

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2017–18	Original estimate 2018–19	Revised estimate 2018–19	Estimate 2019–20
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	21,959,119	21,212,000	21,933,973	22,230,000
030 Earnings and profits tax—				
(020) Profits tax	139,100,219	155,143,000	166,000,000	159,600,000 †
(030) Personal assessment	5,342,499	4,870,000	5,800,000	6,100,000 †
(040) Property tax	3,447,839	3,600,000	3,600,000	3,600,000
(050) Salaries tax	60,838,782	54,835,000	60,000,000	66,600,000 †
Sub-total	208,729,339	218,448,000	235,400,000	235,900,000
050 Estate duty	31,289	15,000	43,000	15,000
070 Stamp duties.....	95,172,761	100,000,000	80,000,000	76,000,000
080 Air passenger departure tax	2,736,811	2,849,000	2,922,438	2,990,000
Total.....	<u>328,629,319</u>	<u>342,524,000</u>	<u>340,299,411</u>	<u>337,135,000</u>

† After Budget revenue measures but subject to the passage 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 number of indirect taxes are 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 two-tiered profits tax regime has taken effect from the year of assessment 2018/19. The tax rate for the first \$2 million of profits of corporations is lowered from 16.5% to 8.25%. Profits above that amount will continue to be subject to the tax rate of 16.5%. For unincorporated businesses, the two-tiered tax rates are correspondingly set at 7.5% and 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 million to 15% on estates of value over \$10.5 million. The duty was abolished on 11 February 2006. Estates duty in respect of persons dying on or after 15 July 2005 and before 11 February 2006 is reduced to a nominal amount of \$100.

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 20%. The *ad valorem* duties on stock transactions are 0.1% for each side per transaction. The Government 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 (for the properties acquired between 20 November 2010 and 26 October 2012) or 36 months (for the properties acquired on or after 27 October 2012) after acquisition. The Government also introduced a buyer's stamp duty on residential properties acquired on or after 27 October 2012 by any person, except a Hong Kong permanent resident ("HKPR") acting on his or her own behalf. Besides, immovable properties acquired on or after 23 February 2013 are subject to *ad valorem* stamp duty at the higher (Part 2 of Scale 1) rates, unless the property is a residential property and the buyer is a HKPR acting on his or her own behalf and not a beneficial owner of any another residential property in Hong Kong at the time of acquisition. The Government introduced a new residential stamp duty to increase the *ad valorem* stamp duty chargeable on instruments of acquiring residential property executed on or after 5 November 2016 to a flat rate of 15% (Part 1 of Scale 1 rate). The Government also introduced the tightening of the exemption arrangement for HKPR buyers under the new residential stamp duty regime, where acquisition of more than one residential property under a single instrument executed on or after 12 April 2017 is subject to the flat rate at 15%, even if the buyer is a HKPR who is acting on his or her own behalf and not a beneficial owner of any other residential property in Hong Kong at the time

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of acquisition. Further, the stamping of *ad valorem* stamp duty for non-residential property transactions carried out on or after 23 February 2013 is advanced from the conveyance on sale to the agreement for sale.

Air passenger departure tax is charged at a fixed rate of \$120 for a passenger 12 years of age or above departing from the Hong Kong International Airport, or by helicopter from Hong Kong at the Hong Kong Macau Ferry Terminal Heliport.

Revenue from internal revenue generated 73.5% of total revenue in 2018–19.

Underlying Changes in Revenue Yield

The **2018–19** revised estimate of \$340,299,411,000 reflects a net decrease of \$2,224,589,000 (0.6%) against the original estimate.

Under *Subhead 050 Estate duty*, the increase of \$28 million (186.7%) is mainly due to the higher-than-expected amount of duty receipt in 2018–19.

Under *Subhead 070 Stamp duties*, the decrease of \$20 billion (20%) is mainly due to the lower-than-expected turnover in the property and stock market.

The **2019–20** estimate of \$337,135 million reflects a net decrease of \$3,164,411,000 (0.9%) against the revised estimate for 2018–19.

Under *Subhead 050 Estate duty*, the decrease of \$28 million (65.1%) is mainly due to the anticipated lower amount of duty receipt in 2019–20 in respect of the estates of persons who died before 11 February 2006.