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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 2021/22

The Financial Secretary, Mr. Paul Chan, delivered the 2021/22 Budget Speech at the Legislative Council on 24 February 2021.

OVERVIEW

The HKSAR Government has recorded an unprecedented fiscal deficit of HK\$257.6 billion in the financial year 2020-21. The fiscal deficit is mainly a consequence of the five rounds of relief measures totalling of nearly HK\$300 billion introduced in 2020 to support our people and businesses amidst the COVID-19 pandemic coupled by lower-than-expected revenue from land premium. This level of budget deficit will reduce Hong Kong’s fiscal reserve to HK\$902.7 billion as at 31 March 2021, a sharp drop in 2 years from equivalent of 23 months of Government expenditure to 13 months.

Responding to the immediate challenges

In view that the short-term outlook continues to be full of challenges and that unemployment rate in the three months to January of 2021 rose to 7%, the highest in nearly 17 years, the Government has introduced counter-cyclical measures costing over HK\$120 billion to alleviate the hardship faced by the people and businesses. Some of the key measures include enhancement of the SME Financing Guarantee Scheme to provide enterprises with low-interest loans or interest subsidies, providing allowance to eligible social security recipients to help the grassroots tide over the pandemic, as well as issuance of electronic consumption vouchers with a total value of HK\$5,000 to each eligible Hong Kong permanent resident and new arrival aged 18 or above to boost local consumption.

Beyond the pandemic

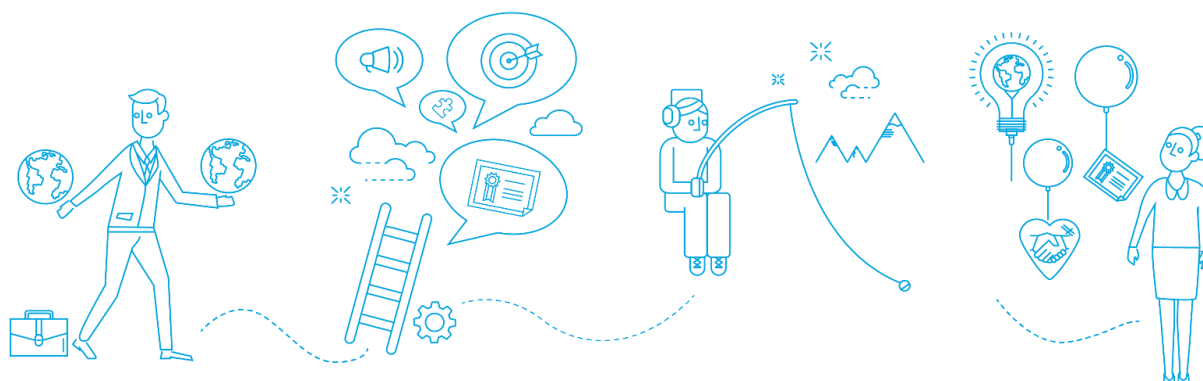
At the same time, the Budget also consists of longer term measures to prepare Hong Kong for economic revival after the pandemic. As part of the Government's prolonged efforts, the Budget considers a range of measures to promote Hong Kong's strategically important industries such as financial services, innovation and technology ("I&T"), air cargo sector, tourism and the construction industry. This is in line with preparing Hong Kong for its designated role in the development of the Guangdong-Hong Kong-Macao Greater Bay Area and the Belt and Road Initiative. Hong Kong shall have to leverage its unique function as a platform for economic exchanges and trade between the Mainland and the international community, this includes establishing Hong Kong as an international I&T hub, international fundraising platform, an insurance and risk management centre and an offshore RMB hub.

Maintaining the health of public finances

Given the Government's determination to stimulate the economy, the total Government expenditure has increased by 35% in 2020-21 and the recurrent expenditure for the new financial year is budgeted to further increase by 9.6%. Such significant hike in Government expenditure did not come without a price, after all the above measures require funding and any good fiscal management would follow the principle of keeping expenditure within the limits of revenue. Although it has been mentioned for years that Hong Kong needs to consider ways to increase its revenue, this is the first time in many years that the Budget has proposed to increase tax rates, in particular the rate of stamp duty on stock transfers will be raised from the current 0.1% to 0.13% and the first registration tax for private cars will be increased by 15% and the vehicle licence fee by 30%. This will be followed by a review of the rating system with a view to introduce a progressive element. Furthermore, to relieve the Government's fiscal pressure, the Government have had to bring back investment returns from the Future Fund, Housing Reserve and proceeds from the expansion of the Government Green Bond Programme to the Government accounts, which may not be sustainable in the long run.

Cautious tone in Budget as fiscal deficit looms

With a forecasted annual deficit in the Operating Account in each of the coming five financial years, the Budget has demonstrated the Government's effort to strike a delicate balance between dishing out sweeteners and saving for a rainy day.



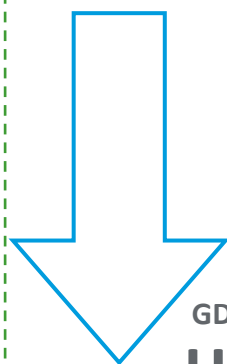
ECONOMIC PERFORMANCE AND OUTLOOK

2020

GDP dropped by 5.8%
in real terms

GDP per capita became
HK\$362,300

In 2020, the labour market
weakened with the annual average
**unemployment
rate** increased to
5.9%



2021

Real GDP growth rate is forecasted
to be

3.5-5.5%

GDP per capita is forecasted to be

**HK\$373,700 –
HK\$380,900**

The underlying average
**inflation
rate** was 1.3% in 2020



The underlying inflation rate
is forecasted to be

1% in 2021

FINANCIAL HIGHLIGHTS

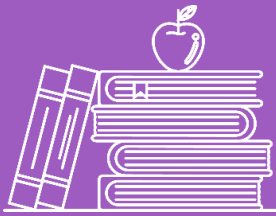
A deficit of HK\$280.8 billion in the Operating Account and a deficit of HK\$257.6 billion in the Consolidated Account are forecasted for the year ending 31 March 2021. By 31 March 2021, Hong Kong's fiscal reserves will be decreased to HK\$902.7 billion.

A deficit of HK\$141.6 billion in the Operating Account and a deficit of HK\$101.6 billion in the Consolidated Account are forecasted for the fiscal year 2021/22. By 31 March 2022, fiscal reserves are expected to further decline to HK\$801.1 billion. A breakdown of the 2021/22 estimated total Government expenditure can be found on the next page.

YEAR-ON-YEAR CHANGE ON
GOVERNMENT EXPENDITURE

EDUCATION

\$110.9bn
↑2.6%



SOCIAL WELFARE

\$120.6bn
↑20.5%



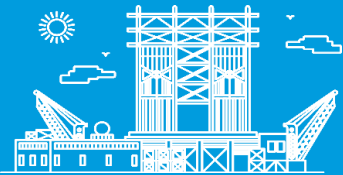
HEALTH

\$115.8bn
↑17.8%



INFRASTRUCTURE

\$84.1bn
↑8.9%



2021 – 22
TOTAL
ESTIMATED
GOVERNMENT
EXPENDITURE

\$727.8bn
↓11.3%

SECURITY

\$62.4bn
↓3.4%



ENVIRONMENT
AND FOOD

\$35.3bn
↑0.6%



ECONOMIC

\$81.6bn
↓26%



OTHERS



\$117.1bn
↓48.3%

Profits Tax

Comparison Table on Profits Tax Reduction & Profits Tax Rate

	2019/20	2020/21	2021/22
One-off Reduction	Reduce 2019/20 tax by 100% ceiling @ HK\$20,000	Reduce 2020/21 tax by 100% ceiling @ HK\$10,000	To be announced in 2022/23 Budget next year (if any)
Tax Rate - Corporations - Unincorporated Businesses	16.5% or 8.25% on first HK\$2 million; 16.5% on the balance* 15% or 7.5% on first HK\$2 million; 15% on the balance* *subject to requirement for connected entities, etc.		

Salaries Tax

Comparison Tables on Salaries Tax Reduction & Salaries Tax Rate

	2019/20	2020/21
One-off Reduction	Reduce 2019/20 tax by 100% ceiling @ HK\$20,000	Reduce 2020/21 tax by 100% ceiling @ HK\$10,000
Tax Rate	2020/21	2021/22
1 st HK\$50,000	2%	2%
2 nd HK\$50,000	6%	6%
3 rd HK\$50,000	10%	10%
4 th HK\$50,000	14%	14%
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 & Deductions on Salaries Tax

Personal Allowances	2020/21	2021/22
Basic (Single Person)	HK\$132,000	HK\$132,000
Married Person	HK\$264,000	HK\$264,000
Single Parent	HK\$132,000	HK\$132,000
Disabled	HK\$75,000	HK\$75,000
Child (1 st – 9 th child)		
Year of Birth	HK\$240,000 each	HK\$240,000 each
Other Years	HK\$120,000 each	HK\$120,000 each
Dependent Parent/Grandparent 60+		
Residing Together	HK\$100,000 each	HK\$100,000 each
Not Residing Together	HK\$50,000 each	HK\$50,000 each
Dependent Parent/Grandparent 55-59		
Residing Together	HK\$50,000 each	HK\$50,000 each
Not Residing Together	HK\$25,000 each	HK\$25,000 each
Disable Dependent	HK\$75,000 each	HK\$75,000 each
Dependent Brother / Sister	HK\$37,500 each	HK\$37,500 each
Deductions	2020/21	2021/22
Expenses of Self-education	HK\$100,000	HK\$100,000
MPF Contribution	HK\$18,000	HK\$18,000
Home Loan Interest	HK\$100,000; 20 Years	HK\$100,000; 20 Years
Elderly Residential Care Expenses	HK\$100,000	HK\$100,000
Approved Charitable Donations	35% of income	35% of income
Qualifying Premiums Paid under Voluntary Health Insurance Scheme Policy	Max HK\$8,000 per insured person	Max HK\$8,000 per insured person
Qualifying Annuity Premiums and MPF Voluntary Contributions	HK\$60,000	HK\$60,000

BUDGET HIGHLIGHTS

FINANCIAL SERVICES

- Lower the eligible age for subscribing Silver Bond from 65 to 60.
- Expand Bond Connect to cover both Southbound and Northbound Trading.
- Provide subsidies for qualifying Real Estate Investment Trusts (REITs) authorized by the SFC and listed in Hong Kong in the coming three years.
- Launch of a two-year Pilot Insurance-linked Securities Grant Scheme.
- Provide subsidies to foreign investment funds to set up in or re-domicile to Hong Kong for registration as Open-ended Fund Company.
- Review of secondary listing regime.



INNOVATION & TECHNOLOGY

- Continued funding for Innovation and Technology Fund.
- Launch of “Knowing More About IT” Programme at primary schools.
- Launch of Global STEM Professorship Scheme to support universities in attracting world-renowned I&T scholars.
- Development of the Hong Kong-Shenzhen Innovation and Technology Park in the Lok Ma Chau Loop.
- Enhancement of Fintech Supervisory Sandbox to reduce time for launch of innovative Fintech products in the market.

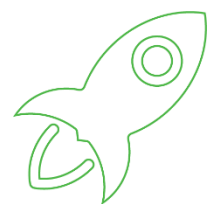


TOURISM

- Funding to take forward local cultural, heritage and creative tourism projects.
- Funding to support the Hong Kong Tourism Board in reviving the tourism industry.
- Explore arrangements regarding Air Travel Bubble with places that have close economic and trade relations with Hong Kong and where epidemic situation is relatively stable.

EXPLORE MARKETS

- Additional funding for the Distance Business Programme to provide funding support for enterprises to adopt information technology solutions and cover the expenses for providing relevant training for their employees.
- Continued support for enterprises through the Public Sector Trial Scheme, Technology Voucher Programme, and the Re-industrialisation Funding Scheme.
- Increase funding ceiling of Dedicated Fund on Branding, Upgrading and Domestic Sales for each enterprise and expand geographical coverage.



BUDGET HIGHLIGHTS

GREEN CITY

- Raise of maximum first registration tax concession for e-private cars under the “One-for-One Replacement” Scheme to HK\$287,500.
- Earmark HK\$1 billion to install small-scale renewable energy systems at government buildings and infrastructure.
- Set aside HK\$150 million to conduct energy audits and install energy-saving appliances at free of charge for NGOs.
- Inject HK\$1 billion to the Recycling Fund and extend the application period to 2027.



LAND

- Estimated production of about 101,400 public housing units and about 90,000 private residential units in the next five years.
- Potential land supply for residential sites and commercial sites in 2021-22 is expected to have a capacity to produce about 16,500 residential units and 480,000 square metres of floor area respectively.
- Introduce a pilot scheme in this quarter for charging land premium at “standard rates” to encourage redevelopment of industrial buildings.



OTHERS

- Waiver of business registration fees for 2021-22.
- Inject an additional HK\$1 billion into the CreateSmart Initiative.
- Develop a business version of the “iAM Smart” digital authentication platform.
- Provide electronic submission means for most government forms and licence applications by mid-2022.
- Provide e-payment options (including Faster Payment System) for making payments to most government bills and licences starting from mid-2022.
- Explore the development of Hong Kong Legal Cloud.



IMPROVING LIVELIHOOD OF PEOPLE

- Issue electronic consumption vouchers in instalments with a total value of HK\$5,000 to each eligible Hong Kong permanent resident and new arrival aged 18 or above.
- Waiver of rates for four quarters of 2021-22, subject to a ceiling of HK\$1,500 per quarter for the first two quarters and HK\$1,000 per quarter for the remaining two quarters for each rateable residential property / HK\$5,000 per quarter for the first two quarters and HK\$2,000 per quarter for the remaining two quarters for each rateable non-domestic property.



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

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