

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2005–06	Original estimate 2006–07	Revised estimate 2006–07	Estimate 2007–08
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	11,938,060	11,932,500	12,100,000	12,210,000
030 Earnings and profits tax—				
(020) Profits tax	69,796,508	70,700,000	74,100,000	77,500,000
(030) Personal assessment	3,193,951	3,170,000	3,500,000	3,200,000†
(040) Property tax	1,267,061	1,300,000	1,250,000	1,300,000
(050) Salaries tax	37,493,868	37,050,000	38,400,000	29,980,000†
Sub-total	111,751,388	112,220,000	117,250,000	111,980,000†
050 Estate duty	1,675,744	160,000	800,000	200,000
060 Hotel accommodation tax	310,025	340,000	380,000	400,000
070 Stamp duties	17,867,196	14,800,000	23,400,000	22,650,000†
080 Air passenger departure tax	1,439,870	1,543,313	1,539,672	1,632,610
Total	<u>144,982,283</u>	<u>140,995,813</u>	<u>155,469,672</u>	<u>149,072,610</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 17.5% for corporations. The rate for non-corporate persons is 16%.

Property tax is charged on the owner of land and/or buildings at the standard rate of 16% 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 16% 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.

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 68.4% of total revenue in 2006–07.

Underlying Changes in Revenue Yield

The **2006–07** revised estimate of \$155,469,672,000 is a net increase of \$14,473,859,000 (10.3%) over the original estimate.

Under *Subhead 030 Earnings and profits tax*, there is a net increase of \$5,030,000,000 (4.5%). The increase of \$3,400,000,000 (4.8%) in respect of profits tax is mainly due to a higher than expected business profits earned in 2005–06 and hence the net tax assessed. The increase of \$330,000,000 (10.4%) in respect of tax charged under

Head 3 — INTERNAL REVENUE

personal assessment is mainly due to a higher than expected increase in the level of salaries and property incomes in 2005–06 and the increase in the number of persons electing personal assessment. The increase of \$1,350,000,000 (3.6%) in respect of salaries tax is mainly due to a higher than expected increase in salary income in 2005–06. The above increases are partly offset by a slight decrease of \$50,000,000 (3.8%) in respect of property tax.

Under *Subhead 050 Estate duty*, the increase of \$640,000,000 (400.0%) is due to a higher than expected value of estates assessed for persons who passed away before abolition of estate duty.

Under *Subhead 060 Hotel accommodation tax*, the increase of \$40,000,000 (11.8%) is mainly due to a higher than expected hotel occupancy rate.

Under *Subhead 070 Stamp duties*, the increase of \$8,600,000,000 (58.1%) is mainly due to a higher than expected turnover in the stock market.

The **2007–08** estimate of \$149,072,610,000 is a net decrease of \$6,397,062,000 (4.1%) against the revised estimate for 2006–07.

Under *Subhead 030 Earnings and profits tax*, there is a net decrease of \$5,270,000,000 (4.5%). The increase of \$3,400,000,000 (4.6%) in respect of profits tax is mainly due to the expected increase in business profits earned in 2006–07 and hence the net tax assessed. The increase of \$50,000,000 (4.0%) in respect of property tax is mainly due to the expected increase in the level of rental income. The decrease of \$300,000,000 (8.6%) in respect of tax charged under personal assessment and the decrease of \$8,420,000,000 (21.9%) in respect of salaries tax reflect the concessions proposed in the 2007–08 Budget. The expected increase in salary income in 2006–07 has also been taken into account.

Under *Subhead 050 Estate duty*, the decrease of \$600,000,000 (75.0%) is due to the abolition of estate duty with effect from 15 July 2005.

Under *Subhead 070 Stamp duties*, the decrease of \$750,000,000 (3.2%) has taken into account the proposed extension of the fixed duty rate of \$100 to properties valuing between \$1 million and \$2 million in the 2007–08 Budget.