

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2007–08	Original estimate 2008–09	Revised estimate 2008–09	Estimate 2009–10
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	13,048,425	13,128,000	12,500,000	12,388,000
030 Earnings and profits tax—				
(020) Profits tax	91,422,706	83,270,000	103,200,000	71,000,000
(030) Personal assessment	3,586,574	2,600,000	2,200,000	3,200,000 †
(040) Property tax	1,240,605	620,000	800,000	1,200,000
(050) Salaries tax	37,479,476	26,380,000	36,000,000	35,190,000 †
Sub-total	133,729,361	112,870,000	142,200,000	110,590,000 †
050 Estate duty	353,353	85,000	200,000	80,000
060 Hotel accommodation tax	450,401	115,000	238,000	—
070 Stamp duties	51,549,090	35,000,000	33,000,000	25,000,000
080 Air passenger departure tax	1,670,811	1,752,517	1,657,405	1,593,588
Total	<u>200,801,441</u>	<u>162,950,517</u>	<u>189,795,405</u>	<u>149,651,588</u>

† 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. From the year of assessment 2008/09, the rate is 16.5% for corporations. The rate for non-corporate persons is 15%.

Property tax is charged on the owner of land and/or buildings at the standard rate of 15% from the year of assessment 2008/09 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 15% from the year of assessment 2008/09 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%. The rate was reduced to 0% with effect from 1 July 2008.

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 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 70.9% of total revenue in 2008-09.

Underlying Changes in Revenue Yield

The **2008–09** revised estimate of \$189,795,405,000 is a net increase of \$26,844,888,000 (16.5%) over the original estimate.

Under *Subhead 030 Earnings and profits tax*, there is a net increase of \$29,330,000,000 (26.0%). The increase of \$19,930,000,000 (23.9%) in respect of profits tax is mainly due to a higher than expected business profits earned in 2007–08 and hence the net tax assessed. The increase of \$180,000,000 (29.0%) in respect of property tax is mainly due

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to a decrease in the number of property owners electing personal assessment so as to enjoy the one-off property tax reduction in the 2008–09 Budget. The increase of \$9,620,000,000 (36.5%) in respect of salaries tax is mainly due to a higher than expected increase in salary income in 2007–08. The above increases are partly offset by a decrease of \$400,000,000 (15.4%) in respect of tax charged under personal assessment, which is mainly due to a decrease in the number of persons electing personal assessment.

Under *Subhead 050 Estate duty*, the increase of \$115,000,000 (135.3%) is due to a higher than expected value of estates assessed for persons passed away before the abolition of estate duty.

Under *Subhead 060 Hotel accommodation tax*, the increase of \$123,000,000 (107.0%) is mainly due to the collection before the zero tax rate took effect on 1 July 2008.

The **2009–10** estimate of \$149,651,588,000 is a net decrease of \$40,143,817,000 (21.2%) against the revised estimate for 2008–09.

Under *Subhead 030 Earnings and profits tax*, there is a net decrease of \$31,610,000,000 (22.2%). The decrease of \$32,200,000,000 (31.2%) in respect of profits tax is mainly due to an expected lower business profits earned in 2008–09. The decrease of \$810,000,000 (2.3%) in respect of salaries tax is mainly due to an anticipated decrease in salary income in 2008–09, which is partly off-set by less revenue foregone as a result of one-off tax reduction. The decrease in profits tax and salaries tax is partly offset by the increase of \$1,000,000,000 (45.5%) in respect of tax charged under personal assessment and the increase of \$400,000,000 (50.0%) in respect of property tax. The increase in tax charged under personal assessment is mainly due to less revenue foregone as a result of one-off tax reduction in 2009–10. The increase in property tax is mainly due to the absence of one-off property tax reduction in 2009–10.

Under *Subhead 050 Estate duty*, the decrease of \$120,000,000 (60.0%) is due to the abolition of estate duty with retrospective effect from 15 July 2005.

Under *Subhead 060 Hotel accommodation tax*, the decrease of \$238,000,000 (100.0%) reflects the reduction of the tax rate to zero announced in the 2008–09 Budget.

Under *Subhead 070 Stamp duties*, the decrease of \$8,000,000,000 (24.2%) is mainly due to the anticipated volatility in the stock market and the property market in 2009–10.