

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2003–04	Original estimate 2004–05	Revised estimate 2004–05	Estimate 2005–06
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	11,635,886	12,550,000	12,050,000	11,890,000
030 Earnings and profits tax—				
(010) Interest tax	50	—	—	—
(020) Profits tax	48,769,943	47,600,000	58,800,000	60,500,000
(030) Personal assessment.....	2,744,370	3,060,000	3,000,000	3,100,000
(040) Property tax	983,039	900,000	1,050,000	1,100,000
(050) Salaries tax	27,976,858	30,730,000	33,500,000	34,740,000†
Sub-total.....	80,474,260	82,290,000	96,350,000	99,440,000
050 Estate duty.....	1,455,254	1,500,000	1,500,000	1,000,000†
060 Hotel accommodation tax	155,650	200,000	250,000	270,000
070 Stamp duties.....	11,245,412	11,040,000	15,500,000	16,300,000
080 Air passenger departure tax.....	753,262	1,403,000	1,353,000	1,423,000
Total.....	105,719,724	108,983,000	127,003,000	130,323,000

† After Budget measure but subject to the passing of the relevant legislation by the Legislative Council.

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 17.5% in the case of corporations and 15.5% for other non-corporate persons, in respect of assessable profits arising in or derived from Hong Kong for 2003–04. The rate for non-corporate persons is 16% from 2004–05 onwards.

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

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 15.5% on his total income for 2003–04. The standard rate for 2004–05 onwards is 16%.

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% (one-side per 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 55.5% of general revenue in 2004–05.

Underlying Changes in Revenue Yield

The **2004–05** revised estimate of \$127,003,000,000 is a net increase of \$18,020,000,000 (16.5%) over the original estimate.

Under *Subhead 030 Earnings and profits tax* there is a net increase of \$14,060,000,000 (17.1%). The increase of \$11,200,000,000 (23.5%) in respect of profits tax is mainly due to the higher than expected net tax assessed because of the higher than expected business profits earned in 2003–04 and the fewer than expected provisional tax holdover

Head 3 — INTERNAL REVENUE

applications. The increase of \$150,000,000 (16.7%) in respect of property tax is mainly due to the lower than expected drop in property rentals in 2003–04. The increase of \$2,770,000,000 (9.0%) in respect of salaries tax is mainly due to the higher than expected increase in salary income in 2003–04. The above increases are partly offset by the decrease of \$60,000,000 (2.0%) in respect of tax charged under personal assessment which is mainly due to the lower than expected profits of unincorporated businesses in 2003–04.

Under *Subhead 060 Hotel accommodation tax* the increase of \$50,000,000 (25.0%) is mainly due to the higher than expected hotel occupancy rates.

Under *Subhead 070 Stamp duties* the increase of \$4,460,000,000 (40.4%) is due to the higher than expected turnover in the property market and stock market.

The **2005–06** estimate of \$130,323,000,000 is a net increase of \$3,320,000,000 (2.6%) over the revised estimate for 2004–05.

Under *Subhead 030 Earnings and profits tax* there is a net increase of \$3,090,000,000 (3.2%) over the 2004–05 revised estimate. The increase of \$1,240,000,000 (3.7%) in respect of salaries tax reflects the expected income growth in 2004–05, as well as the effect of the proposed increase in child allowance and introduction of new allowances for dependent parents/grandparents aged between 55 and 59.

Under *Subhead 050 Estate Duty* the decrease of \$500,000,000 (33.3%) against the revised estimate for 2004–05 is due to the proposed abolition of estate duty.