

# Hong Kong Budget Special Report

2010/11 Hong Kong Budget Special Report • 24 February 2010

## 2010/11 BUDGET SPEECH

### 2010/11 Budget Speech

The Financial Secretary, Mr John Tsang, delivered the 2010/11 Budget Speech, his third, on 24 February 2010.

The financial tsunami triggered by the US sub-prime mortgage problem had adversely affected the global economy. The recession was the most severe since World War II and the resultant blow, in terms of severity and scale, was far more profound than those experienced during the Asian financial turmoil in 1997 and 1998.

During this time, the Hong Kong Government had implemented the strategy of “stabilising the financial system, supporting enterprises and preserving employment”. Despite the severity of the current crisis, Hong Kong’s economy had recovered quickly, thanks to the Government’s timely strategy.

### Economic Performance

Hong Kong’s economic performance in 2009 was indicated by the following:

- **Gross Domestic Product (GDP)** fell by 7.5% in the first quarter of 2009, improved in the second quarter and resumed year-on-year growth of 2.6% in the fourth quarter. For 2009 as a whole, GDP fell by only 2.7%.
- **Private consumption expenditure** dropped by 0.3% and reverted to a year-on-year increase in the latter half of 2009.
- **Unemployment rate** was down at 4.9%.
- **Average inflation rate** measured by the Composite Consumer Price Index was 0.5%. The underlying inflation rate was 1% after netting out the effects of the Government’s one-off relief measures.

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## Economic Outlook and Prospects

Mr Tsang was cautiously optimistic about Hong Kong's economic prospects for 2010 in making the following predictions:

- GDP growth of 4–5% was forecast.
- the underlying inflation rate for 2010 as a whole will average 1.5% while the average rate of headline inflation will be 2.3%.
- the employment situation was expected to further improve.

## Financial Position for 2009/10

Mr Tsang announced the Government's financial position for the 2009/10 financial year:

- Total revenue was estimated to be \$308.5 billion and total expenditure was estimated to be \$291.2 billion.
- A surplus of \$19 billion in the Operating Account for 2009/10 was forecast.
- A surplus of \$13.8 billion in the Consolidated Account, equivalent to 0.8% of GDP, was estimated.
- By 31 March 2010, fiscal reserves would have increased to \$508.2 billion.

## Estimates for 2010/11

For 2010/11, Mr Tsang made the following estimations:

- Total Government expenditure for 2010/11 was estimated to be \$317.2 billion. Total Government revenue for 2010/11 was estimated to be \$292 billion.
- A deficit of \$3.8 billion in the Operating Account and a deficit of \$21.4 billion in the Capital Account were estimated. This would result in a deficit of \$25.2 billion in the Consolidated Account, equivalent to 1.5% of GDP.
- Fiscal reserves were estimated at \$483 billion by end of March 2011.

## Medium Range Forecast and Fiscal Reserves

Mr Tsang also made the following estimations for the medium term:

- Annual trend growth rate was estimated to return to 4% in real terms for the period 2011 to 2014.

- The underlying inflation rate forecast would average 3%.
- A surplus in the Operating Account for the period between 2011/12 and 2014/15 was estimated.
- The deficit in the Consolidated Account was expected to gradually decrease in the next few years to achieve a balance by 2013/14.
- Fiscal reserves were estimated at \$470 billion by end of March 2015.
- Total deficit for the financial years between 2010/11 and 2014/15 was estimated to reach around \$40 billion.

## Reliefs and Measures

A series of reliefs and measures were announced in order to achieve the three main objectives of the Government, being:

- (i) consolidating recovery;
- (ii) economic development; and
- (iii) building a caring society.

The reliefs and measures announced include the following:

- Increase recurrent funding for the School-based After-school Learning and Support Programs to \$175 million.
- Grant a full subsidy of \$1,300 or half subsidy of \$650 on internet access charges in the 2010 academic year for families in need with children in primary and secondary schools.
- Allocate \$1 billion for the fifth round of the Matching Grant Scheme for tertiary institutions.
- Inject \$500 million into the Language Fund to upgrade proficiency in English and Chinese.
- Allocate an additional \$500 million for "Operation Building Bright" to help owners maintain their buildings, including dilapidated buildings without owners' corporations.
- Provide an additional \$1.24 billion to the Hospital Authority to strengthen healthcare services.
- Allocate \$600 million in the next three financial years to strengthen primary care services.
- Raise recurrent funding by \$160 million to provide over 1,000 additional nursing home places for the elderly.
- Earmark \$282 million in the Lotteries Fund for pilot schemes on home care for the elderly and disabled.

- Provide additional recurrent funding of \$100 million to enhance services for persons with disabilities.
- Provide an additional \$173 million to enhance employment services.
- Work out a supplementary healthcare financing option operating on a voluntary participation basis, taking into account the suggestion on tax deduction for private medical insurance premium or expenses.
- Paying two months' rent for around 700,000 public housing tenants at a cost of \$1.8 billion.
- Providing an extra allowance to CSSA recipients and an extra allowance to Old Age Allowance and Disability Allowance recipients at a cost of \$1.8 billion.
- Waiving the business registration fees for one year at a cost of \$1.8 billion.
- Providing an allowance of \$1,000 in the next school year to students in kindergartens, primary and secondary schools and tertiary institutions receiving CSSA or student financial assistance at a cost of \$570 million.

the taxpayer's final tax payable for 2009/10. This proposal will cost the Government \$4.5 billion and benefit all 1.4 million taxpayers.

See HKTM ¶3-010, ¶3-020, ¶13-600.

### Personal allowances

There will be no changes to personal allowances for 2010/11. Personal allowances applicable to 2010/11 are as follows:

	2010/11
Personal allowance	
● Single	108,000
● Married	216,000
Single parent allowance	108,000
Child allowance	
● 1 <sup>st</sup> to 9 <sup>th</sup> child	50,000
● Additional allowance in the year of birth	50,000
Dependent parent allowance	
● aged over 60 or above	30,000
● aged 55 to 59	15,000
Additional dependent parent allowance	
● aged over 60 or above	30,000
● aged 55 to 59	15,000
Dependent grandparent allowance	
● aged over 60 or above	30,000
● aged 55 to 59	15,000
Additional dependent grandparent allowance	
● aged over 60 or above	30,000
● aged 55 to 59	15,000
Disabled dependent allowance	60,000
Dependent brother/sister allowance	30,000

See HKTM ¶13-700, ¶13-800, ¶13-900, ¶14-000, ¶14-100, ¶14-200, ¶14-300, ¶14-500, ¶14-700.

### Profits Tax

- For corporations, the profits tax rate will remain at 16.5% for 2010/11.
- For unincorporated businesses, the profits tax rate will remain at 15% for 2010/11.

## TAXES

### Salaries Tax

For the year of assessment 2010/11:

- Standard rate for 2010/11 will remain at 15%.
- Tax charge for 2010/11 will remain the same as 2009/10 and will be the lower of:
  - (a) net assessable income less charitable donations at standard rate (ie 15%); or
  - (b) net assessable income less charitable donations and personal allowances, charged at the following progressive rate:

2010/11	Tax HK\$
First HK\$40,000 @ 2%	800
Next HK\$40,000 @ 7%	2,800
Next HK\$40,000 @ 12%	4,800
Balance @ 17%	

- As a relief measure, salaries tax and tax under personal assessment for 2009/10 will be reduced by 75%, subject to a ceiling of \$6,000. The reduction will be reflected in

- For the local bond market, currently a concessionary profits tax rate at 50% of the normal rate is applied to the interest income and profits derived from qualifying debt instruments with a maturity period of less than seven years but not less than three years. This concession is proposed to be extended to cover qualifying debt instruments with a maturity period of less than three years. An amendment to the provisions under the *Inland Revenue Ordinance* that require such debt instruments to be issued to the public in Hong Kong was also planned.
- The definition of “central management and control” will be further clarified by the Commissioner of Inland Revenue to address the industry’s concern about the residency requirement for directors of the management committee of offshore funds in their application for profits tax exemption.
- An update in the lists of recognised stock exchanges and futures exchanges under the *Inland Revenue Ordinance* so as to extend the application of tax exemption for offshore funds engaged in futures trading was proposed.
- An acceleration in the tax deduction for capital expenditure on environmentally-friendly vehicles was proposed. Enterprises would be able to enjoy a 100% profits tax deduction in the first year under the proposal. The aim was to encourage the business sector to purchase more electric vehicles, hybrid vehicles and other environmentally-friendly commercial vehicles.
- A deduction on capital expenditure by enterprises to purchase registered trademarks, copyrights and registered designs was proposed. Currently, the deduction is applicable to capital expenditure by enterprises to purchase patent rights and industrial know-how. The aim of this measure was to promote the wider application of intellectual property by enterprises and the development of creative industries.

See HKTM ¶3-010, ¶3-030, ¶17-050, ¶17-060, ¶17-960, ¶17-998, ¶19-700.

## Other Taxes and Duties

### Stamp Duty

The Government sought to ensure a healthy and stable development of the Hong Kong property market. As one of the measures, with effect from 1 April 2010, the rate of stamp duty on transactions of properties valued at more than \$20 million will be increased from 3.75% to 4.25%. Buyers will no longer be allowed to defer payment of stamp duty on such transactions.

The Government will also closely monitor the trading of properties valued at or below \$20 million and will consider extending the measures to these transactions if there is excessive speculation in the trading of these properties.

An extension of the stamp duty concession in respect of the trading of exchange traded funds (ETFs) was proposed. Currently, the stamp duty for the trading of ETFs with no Hong Kong stock in their portfolios is waived. Mr Tsang proposed to extend the concession to cover ETFs that track indices comprising not more than 40% of Hong Kong stocks. The aim of this measure was to reduce the trading cost and promote the diversification and healthy growth of the ETF market.

See HKTM ¶41-020, ¶41-080.

### Property Tax

Property tax rate will remain at 15% for 2010/11.

See HKTM ¶3-010, ¶5-900.

### Rates

Mr Tsang has proposed to waive rates for 2010/11, subject to a ceiling of \$1,500 per quarter for each rateable property. It was estimated that about 90% of domestic properties and 60% of non-domestic properties would not need to pay rates for the year. This proposal will cost the Government about \$8.6 billion.

### Duty on Tobacco and Cigarettes

The duty-free concession on tobacco products for incoming passengers was proposed to be abolished. Small amounts of tobacco products for own consumption will be exempted to facilitate law enforcement.



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