange opportunities to students.
- ◆ Increasing the monthly allowances of the Internship Programme under the Innovation and Technology fund.
- ◆ Setting aside HK\$200 million to implement a pilot scheme to provide tuition fee subsidy for three cohorts of students admitted to designated professional part-time programmes.

➤ ***Improving Livelihood of People***

- ◆ Setting aside a dedicated provision of HK\$200 billion for a ten-year hospital development.
- ◆ Allocating HK\$10 billion to Hospital Authority to set up an endowment fund to generate investment returns for enhancing public-private partnership programmes.
- ◆ Allocating HK\$2.9 billion to implement the Low-income Working Family Allowance Scheme.
- ◆ Providing HK\$140 million annually to provide more subsidised residential care places.
- ◆ Allocating a recurrent provision HK\$180 million to strengthen various residential care services.
- ◆ Earmarking \$800 million to examine the implementation of the Pilot Scheme on Residential Care Service Voucher for the Elderly.
- ◆ Issuing Silver Bond for Hong Kong residents aged 65 or above.
- ◆ Exploring extending Reverse Mortgage Programme to cover subsidised sale flats with unpaid premium.

## 5. Our Commentary

In the 2016-17 Budget, the Financial Secretary forecasts a consolidated budget surplus of HK\$30.5 billion for 2015-16, against an original estimated surplus of HK\$36.8 billion. The fiscal reserves carried forward increased to HK\$859 billion. In view of the foreseeable tough economic environment, the Government remains its prudent and cautious approach in providing fiscal incentives.

Generally speaking, the Budget succeeds in focusing on developing the economy, overcoming limitations of Hong Kong, supporting the enterprises and improving the people's livelihood. We are pleased that the Financial Secretary offers a variety of measures in further developing the competitiveness of Hong Kong through diversifying the development in different industries in particular the innovative and creative industries. The Financial Secretary also reiterates his concern in strengthening manpower and increasing land supply. We welcome that more expenditure will be spent on elderly services and health care in the coming future.

As tax practitioners, we especially welcome that tax concession for the aircraft leasing business will be examined and tax deduction for capital expenditure incurred for the Intellectual Property rights will be extended from 5 categories to 8. In coming years, the Government should consider to offer more tax measures to further improve the competitiveness of Hong Kong.

The Organisation for Economic Co-operation and Development released the final reports on all 15 action points of Base Erosion and Profit Shifting ("BEPS") Action Plan in October 2015. The Financial Secretary addressed in the Budget that analysis and consultation will be conducted regarding the issue. Hong Kong Government is highly recommended to come up with a strategy with a faster pace to respond to BEPS by revisiting certain features of the Hong Kong tax system, and consider how to make it more compatible with modern business environment and to align with the updated international tax rules and provide more certainty to taxpayers in Hong Kong.

Belt and Road initiative is a mostly discussed and studied topic in recent years. To enhance Hong Kong's competitive advantage in the initiative in addition to its proximity to Mainland China, the Government should consider expanding the network of double taxation agreements to the countries included in the initiative and offering concessionary tax rate for regional headquarters' activities.

Subsequent to the establishment of the Innovation and Technology Bureau in November 2015, to further encourage businesses to invest in significant research and development activities apart from the support already provided, the Government should consider granting a super deduction on qualifying research and development expenditure spent by companies engaging in high-technology business.

Hong Kong is facing a difficult international economic climate due to several factors mainly including the slowing down of economic growth in Mainland China, the rising of interest rate in the United States and the intensifying political turmoil in Europe. The government expenditure will keep growing at a faster pace than the revenue due to the ageing population and slowing economic growth. As such, the Government should continue to study and explore ways to broaden Hong Kong tax base in order to maintain a healthy and sustainable fiscal system.

Furthermore, we reiterate that the Government shall continue to review its revenue and expenditure in a way to allow the matching principle to be observed. We believe that the advance in technology should allow the Government to better account for its expenditure and applying the matching principle.

## RSM Tax Advisory (Hong Kong) Limited

RSM Hong Kong's dedicated and experienced tax specialists can:

- Advise on tax efficient holding and operational structures for new cross-border investment, including the formation of Hong Kong and Chinese business entities
- Review existing cross-border investment structures, advise on identified deficiencies, quantify any potential exposure from such deficiencies, and further advise on restructuring approach and procedures
- Assist clients to discuss and clarify matters with tax officials, including transfer pricing and advance rulings
- Act as client representative in tax audits and tax investigations
- Provide transaction support services on mergers and acquisitions, including tax due diligence, deal structure advice, tax health checks, related human resources arrangements and other tax compliance and consultation services
- Advise on human resources and structuring employment arrangements in a tax-efficient manner
- Advise on tax equalization schemes
- Provide tax compliance services for individual and corporate clients in Hong Kong and China

The aim of Tax Flash is to alert readers to recent developments. The information is general in nature and it is not to be taken as a substitute for specific advice. Accordingly RSM Hong Kong accepts no responsibility for any loss that occurs to any party who acts on information contained herein without further consultation with us. If you have any comments or require further information please contact:

Mr. Dicky To  
T +852 2508 2863  
E [dickyto@rsmhk.com](mailto:dickyto@rsmhk.com)

Mr. Eric Chen  
T +852 2583 1259  
E [ericchen@rsmhk.com](mailto:ericchen@rsmhk.com)

Ms. Lilian Poon  
T +852 2583 1241  
E [lilianpoon@rsmhk.com](mailto:lilianpoon@rsmhk.com)

Mr. Samuel Chan  
T +852 2583 1242  
E [samuelchan@rsmhk.com](mailto:samuelchan@rsmhk.com)

Mr. Patrick Ho  
T +852 2583 1258  
E [patrickho@rsmhk.com](mailto:patrickho@rsmhk.com)

Mr. Chan Ka Ho  
T +852 2583 1249  
E [khchan@rsmhk.com](mailto:khchan@rsmhk.com)

Ms. Catherine Tsang  
T +852 2583 1256  
E [catherinetsang@rsmhk.com](mailto:catherinetsang@rsmhk.com)

## RSM Tax Advisory (Hong Kong) Limited

29th Floor, Lee Garden Two  
28 Yun Ping Road  
Causeway Bay, Hong Kong

T +852 2598 5123  
F +852 2598 7230  
E [tax@rsmhk.com](mailto:tax@rsmhk.com)

[www.rsmhk.com](http://www.rsmhk.com)

RSM Tax Advisory (Hong Kong) Limited is a member of the RSM network and trades as RSM. RSM is the trading name used by the members of the RSM network.

Each member of the RSM network is an independent accounting and consulting firm, each of which practices in its own right. The RSM network is not itself a separate legal entity of any description in any jurisdiction.

The RSM network is administered by RSM International Limited, a company registered in England and Wales (company number 4040598) whose registered office is at 11 Old Jewry, London EC2R 8DU.

The brand and trademark RSM and other intellectual property rights used by members of the network are owned by RSM International Association, an association governed by article 60 et seq of the Civil Code of Switzerland whose seat is in Zug.