

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2004–05	Original estimate 2005–06	Revised estimate 2005–06	Estimate 2006–07
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	12,057,187	11,890,000	11,890,000	11,932,500
030 Earnings and profits tax—				
(020) Profits tax	58,639,653	60,500,000	69,000,000	70,700,000
(030) Personal assessment.....	2,963,409	3,100,000	3,100,000	3,170,000†
(040) Property tax	1,115,605	1,100,000	1,200,000	1,300,000
(050) Salaries tax	33,990,543	34,740,000	37,000,000	37,050,000†
Sub-total.....	96,709,210	99,440,000	110,300,000	112,220,000†
050 Estate duty.....	1,468,373	1,000,000	1,200,000	160,000
060 Hotel accommodation tax	247,402	270,000	310,000	340,000
070 Stamp duties.....	15,851,460	16,300,000	16,300,000	14,800,000
080 Air passenger departure tax.....	1,350,135	1,423,000	1,439,576	1,543,313
Total.....	<u>127,683,767</u>	<u>130,323,000</u>	<u>141,439,576</u>	<u>140,995,813</u>

† After Budget 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 17.5% from 2003–04 onwards for corporations. The rate for non-corporate persons is 15.5% for 2003–04 and 16% from 2004–05 onwards.

Property tax is charged on the owner of land and/or buildings at the standard rate of 15.5% for 2003–04 on the assessable value of the property for each year of assessment. The standard rate for 2004–05 onwards is 16%.

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 15.5% on his total income for 2003–04. The standard rate for 2004–05 onwards is 16%.

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%.

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 \$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 70.5% of general revenue in 2005–06.

Underlying Changes in Revenue Yield

The **2005–06** revised estimate of \$141,439,576,000 is a net increase of \$11,116,576,000 (8.5%) over the original estimate.

Head 3 — INTERNAL REVENUE

Under *Subhead 030 Earnings and profits tax*, there is a net increase of \$10,860,000,000 (10.9%). The increase of \$8,500,000,000 (14.0%) in respect of profits tax is mainly due to the higher than expected business profits earned in 2004–05 and hence the net tax assessed. The increase of \$100,000,000 (9.1%) in respect of property tax is mainly due to the higher than expected increase in property rentals in 2004–05. The increase of \$2,260,000,000 (6.5%) in respect of salaries tax is mainly due to the higher than expected increase in salary income in 2004–05.

Under *Subhead 050 Estate duty*, the increase of \$200,000,000 (20.0%) is due to the higher than expected value of estates assessed before abolition of estate duty.

Under *Subhead 060 Hotel accommodation tax*, the increase of \$40,000,000 (14.8%) is mainly due to the higher than expected hotel occupancy rates.

The **2006–07** estimate of \$140,995,813,000 is a net decrease of \$443,763,000 (0.3%) against the revised estimate for 2005–06.

Under *Subhead 050 Estate duty*, the decrease of \$1,040,000,000 (86.7%) is due to the abolition of estate duty with retrospective effect from 15 July 2005.