

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2013–14	Original estimate 2014–15	Revised estimate 2014–15	Estimate 2015–16
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	18,066,449	18,937,680	19,587,658	19,785,662
030 Earnings and profits tax—				
(010) Interest tax	307	—	—	—
(020) Profits tax	120,881,813	117,570,000	136,100,000	133,130,000 †
(030) Personal assessment	4,419,704	4,400,000	4,900,000	4,570,000 †
(040) Property tax	2,583,845	2,700,000	2,900,000	3,100,000
(050) Salaries tax	55,620,272	52,860,000	58,000,000	53,810,000 †
Sub-total	183,505,941	177,530,000	201,900,000	194,610,000
050 Estate duty	388,411	70,000	150,000	70,000
070 Stamp duties.....	41,514,691	43,800,000	73,500,000	50,000,000
080 Air passenger departure tax	2,244,034	2,263,208	2,313,535	2,419,329
Total.....	<u>245,719,526</u>	<u>242,600,888</u>	<u>297,451,193</u>	<u>266,884,991</u>

† After Budget revenue measures but subject to the passage of the relevant legislation by the Legislative Council.

Description of Revenue Sources

This revenue head covers 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 8.5%. 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 (for the properties acquired between 20 November 2010 and 26 October 2012) or 36 months (for the properties acquired on or after 27 October 2012) after acquisition. The Government has also introduced a buyer's stamp duty on residential properties acquired on or after 27 October 2012 by any person, except a Hong Kong permanent resident ("HKPR") acting on his or her own behalf. Besides, immovable properties acquired on or after 23 February 2013 are also subject to *ad valorem* stamp duty at the higher rates, unless the property is a residential property and the buyer is a HKPR acting on his or her own behalf and not a beneficial owner of any another residential property in Hong Kong on the date of acquisition. Further, the stamping of *ad valorem* stamp duty for non-residential property transactions carried out on or after 23 February 2013 is advanced from the conveyance on sale to the agreement for sale.

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 75.9% of total revenue in 2014–15.

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Underlying Changes in Revenue Yield

The **2014–15** revised estimate of \$297,451,193,000 reflects a net increase of \$54,850,305,000 (22.6%) over the original estimate.

Under *Subhead 030 Earnings and profits tax*, there is a net increase of \$24,370,000,000 (13.7%). The increase of \$18,530,000,000 (15.8%) in respect of profits tax is mainly due to the higher-than-expected business profits earned in the year of assessment 2013–14 and hence an increase in the net tax assessed. The increase of \$500,000,000 (11.4%) in respect of tax charged under personal assessment is mainly due to the increase in the income level of persons electing personal assessment for the year of assessment 2013–14. The increase of \$200,000,000 (7.4%) in respect of property tax is mainly due to the higher-than-expected growth of property rentals in the year of assessment 2013–14. The increase of \$5,140,000,000 (9.7%) in respect of salaries tax is mainly due to the higher-than-expected increase in salary income in the year of assessment 2013–14.

Under *Subhead 050 Estate duty*, the increase of \$80,000,000 (114.3%) is mainly due to some exceptionally large duty payments made in 2014–15.

Under *Subhead 070 Stamp duties*, the increase of \$29,700,000,000 (67.8%) is mainly due to an unbudgeted item arising from the commencement of the Stamp Duty (Amendment) (No.2) Ordinance 2014 on 25 July 2014. The above-mentioned Ordinance gives effect to the further demand-side management measures on immovable properties which were announced in February 2013 but which were still subject to the scrutiny of the Legislative Council at the time of finalising the 2014–15 original estimate. The bulk of the increase is attributable to the higher rates of *ad valorem* stamp duty for property transactions from 25 July 2014 onward, and the one-off collection of the additional *ad valorem* stamp duty in 2014–15 for property transactions between 23 February 2013 and 24 July 2014.

The **2015–16** estimate of \$266,884,991,000 reflects a net decrease of \$30,566,202,000 (10.3%) against the revised estimate for 2014–15.

Under *Subhead 050 Estate duty*, the decrease of \$80,000,000 (53.3%) is mainly due to exclusion of some exceptionally large payments received in 2014–15.

Under *Subhead 070 Stamp duties*, the decrease of \$23,500,000,000 (32.0%) is mainly due to the exclusion of the one-off collection of the *ad valorem* stamp duty upon the commencement of the Stamp Duty (Amendment) (No.2) Ordinance 2014 on 25 July 2014.