

Prudently Optimistic to Enhance Business Environment & Promote HK

Hong Kong's Financial Secretary, John Tsang Chun-wah, issued the 2011/12 Budget on 23 February 2011. This is his fourth budget since taking office.

Economic Performance & Outlook

In the budget speech, the Financial Secretary mentioned that the shift of global economic gravity from the West to the East and the rapid economic growth of the Mainland have created fresh opportunities and moderate economic recovery for Hong Kong.

Fiscal highlights

Surplus of HK\$60.7 billion and HK\$71.3 billion in the Operating Account and the Consolidated Account respectively are forecasted for 2010/11.

By the end of March 2011, the fiscal reserves are expected to be HK\$591.6 billion, i.e. 34% of Hong Kong GDP. Serving as the provision for rainy days, the fiscal reserve is also an important component for Hong Kong to maintain its high credit rating so as for local companies to raise funds at lower interest rates. The Financial Secretary mentioned that he would make good use of the fiscal reserves to lay a solid foundation for our economy and also to meet future challenges.

In 2011/12, operating expenditure is estimated to be HK\$298 billion, including recurrent expenditure of more than HK\$242 billion. 56.4% of the recurrent expenditure will be used in education, health and social welfare. Operating expenditure for 2011/12 is expected to be higher than that for 2010/11 by 24%.

Economic Outlook

From an economic performance perspective, the overall 2010 GDP growth is 6.8% and the Government expects to see solid growth in the economy in 2011. The unemployment rate has fallen to one of all times low. Although the effect of implementation of statutory minimum wage is yet to be seen, it is expected the general strong economic growth should help Hong Kong through this change.

The strong growth sustained by the Mainland and Asian economies will

continue to benefit Hong Kong, yet the fragile economic recovery in the United States and Europe might still have some potentially negative effect. The Financial Secretary forecasted the 2011 GDP growth will be in the range of 4% to 5%.

Challenges in 2011

Being mindful to the risk of a property bubble, the Financial Secretary has introduced some measures in 2010 to reduce speculative activities, including a Special Stamp Duty on short-term resale of properties, while the Hong Kong Monetary Authority has also tightened the loan-to-value ratio for mortgages made by banks. Yet, the Financial Secretary mentioned that the Government would remain alert to the possible risk of a property bubble posed by excessive liquidity and low interest rate and further actions may be taken in 2011.

With bigger threat of inflation, in the short term, the Government will pursue a prudent fiscal policy, prevent excessive credit and monitor property market exuberance. In the medium to long term, the Government will try to increase productivity / efficiency of Hong Kong by investing heavily on infrastructure. The Financial Secretary also mentioned the introduction of inflation-linked retail bond "iBond" with a maturity of three years to help the public to hedge against the inflation risk.

Other relief measures have also been introduced as mentioned in the "What he did do" section of this leaflet.

Furthering Regional Cooperation

Capitalising on the China advantage, the Government will strengthen cooperation with the Mainland by consolidating and elevating the functions of Hong Kong in the development of the National 12th Five Year Plan. The Government will also strengthen cooperation with the Guangdong Province, Macao, Taiwan and other regions.

Investing in Infrastructure

The Financial Secretary mentioned that the Government would continue to invest heavily in infrastructure. The estimated capital works expenditure for 2011/12 will reach a record high of over HK\$58 billion, including projects such as the Hong Kong-Zhuhai-Macao Bridge, the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Kai Tak Development Plan Stage One, and the Shatin to Central Link project.

Enhancing the business environment of Hong Kong

The Financial Secretary mentioned that the financial services sector in Hong Kong can play a unique role in complementing the development of China.

At present, more than 6,500 enterprises from overseas, the Mainland and Taiwan have established presence in Hong Kong, employing around 350,000 people. The Government will continue to promote Hong Kong and encourage more foreign companies to establish offices in Hong Kong, while helping those which are already here to continue to thrive.

In addition, the Government will continue to support the development of Small and Medium Enterprises ("SMEs") via programmes such as the Special Loan Guarantee Schemes and the SME Financing Guarantee Scheme to assist SMEs to obtain sustainable bank financing for daily operations and equipment acquisitions.

The Government will also continue to promote brands of Hong Kong by having strengthened cooperation with the trade sector and provide other support to the four well-developed pillar industries, namely trading and logistics, financial services, business and professional services and tourism.

Last but not the least, Memoranda of Understanding on cooperation with the United States, Portugal, Chile and the region of Burgundy in France have been signed to promote wine trading and distribution in Hong Kong.

What he did do

- ▶ retained the "source" system of taxing both individual and corporate income
- ▶ retained the exemption of tax on dividends, capital gains and interest
- ▶ promoted further development of the bond market
- ▶ proposed to waive property rates for the year 2011/12, subject to a ceiling of HK\$1,500 per quarter for each Hong Kong rateable tenement
- ▶ proposed to provide electricity subsidy of HK\$1,800 to each residential electricity account
- ▶ proposed to increase the allowance for maintaining dependent parents/grandparents by 20%
- ▶ proposed to increase both the child allowance and the additional one-off child allowance in the year of birth by 20%

- ▶ increased tobacco duty
- ▶ proposed to increase the rate of each tax band for the First Registration Tax for private cars by about 15%
- ▶ proposed to make a one-off injection of HK\$6,000 into the MPF accounts of all MPF scheme members and members of occupational retirement schemes
- ▶ provided further support and initiatives to maintain Hong Kong's position as a leading international financial centre

What he should have done

- ▶ announced a plan which would broaden the tax base
- ▶ eliminated the upper limit of the deduction for home mortgage interest payments and the limitation on the number of years deduction
- ▶ granted a deduction for personal allowances to standard flat rate taxpayers
- ▶ lowered the tax burden of the middle class group by reducing the progressive rates for Salaries Tax
- ▶ initiated the revision of the Inland Revenue Ordinance to :
 - > grant tax incentives to those industries as encouraged in his budget proposal;
 - > give greater certainty on the application of the source concept for profits tax purposes to all taxpayers;
 - > reconsider the introduction of group tax relief and tax loss carry-back provisions;
 - > grant tax deductions on expenditure for manufacturing plant and machinery for import processing cases.

Key points to note

Proposed strategies for further developing the economy of Hong Kong

- ▶ to further promote regional co-operation with the Mainland, Macao and Taiwan to take advantage of the platform being provided under the National 12th Five-Year Plan
- ▶ to promote economic development, create employment opportunities and enhance the long-term competitiveness of Hong Kong by investing in local infrastructure
- ▶ to support SMEs
- ▶ to promote the development of medical services, education services, environmental industries, testing and certification, innovation and technology, and cultural and creative industries in Hong Kong

- ▶ to reinforce Hong Kong's position as a financial centre by developing offshore Renminbi (RMB) business and make Hong Kong a global financial centre and asset management centre

Proposed actions to achieve the proposed strategies

- ▶ to further develop our service industries
- ▶ to ensure adequate fiscal reserves
- ▶ to optimise land resources
- ▶ to launch a market-oriented SME Financing Guarantee Scheme to help SMEs in obtaining sustainable bank financing for their daily operations and acquisition of equipment
- ▶ to promote asset management business
- ▶ to promote cross-border trade settlement in RMB in Hong Kong
- ▶ to develop the RMB clearing platform in Hong Kong
- ▶ to further promote the development of RMB bond market in Hong Kong

Profits Tax

The tax rates in 2011/12 will remain unchanged as follows:

	2010/11	2011/12
	HK \$	HK \$
▶ Persons other than corporations	15.0%	
▶ Corporations	16.5%	

Property Tax

The Property Tax rate will remain at 15%. The tax is charged to the owner of land or property situated in Hong Kong at the standard rate on the rent receivable less 20% and is payable in addition to rates.

Corporations carrying on business in Hong Kong can elect to be exempt from Property Tax and be subject to Profits Tax.

Salaries Tax

Salaries Tax rates

Salaries Tax is charged at the lower of:

- ▶ net assessable income less charitable donations at the standard rate of 15% or
- ▶ net assessable income less charitable donations and personal allowances, charged at progressive rates as follows:

	2010/11	2011/12
First HK\$ 40,000	2.0%	
Next HK\$ 40,000	7.0%	
Next HK\$ 40,000	12.0%	
Balance	17.0%	

Deductible items

Deduction for fees for training courses at approved institutions remains unchanged at HK\$60,000 in 2011/12.

Deduction for home mortgage interest payments of up to HK\$100,000 per year for ten years remains unchanged.

A one-off injection of HK\$6,000 into the MPF accounts of all MPF scheme members and members of occupational retirement schemes.

The ceiling of deduction of elderly residential home care expenses is increased to HK\$72,000.

Personal allowances

Applicable to progressive rate taxpayers:

	2010/11	2011/12
	HK \$	HK \$
Personal allowance:		
▶ single	108,000	108,000
▶ married	216,000	216,000
▶ Single parent allowance	108,000	108,000

Child allowances:

1st to 9th child		
▶ Year of birth	100,000	120,000
▶ Other years	50,000	60,000

Dependent parent/grandparent allowances:

	2010/11	2011/12
	HK \$	HK \$
Age 60 or above:		
▶ Basic	30,000	36,000
▶ Additional allowance (for dependant living with taxpayer)	30,000	36,000
Age between 55 and 59:		
▶ Basic	15,000	18,000
▶ Additional allowance (for dependant living with taxpayer)	15,000	18,000
Dependent Brother/Sister	30,000	30,000
Disabled dependant	60,000	60,000