

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2011–12	Original estimate 2012–13	Revised estimate 2012–13	Estimate 2013–14
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	15,760,595	15,827,000	16,298,000	16,443,490
030 Earnings and profits tax—				
(010) Interest tax	68	—	—	—
(020) Profits tax	118,599,871	105,580,000	128,500,000	131,000,000 †
(030) Personal assessment	4,512,151	4,700,000	4,100,000	4,900,000 †
(040) Property tax	1,948,429	2,000,000	2,300,000	2,500,000
(050) Salaries tax	51,761,323	49,340,000	51,500,000	51,000,000 †
Sub-total	176,821,842	161,620,000	186,400,000	189,400,000 †
050 Estate duty	94,174	70,000	130,000	70,000
070 Stamp duties	44,355,853	37,000,000	43,000,000	40,000,000
080 Air passenger departure tax	1,947,671	1,987,833	2,022,034	2,062,480
Total	<u>238,980,135</u>	<u>216,504,833</u>	<u>247,850,034</u>	<u>247,975,970</u>

† After Budget revenue measures but subject to the passing of the relevant legislation by the Legislative Council.

Description of Revenue Sources

This revenue head covers 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. The Government has introduced a special stamp duty on residential properties at the point of resale if the properties are acquired on or after 20 November 2010 and resold within 24 months after acquisition.

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 70.1% of total revenue in 2012–13.

Underlying Changes in Revenue Yield

The 2012–13 revised estimate of \$247,850,034,000 reflects a net increase of \$31,345,201,000 (14.5%) over the original estimate.

Under *Subhead 030 Earnings and profits tax*, there is a net increase of \$24,780,000,000 (15.3%). The increase of \$22,920,000,000 (21.7%) in respect of profits tax is mainly due to the higher than expected business profits earned in 2011–12 and hence the net tax assessed. The increase of \$300,000,000 (15.0%) in respect of property tax is mainly due to the higher than expected growth of property rentals in 2011–12. The increase of \$2,160,000,000 (4.4%) in respect of salaries tax is mainly due to the higher than expected increase in salary income in 2011–12. The above increases are

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partly offset by a decrease of \$600,000,000 (12.8%) in respect of tax charged under personal assessment, which is mainly due to the one-off tax reduction for 2011–12.

Under *Subhead 050 Estate duty*, the increase of \$60,000,000 (85.7%) is mainly due to some exceptionally large duty payments made in 2012–13.

Under *Subhead 070 Stamp duties*, the increase of \$6,000,000,000 (16.2%) is mainly due to a higher than expected turnover in the stock market and the property market.

The **2013–14** estimate of \$247,975,970,000 reflects a net increase of \$125,936,000 (0.1%) over the revised estimate for 2012–13.

Under *Subhead 050 Estate duty*, the decrease of \$60,000,000 (46.2%) is mainly due to exclusion of some exceptionally large payments received in 2012–13.