

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2009–10	Original estimate 2010–11	Revised estimate 2010–11	Estimate 2011–12
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	12,767,135	13,175,000	14,629,000	14,240,000
030 Earnings and profits tax—				
(020) Profits tax	76,605,363	78,500,000	93,500,000	96,900,000
(030) Personal assessment	3,655,847	3,180,000	3,850,000	3,830,000†
(040) Property tax	1,677,621	1,500,000	1,650,000	1,650,000
(050) Salaries tax	41,245,415	39,810,000	47,000,000	43,220,000†
Sub-total	123,184,246	122,990,000	146,000,000	145,600,000†
050 Estate duty	185,040	70,000	190,000	50,000
070 Stamp duties	42,382,613	30,000,000	51,000,000	40,000,000
080 Air passenger departure tax	1,616,767	1,669,243	1,809,043	1,879,118
Total	<u>180,135,801</u>	<u>167,904,243</u>	<u>213,628,043</u>	<u>201,769,118</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 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 4.25%. The *ad valorem* duties on stock transactions are 0.1% for each 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 73.2% of total revenue in 2010–11.

Underlying Changes in Revenue Yield

The 2010–11 revised estimate of \$213,628,043,000 is a net increase of \$45,723,800,000 (27.2%) over the original estimate.

Under *Subhead 010 Bets and sweeps duty*, the increase of \$1,454,000,000 (11.0%) is due to the higher than expected receipts of betting duty from horse racing bets, lotteries and football betting.

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Under *Subhead 030 Earnings and profits tax*, there is a net increase of \$23,010,000,000 (18.7%). The increase of \$15,000,000,000 (19.1%) in respect of profits tax is mainly due to the higher than expected business profits earned in 2009–10 and hence the net tax assessed. The increase of \$670,000,000 (21.1%) in respect of tax charged under personal assessment is mainly due to the increase in the number of persons electing personal assessment to enjoy the one-off 75% tax waiver (capped at \$6,000 per case) for the year of assessment 2009–10. The increase of \$150,000,000 (10.0%) in respect of property tax is mainly due to the higher than expected growth of property rentals in 2009–10. The increase of \$7,190,000,000 (18.1%) in respect of salaries tax is mainly due to the higher than expected increase in salary income in 2009–10.

Under *Subhead 050 Estate duty*, the increase of \$120,000,000 (171.4%) is due to the higher than expected value of estates assessed for persons passed away before abolition of estate duty.

Under *Subhead 070 Stamp duties*, the increase of \$21,000,000,000 (70.0%) is mainly due to the higher than expected turnover in the stock market and the property market.

The **2011–12** estimate of \$201,769,118,000 is a net decrease of \$11,858,925,000 (5.6%) against the revised estimate for 2010–11.

Under *Subhead 050 Estate duty*, the decrease of \$140,000,000 (73.7%) is due to the abolition of estate duty with retrospective effect from 15 July 2005.

Under *Subhead 070 Stamp duties*, the decrease of \$11,000,000,000 (21.6%) is mainly due to the anticipated uncertainties and volatility in the stock market and the property market in 2011–12.