

Head 3 — INTERNAL REVENUE

Details of Revenue

Sub-head (Code)	Actual revenue 2022–23	Original estimate 2023–24	Revised estimate 2023–24	Estimate 2024–25
	\$'000	\$'000	\$'000	\$'000
010 Bets and sweeps tax	25,823,885	27,600,000	28,600,000	28,600,000
030 Earnings and profits tax—				
(020) Profits tax	174,212,471	170,000,000	171,200,000	180,169,000†
(030) Personal assessment	6,719,841	7,190,000	7,400,000	7,820,000†
(040) Property tax	3,842,152	3,540,000	3,900,000	4,000,000
(050) Salaries tax	79,490,374	83,000,000	79,200,000	87,619,000†
Sub-total	264,264,838	263,730,000	261,700,000	279,608,000
050 Estate duty	8,792	8,000	8,000	8,000
060 Hotel accommodation tax	—	—	—	275,000†
070 Stamp duties	69,976,545	85,000,000	50,000,000	71,000,000
080 Air passenger departure tax	393,563	1,552,864	1,937,663	2,554,231
Total	<u>360,467,623</u>	<u>377,890,864</u>	<u>342,245,663</u>	<u>382,045,231</u>

† After Budget revenue measures but subject to the passage of the relevant legislation.

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 or her 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. Estate 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.

Hotel accommodation tax is levied on charges paid for accommodation in hotels and guest houses. The tax rate was previously reduced from 3% to 0% from 1 July 2008. The Government proposes reinstating the tax at a standard rate of 3% with effect from 1 January 2025.

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 Government increased the rate of *ad valorem* duty on stock transactions from 0.1% to 0.13% for each side per transaction with effect from 1 August 2021 and subsequently reverted it back to 0.1% on 17 November 2023. 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 properties acquired between 20 November 2010 and 26 October 2012 or acquired on or after 26 October 2021 and disposed of on or after 25 October 2023) or 36 months (for properties acquired on or after 27 October 2012 and disposed of before 25 October 2023) 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, *ad valorem* stamp duty at the higher rates (under Part 2 of Scale 1) are applicable to all residential properties acquired during the period from 23 February 2013 to 4 November 2016 (unless the property is a residential property and the buyer is an HKPR acting on his or her own

Head 3 — INTERNAL REVENUE

behalf and not a beneficial owner of any other residential property in Hong Kong at the time of acquisition), and non-residential properties acquired during the period from 23 February 2013 to 25 November 2020. Instruments executed on or after 26 November 2020 for non-residential property transactions are subject to *ad valorem* stamp duty at Scale 2 rates. 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% (under Part 1 of Scale 1) and the flat rate was reduced to 7.5% with effect from 25 October 2023. The Government also tightened 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 under Part 1 of Scale 1, even if the buyer is an 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 of acquisition. Further, the timing for charging 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. The Government provided a refund mechanism for eligible incoming talents who purchase a residential property in Hong Kong on or after 19 October 2022 but before 25 October 2023 and subsequently become a HKPR. They can apply for a refund of the buyer's stamp duty and the new residential stamp duty paid for the first residential property purchased which they still own, while the *ad valorem* stamp duty at Scale 2 rates is still payable. The Government introduced a stamp duty suspension arrangement for eligible incoming talents who purchase a residential property in Hong Kong on or after 25 October 2023. They may apply for suspension of payment of buyer's stamp duty and the difference between *ad valorem* stamp duty at Part 1 of Scale 1 rate and *ad valorem* stamp duty at Scale 2 rates.

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 74.4% of total revenue in 2023–24.

Underlying Changes in Revenue Yield

The **2023–24** revised estimate of \$342,245,663,000 reflects a net decrease of \$35,645,201,000 (9.4%) against the original estimate.

Under *Subhead 070 Stamp duties*, the decrease of \$35 billion (41.2%) is mainly due to the lower-than-expected turnover in the property and stock markets.

Under *Subhead 080 Air passenger departure tax*, the increase of \$384,799,000 (24.8%) is mainly due to the increase in the number of departing air passengers arising from the continuing resumption of flights and recovery of air traffic.

The **2024–25** estimate of \$382,045,231,000 reflects a net increase of \$39,799,568,000 (11.6%) over the revised estimate for 2023–24.

Under *Subhead 060 Hotel accommodation tax*, the increase of \$275 million has taken into account the proposed reinstatement of the tax in the 2024–25 Budget.

Under *Subhead 070 Stamp duties*, the increase of \$21 billion (42.0%) is mainly due to the expected enhancement in the performance of the property and stock markets.

Under *Subhead 080 Air passenger departure tax*, the increase of \$616,568,000 (31.8%) is mainly due to the expected increase in the number of departing air passengers in 2024–25 in anticipation of the continuing recovery of air traffic.