

## Head 3 — INTERNAL REVENUE

### Details of Revenue

Sub-head (Code)	Actual revenue 2002–03	Original estimate 2003–04	Revised estimate 2003–04	Estimate 2004–05
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax .....	10,920,745	10,919,000	11,770,000	12,550,000
030 Earnings and profits tax—				
(010) Interest tax .....	12	—	—	—
(020) Profits tax .....	38,799,465	43,350,000	47,000,000	47,600,000
(030) Personal assessment .....	3,315,934	3,325,000	2,700,000	3,060,000
(040) Property tax .....	1,180,055	775,000	880,000	900,000
(050) Salaries tax .....	29,733,105	29,620,000	27,500,000	30,730,000
Sub-total .....	73,028,571	77,070,000	78,080,000	82,290,000
050 Estate duty .....	1,402,702	1,500,000	1,500,000	1,500,000
060 Hotel accommodation tax .....	201,059	206,000	155,000	200,000
070 Stamp duties .....	7,458,183	7,870,000	9,900,000	11,040,000
080 Air passenger departure tax .....	883,668	1,270,000	770,000	1,403,000
Total .....	93,894,928	98,835,000	102,175,000	108,983,000

### Description of Revenue Sources

To this revenue head are credited direct taxes on earnings and profits which include profits tax, property tax and salaries tax. A range of indirect taxes is also included.

*Bets and sweeps tax* is charged on horse racing bets, lotteries and football betting.

*Profits tax* is levied on individuals, corporations, bodies of persons and partnerships at the rate of 16% in the case of corporations and 15% for other non-corporate persons, in respect of assessable profits arising in or derived from Hong Kong for 2002–03. The corresponding rates are 17.5% and 15.5% for 2003–04 and 17.5% and 16% from 2004–05 onwards.

*Property tax* is charged on the owner of land and/or buildings at the standard rate of 15% for 2002–03 on the assessable value of the property for each year of assessment. The standard rates for 2003–04 and from 2004–05 onwards are 15.5% and 16% respectively.

*Salaries tax* is charged on all income arising in or derived from Hong Kong from any office or employment or any pension. The total salaries tax payable by an individual is restricted to an amount not exceeding the standard rate of 15% on his total income for 2002–03. The standard rates for 2003–04 and from 2004–05 onwards are 15.5% and 16% respectively.

An individual may elect for *personal assessment* of his total income which provides for the deduction of all probable personal allowances, and would, in appropriate circumstances, reduce the total tax liability of the individual.

*Estate duty* is charged on assets situated in Hong Kong valued at more than \$7.5 million according to a schedule scaled from 5% on estates of value up to \$9.0 million to 15% on estates of value over \$10.5 million.

*Hotel accommodation tax* is levied on charges paid for accommodation in hotels and guest houses at a standard rate of 3%.

*Stamp duties* are charged at a fixed rate on certain documents, and *ad valorem* on others. Fixed duties vary from \$3 to \$100, whereas *ad valorem* duties range from 0.1% to 3.75%. The *ad valorem* duties on stock transactions are 0.1% for each side of a transaction.

*Air passenger departure tax* is charged at a fixed rate of \$80 up to 8 January 2004 and \$120 from 9 January 2004 for a passenger 12 years of age or above departing from Hong Kong International Airport, or by helicopter from Hong Kong at the Hong Kong Macau Ferry Terminal Heliport.

Revenue from internal revenue generated 35.0% of general revenue in 2003–04.

### Underlying Changes in Revenue Yield

The **2003–04** revised estimate of \$102,175,000,000 is a net increase of \$3,340,000,000 (3.4%) over the original estimate.

Under *Subhead 060 Hotel accommodation tax* the decrease of \$51,000,000 (24.8%) is mainly due to the lower than expected hotel occupancy rates during the SARS outbreak.

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Under *Subhead 070 Stamp duties* the increase of \$2,030,000,000 (25.8%) is mainly due to the higher than expected turnover in the property market and stock market towards the latter half of 2003–04.

Under *Subhead 080 Air passenger departure tax* the decrease of \$500,000,000 (39.4%) is due to the lower than expected number of departing passengers during the SARS outbreak, the effect of which on revenue was partly offset by the tax increase effective from 9 January 2004.

The **2004–05** estimate of \$108,983,000,000 is a net increase of \$6,808,000,000 (6.7%) over the revised estimate for 2003–04.

Under *Subhead 060 Hotel accommodation tax* the increase of \$45,000,000 (29.0%) is mainly due to the anticipated increase in hotel occupancy rates.

Under *Subhead 070 Stamp duty* the increase of \$1,140,000,000 (11.5%) is mainly due to the anticipated increase in turnover in the property market and stock market.

Under *Subhead 080 Air passenger departure tax* the increase of \$633,000,000 (82.2%) is due to an anticipated increase in the number of departing passengers and the full year effect of the tax increase effective from 9 January 2004.