

## Head 3 — INTERNAL REVENUE

### Details of Revenue

Sub-head (Code)	Actual revenue 1998–99	Original estimate 1999–2000	Revised estimate 1999–2000	Estimate 2000–01
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax .....	12,228,644	13,387,660	11,082,000	<b>11,650,000</b>
030 Earnings and profits tax—				
(010) Interest tax .....	15	—	—	—
(020) Profits tax .....	45,251,887	36,520,000	37,000,000	<b>36,100,000</b>
(030) Personal assessment .....	4,098,347	3,975,000	3,300,000	<b>3,100,000</b>
(040) Property tax .....	1,333,587	1,339,000	1,250,000	<b>1,125,000</b>
(050) Salaries tax .....	25,062,713	20,710,000	23,800,000	<b>23,800,000</b>
Sub-total .....	75,746,549	62,544,000	65,350,000	<b>64,125,000</b>
050 Estate duty .....	1,236,666	1,075,000	1,250,000	<b>1,250,000</b>
060 Hotel accommodation tax .....	219,035	220,000	180,000	<b>189,000</b>
070 Stamp duties .....	10,188,700	12,160,000	10,549,000	<b>14,038,000†</b>
080 Air passenger departure tax .....	572,805	486,842	494,229	<b>524,000</b>
090 Cross-Harbour Tunnel passage tax .....	194,710	81,620	97,376	—
Total .....	<u>100,387,109</u>	<u>89,955,122</u>	<u>89,002,605</u>	<u><b>91,776,000</b></u>

† After Budget revenue measure but subject to the passing of the relevant bill 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 and on lotteries.

*Profits tax* is levied on individuals, corporations, bodies of persons and partnerships at the rate of 16% in the case of corporations and 15% for other non-corporate persons, in respect of assessable profits arising in or derived from Hong Kong.

*Property tax* is charged on the owner of land and/or buildings at the standard rate of 15% 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% 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.

*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 0.125% to 3.75%. The *ad valorem* duties on stock transactions will be reduced to 0.1125% (one-side per transaction) in 2000–01 subject to approval of the Legislative Council.

*Air passenger departure tax* is charged at a fixed rate of \$50 for a passenger 12 years of age or above departing from Hong Kong International Airport.

*Cross-Harbour Tunnel passage tax* was charged on the usage of the Tunnel at a varying scale according to the type of vehicle. The tax was abolished on 1 September 1999.

Revenue from internal revenue generated 56.5% of general revenue in 1999–2000.

### Underlying Changes in Revenue Yield

The 1999–2000 revised estimate of \$89,002,605,000 is a net decrease of \$952,517,000 (1.1%) against the original estimate.

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Under *Subhead 010 Bets and sweeps tax* the decrease of \$2,305,660,000 (17.2%) is due to the lower than expected receipts from both horse racing bets and lotteries bets.

Under *Subhead 030 Earnings and profits tax* there is a net increase of \$2,806,000,000 (4.5%). The increase of \$480,000,000 (1.3%) in respect of profits tax is due to the higher than expected profits from unincorporated businesses in 1998–99 and the smaller than expected revenue reduction as a result of the 1998–99 Budget concessions. The decrease of \$675,000,000 (17.0%) in respect of tax charged under personal assessment is due to the lower than expected level of rental income in 1998–99 and the smaller than expected number of taxpayers who elected personal assessment. The decrease of \$89,000,000 (6.6%) in respect of property tax is mainly due to the lower than expected level of property rentals in 1998–99. The increase of \$3,090,000,000 (14.9%) in respect of salaries tax is mainly due to the smaller than expected number of claims and amount allowed for home loan interest in 1998–99 which has more than offset the effect of a smaller than expected growth in income.

Under *Subhead 050 Estate duty* the increase of \$175,000,000 (16.3%) is due to the higher than expected value of estates.

Under *Subhead 060 Hotel accommodation tax* the decrease of \$40,000,000 (18.2%) is mainly due to the lower than expected hotel occupancy rate.

Under *Subhead 070 Stamp duties* the decrease of \$1,611,000,000 (13.2%) is mainly due to the lower than expected turnover in the property market.

Under *Subhead 090 Cross-Harbour Tunnel passage tax* the increase of \$15,756,000 (19.3%) is due to the higher than anticipated traffic throughput of the Tunnel for the period from April to August 1999.

The **2000–01** estimate of \$91,776,000,000 is a net increase of \$2,773,395,000 (3.1%) on the revised estimate for 1999–2000.

Under *Subhead 030 Earnings and profits tax* there is a decrease of \$1,225,000,000 (1.9%). The decrease of \$900,000,000 (2.4%) in respect of profits tax mainly reflects the moderation in company profits in 1999–2000. The decrease of \$200,000,000 (6.1%) in respect of tax charged under personal assessment is due to the expected reduction in profits and rental income in 1999–2000. The decrease of \$125,000,000 (10.0%) in property tax is due to the anticipated decrease in rental income in 1999–2000. Salaries tax receipts are expected to remain at the same level of 1999–2000.

Under *Subhead 060 Hotel accommodation tax* there is an increase of \$9,000,000 (5.0%) which reflects an anticipated increase in tourist arrivals and hotel occupancy rate in 2000–01.

Under *Subhead 070 Stamp duties* the increase of \$3,489,000,000 (33.1%) reflects the net effect of an anticipated higher turnover in the property and stock markets, and the reduction of the rate of Stamp Duty on stock transactions in 2000–01.

Under *Subhead 090 Cross-Harbour Tunnel passage tax* no revenue will be collected in 2000–01 since the tax has been abolished as from 1 September 1999.