

Head 3 — INTERNAL REVENUE

Details of Revenue

| Sub-head (Code) | Actual revenue 2001–02 | Original estimate 2002–03 | Revised estimate 2002–03 | Estimate 2003–04 |
|---------------------------------------|------------------------------|---------------------------------|--------------------------------|--------------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| 010 Bets and sweeps tax | 11,571,287 | 12,605,000 | 11,100,000 | 10,919,000† |
| 030 Earnings and profits tax— | | | | |
| (010) Interest tax | 36 | — | — | — |
| (020) Profits tax | 44,375,713 | 42,855,000 | 38,000,000 | 43,350,000† |
| (030) Personal assessment | 3,602,963 | 3,900,000 | 3,500,000 | 3,325,000 |
| (040) Property tax | 1,135,655 | 1,067,000 | 1,100,000 | 775,000† |
| (050) Salaries tax | 28,634,653 | 30,500,000 | 28,800,000 | 29,620,000† |
| Sub-total | 77,749,020 | 78,322,000 | 71,400,000 | 77,070,000† |
| 050 Estate duty | 1,927,844 | 1,600,000 | 1,500,000 | 1,500,000 |
| 060 Hotel accommodation tax | 202,951 | 232,000 | 200,000 | 206,000 |
| 070 Stamp duties | 8,636,556 | 10,971,000 | 7,200,000 | 7,870,000† |
| 080 Air passenger departure tax | 666,026 | 885,000 | 880,000 | 1,270,000† |
| Total | <u>100,753,684</u> | <u>104,615,000</u> | <u>92,280,000</u> | <u>98,835,000</u> |

† After Budget revenue measure 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 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 0.1% 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 \$80 for a passenger 12 years of age or above departing from Hong Kong International Airport, or by helicopter from Hong Kong at the Heliport at the Hong Kong Macau Ferry Terminal.

Revenue from internal revenue generated 63.6% of general revenue in 2002–03.

Underlying Changes in Revenue Yield

The **2002–03** revised estimate of \$92,280,000,000 is a net decrease of \$12,335,000,000 (11.8%) against the original estimate.

Under *Subhead 010 Bets and sweeps tax* the decrease of \$1,505,000,000 (11.9%) is due to the lower than expected receipts from both horse racing bets and lotteries bets.

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Under *Subhead 030 Earnings and profits tax*, the decrease in respect of profits tax of \$4,855,000,000 (11.3%) is due to the lower than expected profits from businesses in 2001–02.

Under *Subhead 060 Hotel accommodation tax* the decrease of \$32,000,000 (13.8%) is mainly due to the lower than expected hotel occupancy rates.

Under *Subhead 070 Stamp duties* the decrease of \$3,771,000,000 (34.4%) is mainly due to the lower than expected turnover in the property market and stock market.

The **2003–04** estimate of \$98,835,000,000 is a net increase of \$6,555,000,000 (7.1%) over the revised estimate for 2002–03.

Under *Subhead 010 Bets and sweeps tax* the decrease of \$181,000,000 (1.6%) is due to the anticipated decrease in the betting turnover on horse racing and lotteries, taking into account the revenue measure in the 2003–04 Budget to increase the duty rate for exotic bets on horse racing.

Under *Subhead 030 Earnings and profits tax* there is a net increase of \$5,670,000,000 (7.9%). The increase of \$5,350,000,000 (14.1%) in respect of profits tax mainly reflects the proposed increase in profits tax rate in the 2003–04 Budget. The decrease of \$325,000,000 (29.5%) in respect of property tax is mainly due to the decrease in market rental value in 2002–03 and the implementation of the dual due date system in 2003–04, taking into account the proposed increase in property tax in the 2003–04 Budget. The increase of \$820,000,000 (2.8%) in respect of salaries tax reflects the effect of the proposed revisions to the rates and bands as well as personal allowances under salaries tax in the 2003–04 Budget and the anticipated decrease in the level of salaries in 2002–03.

Under *Subhead 070 Stamp duties* the increase of \$670,000,000 (9.3%) is mainly due to the anticipated increase in turnover in the stock market in 2003–04 over 2002–03, taking into account the proposed fixed stamp duty concession for subscription and redemption of unit trust units in the 2003–04 Budget.

Under *Subhead 080 Air Passenger Departure Tax* the increase of \$390,000,000 (44.3%) is mainly due to the proposed increase of the tax from \$80 to \$120 in the 2003–04 Budget and the anticipated increase in the number of passengers departing Hong Kong by air.