

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2010–11	Original estimate 2011–12	Revised estimate 2011–12	Estimate 2012–13
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax.....	14,759,060	14,240,000	15,714,000	15,827,000
030 Earnings and profits tax—				
(010) Interest tax.....	169	—	—	—
(020) Profits tax.....	93,183,050	96,900,000	118,000,000	105,580,000†
(030) Personal assessment.....	3,921,584	3,830,000	4,200,000	4,700,000†
(040) Property tax.....	1,647,134	1,650,000	1,900,000	2,000,000
(050) Salaries tax.....	44,254,738	43,220,000	52,000,000	49,340,000†
Sub-total.....	143,006,675	145,600,000	176,100,000	161,620,000†
050 Estate duty.....	212,843	50,000	90,000	70,000
070 Stamp duties.....	51,005,062	40,000,000	42,000,000	37,000,000
080 Air passenger departure tax.....	1,813,594	1,879,118	1,928,670	1,987,833
Total.....	<u>210,797,234</u>	<u>201,769,118</u>	<u>235,832,670</u>	<u>216,504,833</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. 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% on the net 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% 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.

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 4.25%. The *ad valorem* duties on stock transactions are 0.1% for each side per transaction. The Government has introduced a special stamp duty on residential properties at the point of resale if the properties are acquired on or after 20 November 2010 and resold within 24 months after acquisition.

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 72.0% of total revenue in 2011–12.

Underlying Changes in Revenue Yield

The 2011–12 revised estimate of \$235,832,670,000 is a net increase of \$34,063,552,000 (16.9%) over the original estimate.

Under *Subhead 010 Bets and sweeps tax*, the increase of \$1,474,000,000 (10.4%) is due to the higher than expected receipts of betting duty from horse racing bets, lotteries and football betting.

Under *Subhead 030 Earnings and profits tax*, there is a net increase of \$30,500,000,000 (20.9%). The increase of \$21,100,000,000 (21.8%) in respect of profits tax is mainly due to the higher than expected business profits earned in 2010–11 and hence the net tax assessed. The increase of \$370,000,000 (9.7%) in respect of tax charged under personal

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assessment is mainly due to the increase in the income level of persons electing personal assessment for the year of assessment 2010–11. The increase of \$250,000,000 (15.2%) in respect of property tax is mainly due to the higher than expected growth of property rentals in 2010–11. The increase of \$8,780,000,000 (20.3%) in respect of salaries tax is mainly due to the higher than expected increase in salary income in 2010–11.

Under *Subhead 050 Estate duty*, the increase of \$40,000,000 (80.0%) is due to the higher than expected value of estates assessed for persons passed away before abolition of estate duty.

The **2012–13** estimate of \$216,504,833,000 is a net decrease of \$19,327,837,000 (8.2%) against the revised estimate for 2011–12.

Under *Subhead 050 Estate duty*, the decrease of \$20,000,000 (22.2%) is due to the abolition of estate duty with retrospective effect from 15 July 2005.

Under *Subhead 070 Stamp duties*, the decrease of \$5,000,000,000 (11.9%) is mainly due to the anticipated uncertainties and volatility in the stock market and the property market in 2012–13.