

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2006–07	Original estimate 2007–08	Revised estimate 2007–08	Estimate 2008–09
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	12,047,359	12,210,000	13,031,000	13,128,000
030 Earnings and profits tax—				
(020) Profits tax	71,919,044	77,500,000	89,000,000	83,270,000†
(030) Personal assessment	3,565,621	3,200,000	3,400,000	2,600,000†
(040) Property tax	1,247,373	1,300,000	1,250,000	620,000†
(050) Salaries tax	38,585,592	29,980,000	37,000,000	26,380,000†
Sub-total	115,317,630	111,980,000	130,650,000	112,870,000†
050 Estate duty	777,671	200,000	230,000	85,000
060 Hotel accommodation tax	384,248	400,000	440,000	115,000†
070 Stamp duties	25,076,549	22,650,000	50,000,000	35,000,000
080 Air passenger departure tax	1,531,179	1,632,610	1,655,451	1,752,517
Total	155,134,636	149,072,610	196,006,451	162,950,517

† After Budget revenue measures 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 in respect of assessable profits arising in or derived from Hong Kong. The rate is 17.5% for corporations. The rate for non-corporate persons is 16%.

Property tax is charged on the owner of land and/or buildings at the standard rate of 16% on the assessable value of the property for each year of assessment.

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 16% on his total income.

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. The duty was abolished on 11 February 2006 with retrospective effect to estates of persons who passed away on or after 15 July 2005.

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 \$120 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 72.9% of total revenue in 2007–08.

Underlying Changes in Revenue Yield

The **2007–08** revised estimate of \$196,006,451,000 is a net increase of \$46,933,841,000 (31.5%) over the original estimate.

Under *Subhead 030 Earnings and profits tax*, there is a net increase of \$18,670,000,000 (16.7%). The increase of \$11,500,000,000 (14.8%) in respect of profits tax is mainly due to a higher than expected business profits earned in 2006–07 and hence the net tax assessed. The increase of \$200,000,000 (6.3%) in respect of tax charged under personal

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assessment is mainly due to an increase in the number of persons electing personal assessment. The increase of \$7,020,000,000 (23.4%) in respect of salaries tax is mainly due to a higher than expected increase in salary income in 2006–07. The above increases are partly offset by a slight decrease of \$50,000,000 (3.8%) in respect of property tax.

Under *Subhead 050 Estate duty*, the increase of \$30,000,000 (15.0%) is due to a higher than expected value of estates assessed for persons passed away before abolition of estate duty.

Under *Subhead 060 Hotel accommodation tax*, the increase of \$40,000,000 (10.0%) is mainly due to a higher than expected hotel occupancy rate.

Under *Subhead 070 Stamp duties*, the increase of \$27,350,000,000 (120.8%) is mainly due to a higher than expected turnover in the stock market and the property market.

The **2008–09** estimate of \$162,950,517,000 is a net decrease of \$33,055,934,000 (16.9%) against the revised estimate for 2007–08.

Under *Subhead 030 Earnings and profits tax*, there is a net decrease of \$17,780,000,000 (13.6%). The decrease of \$5,730,000,000 (6.4%) in respect of profits tax, the decrease of \$800,000,000 (23.5%) in respect of tax charged under personal assessment, the decrease of \$630,000,000 (50.4%) in respect of property tax and the decrease of \$10,620,000,000 (28.7%) in respect of salaries tax mainly reflect the proposed reduction of profits tax rate and standard rate by 1 percentage point respectively in 2008–09 announced in the 2007 Policy Address, and the concessions proposed in the 2008–09 Budget.

Under *Subhead 050 Estate duty*, the decrease of \$145,000,000 (63.0%) is due to the abolition of estate duty with retrospective effect from 15 July 2005.

Under *Subhead 060 Hotel accommodation tax*, the decrease of \$325,000,000 (73.9%) has taken into account the proposed reduction of the tax rate to zero in the 2008–09 Budget.

Under *Subhead 070 Stamp duties*, the decrease of \$15,000,000,000 (30.0%) is mainly due to the anticipated volatility in the stock market in 2008–09.