

- This chart gives an overview of Government recurrent and capital revenue sources based on the 2001-02 Updated Scenario. Under the Updated Scenario which reflects the latest GDP forecast for 2001 and the likely revised outturn on three major revenue items (investment income on fiscal reserves, land premium and sale of MTRC shares), total revenue in 2001-02 would be \$194.7 billion, \$57 billion less than the original estimate of \$251.7 billion.
- Income tax on companies (i.e. profits tax) and income tax on individuals (i.e. salaries tax, personal assessment and property tax) are the two most important sources of revenue for 2001-02. Together they contribute 40% of total Government revenue.
- Land premium, which used to be an important source of capital revenue, contributes only 4.4% of Government revenue in 2001-02.

Revenue

Chart 7

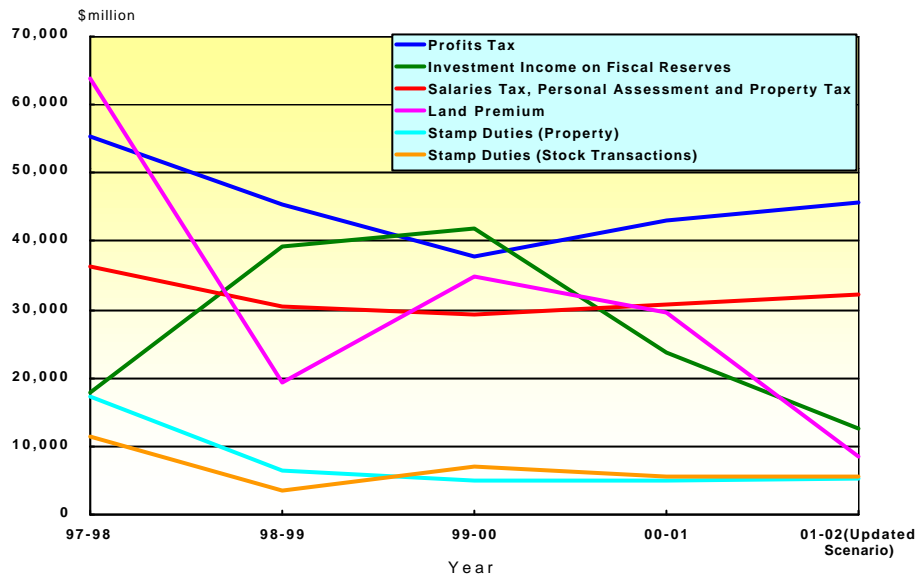
Revenue from Investment Income on Fiscal Reserves and Land Premium Declining

| | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 (Original Estimates) | 2001-02 (Updated Scenario) |
|--|-------------------|-------------------|-------------------|-------------------|------------------------------------|----------------------------------|
| Government Revenue | \$ Billion (%) | \$ Billion (%) | \$ Billion (%) | \$ Billion (%) | \$ Billion (%) | \$ Billion (%) |
| Profits Tax | 55.3 (19.7%) | 45.3 (20.9%) | 37.7 (16.2%) | 43.0 (19.1%) | 45.7 (18.2%) | 45.7 (23.5%) |
| Salaries Tax, Personal Assessment and Property Tax | 36.2 (12.9%) | 30.5 (14.1%) | 29.2 (12.5%) | 30.9 (13.7%) | 32.3 (12.8%) | 32.3 (16.6%) |
| Utilities, Fees and Charges | 18.0 (6.4%) | 15.0 (6.9%) | 14.2 (6.1%) | 14.3 (6.3%) | 15.2 (6.1%) | 15.2 (7.8%) |
| Investment Income on Fiscal Reserves | 17.9 (7.1%) | 39.3 (15.6%) | 41.9 (16.7%) | 23.5 (9.3%) | 35.5 (14.1%) | 12.5 (6.4%) |
| Land Premium | 63.6 (22.6%) | 19.3 (8.9%) | 34.8 (14.9%) | 29.5 (13.1%) | 27.5 (10.9%) | 8.5 (4.4%) |
| Sale of MTRC Shares | - | - | - | 10.0 (4.4%) | 15.0 (6.0%) | 0 (0%) |

* Figures in brackets represent the % out of total government revenue

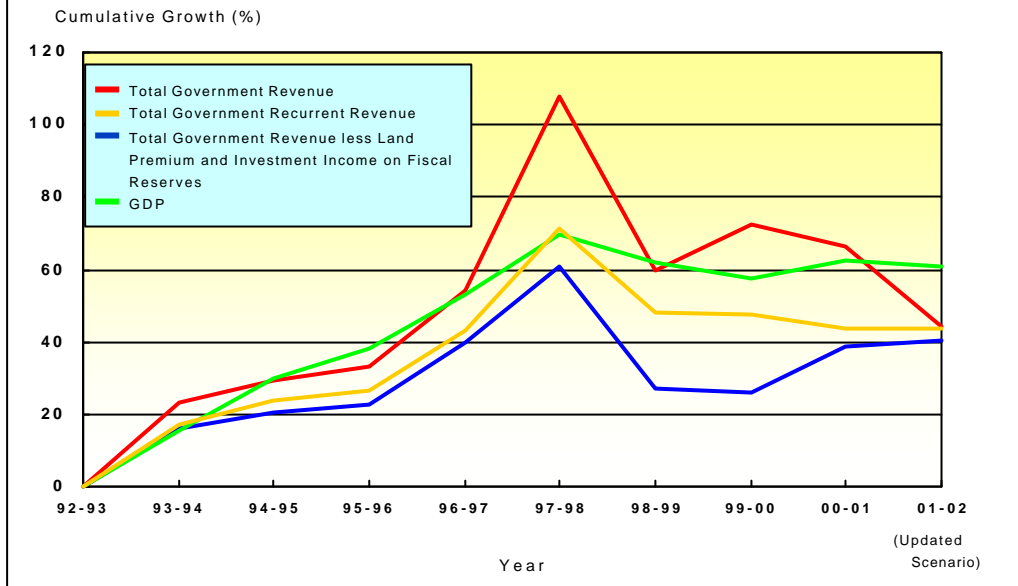
- This chart shows the revenue figures from the five largest revenue sources in the five years from 1997-98 to 2001-02, and revenue from the sale of MTRC shares.
- In the Updated Scenario for 2001-02, it has been assumed that there would be only \$12.5 billion of investment income on fiscal reserves (\$23 billion less than the original estimate). It has also been assumed that only \$8.5 billion is expected to be collected from land premium (\$19 billion less than the original estimate).

Major Revenue Sources On Declining Trend



- Revenue from the major sources (namely, profits tax, investment income on fiscal reserves, salaries tax, personal assessment and property tax, land premium, stamp duty on property and stamp duty on stock transactions) have been on a declining trend over the past five years.

Growth in Revenue Falls Behind Growth in GDP



- This chart compares the cumulative growth in total Government revenue with the cumulative growth in GDP over the last ten years.
- The growth in recurrent revenue has been falling behind the growth in GDP in recent years.

Revenue

Chart 10

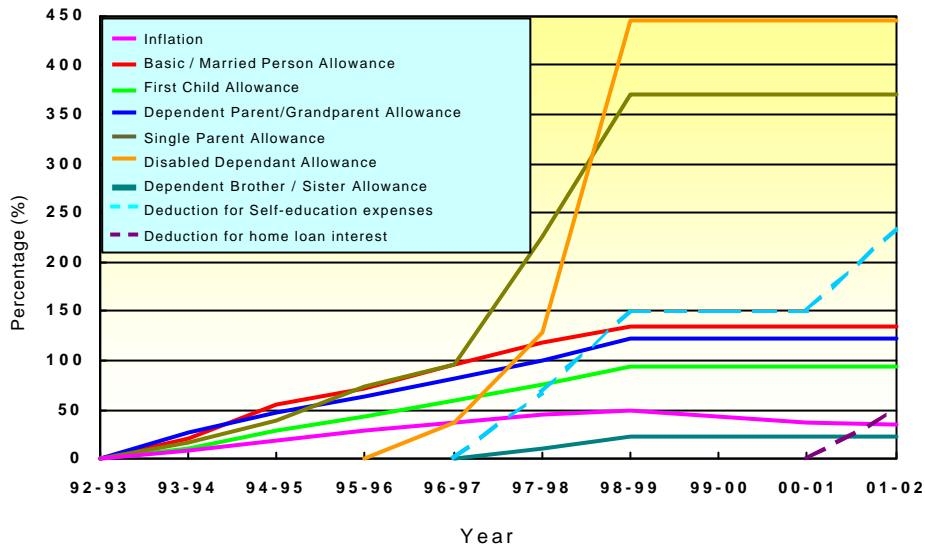
Major Recurrent Revenue Sources As Percentages
of Total Recurrent Expenditure Declining

| Government Revenue | 1997-98 | | 2001-02 (Original Estimates) | | 2001-02 (Updated Scenario) | |
|--|--------------|-----------------|---------------------------------|----------------|-------------------------------|----------------|
| | \$ Billion | (%) | \$ Billion | (%) | \$ Billion | (%) |
| Profits Tax | 55.3 | (37.0%) | 45.7 | (22.5%) | 45.7 | (22.5%) |
| Salaries Tax, Personal Assessment and Property Tax | 36.2 | (24.2%) | 32.3 | (15.9%) | 32.3 | (15.9%) |
| Utilities, Fees and Charges | 18.0 | (12.0%) | 15.2 | (7.5%) | 15.2 | (7.5%) |
| Rates | 6.3 | (4.2%) | 14.9 | (7.3%) | 14.9 | (7.3%) |
| Betting Duty | 13.5 | (9.0%) | 13.6 | (6.7%) | 13.6 | (6.7%) |
| Investment Income on Fiscal Reserves | 17.9 | (12.0%) | 31.1 | (15.3%) | 11.0 | (5.4%) |
| Stamp Duties | 29.1 | (19.5%) | 11.2 | (5.5%) | 11.2 | (5.5%) |
| Duties | 8.5 | (5.7%) | 7.9 | (3.9%) | 7.9 | (3.9%) |
| Total | 184.8 | (123.6%) | 171.9 | (84.6%) | 151.8 | (74.7%) |

* Figures in brackets represent the % out of total recurrent expenditure

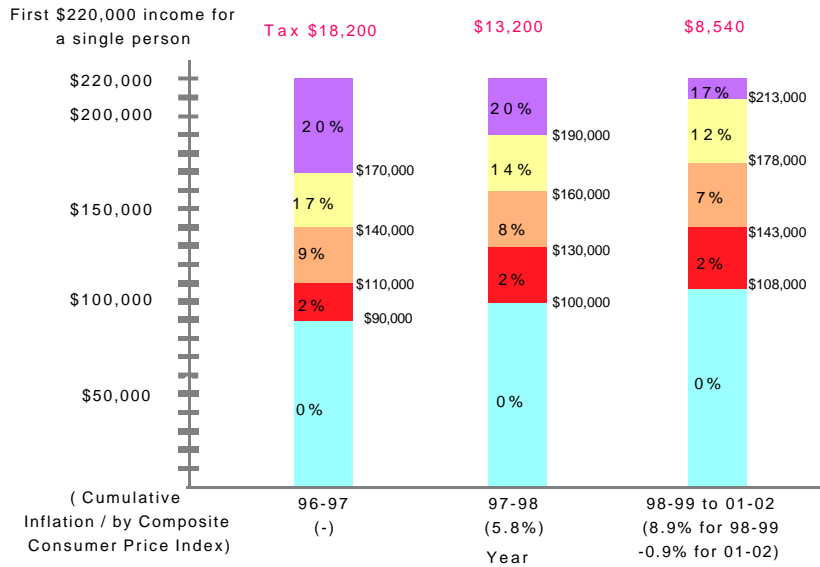
- Revenue from the major recurrent revenue sources (including profits tax, salaries tax, personal assessment and property tax, utilities, fees and charges, investment income on fiscal reserves, stamp duties as well as duties) have declined during the past five years.
- Income from these recurrent revenue sources is increasingly less adequate in funding recurrent expenditure. Income from these sources was 123.6% of total Government recurrent expenditure in 1997-98. Under the Updated Scenario for 2001-02, it is estimated that these recurrent revenue sources would drop to 74.7% of total recurrent expenditure in 2001-02.

Salaries Tax Allowances and Deductions Increase Faster Than Inflation



- This chart compares the cumulative increases in the allowances and the major types of deductions under Salaries Tax with cumulative inflation over the last ten years.
- Over the last ten years, the amounts of the various allowances and deductions have been adjusted upwards on many occasions, providing relief to taxpayers. The cumulative rates of increase in these allowances and deductions are significantly above the cumulative rate of inflation (as measured by Composite Consumer Price Index).

Adjustments to Marginal Rates of Salaries Tax Reduce Burden on Taxpayers



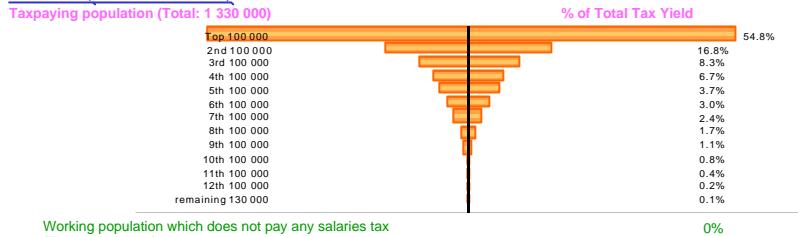
Note : No taxpayer pays more than 15% of his income ■ Basic allowance for a single person

- This chart shows the changes in tax bands and marginal tax rates since 1996-97.
- These revisions to the marginal rate structure have substantially reduced the tax burden on taxpayers, inevitably impairing the revenue position.

Increasing Reliance on High Income Earners

1997-98 (Actual revenue)

Taxpaying population (Total: 1 330 000)

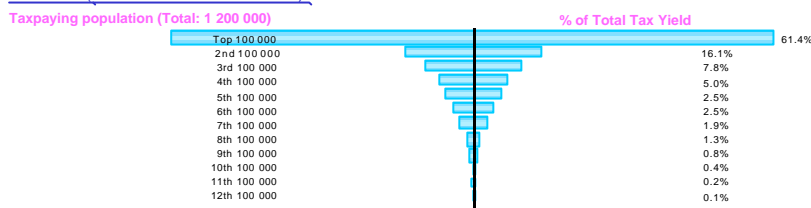


Working population which does not pay any salaries tax (Total : 1 830 000) 0%

* 2% of the working population pay at the standard tax rate of 15% and contribute about 43.9% of total salaries tax receipts

2001-02 (Provisional Assessment)

Taxpaying population (Total: 1 200 000)

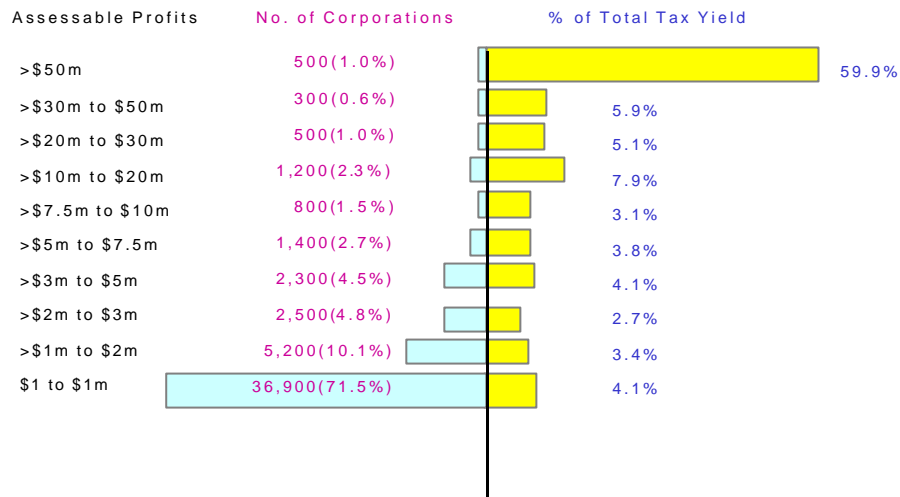


Working population which does not pay any salaries tax (Total : 2 000 000) 0%

* 0.3% of the working population pay at the standard tax rate of 15% and contribute about 20% of total salaries tax receipts

- These charts arrange salaries taxpayers in 1997-98 and 2001-02 in steps of 100,000 each according to their salaries tax bills, and measure their respective contributions to the salaries tax yield.
- In 1997-98, the top 100,000 taxpayers contributed 54.8% of the total revenue from salaries tax. The share of revenue contributed by these top 100,000 taxpayers is estimated to increase to 61.4% in 2001-02, signifying an increasing reliance on high-income earners.
- In 1997-98, there were 1.33 million taxpayers. In 2001-02, taxpaying population is estimated to decrease to 1.2 million, despite a growth in the number of employees from 3.16 million to 3.2 million over the same period.

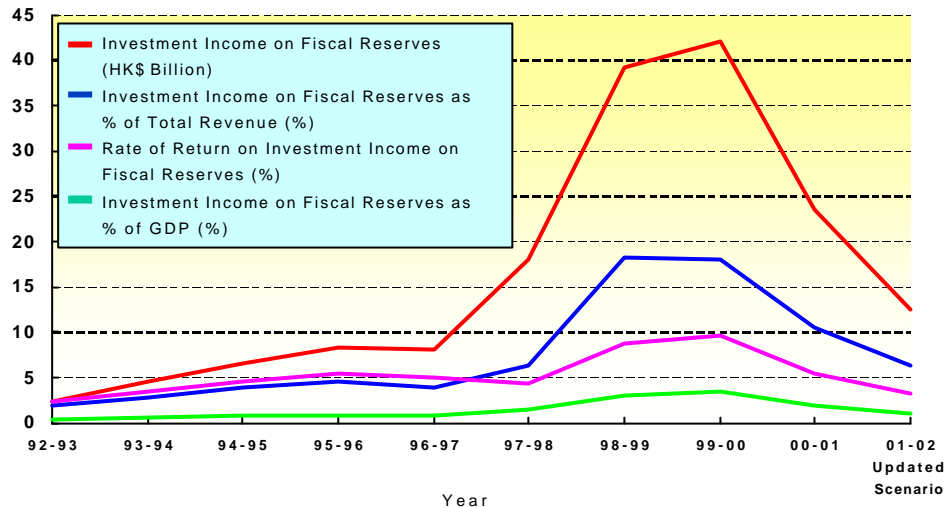
Top 500 Corporations Pay Most Profits Tax (in the Year of Assessment 1999-2000)



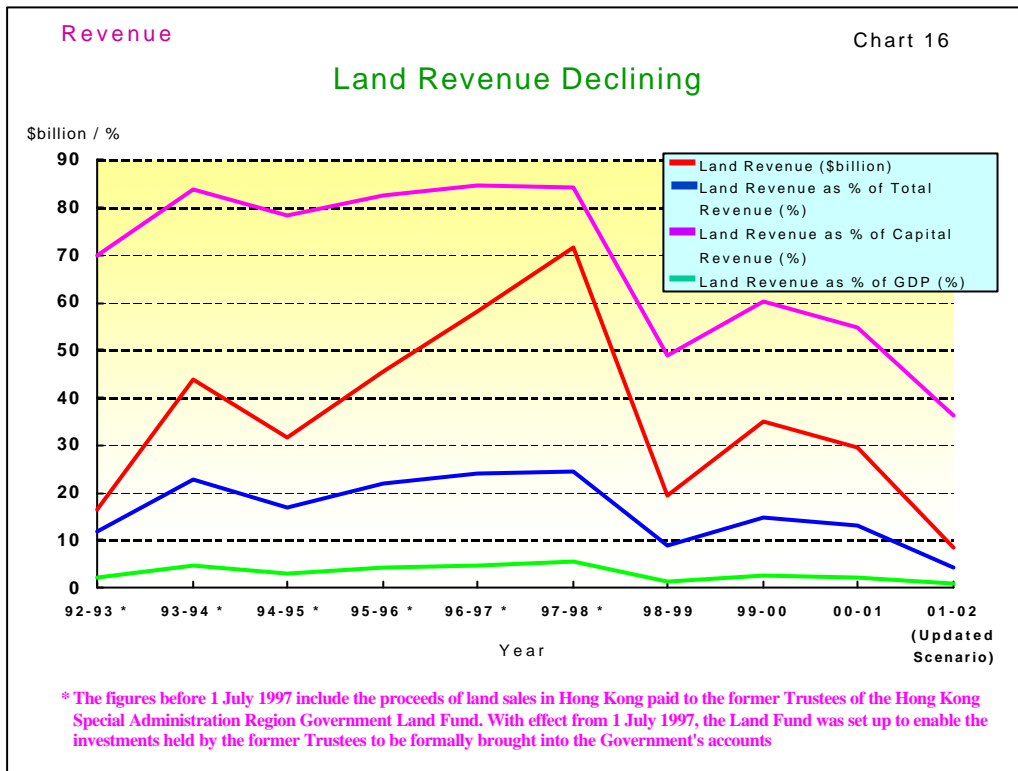
- This chart shows the distribution of our profits tax burden among the corporate taxpaying population in the Year of Assessment 1999-2000.
- 60% of our profits tax was contributed by the top 500 taxpaying corporations out of more than 50,000 corporations. Most small businesses pay little or no tax.

Investment Income on Fiscal Reserves Declining

\$billion / %



- Investment income on fiscal reserves has declined substantially since 2000-01 after a period of sharp growth.
- Its contribution to Government revenue and its income as a percentage of GDP have likewise dropped drastically.
- In the Updated Scenario for 2001-02, it is assumed that investment income on fiscal reserves would be \$12.5 billion, 65% less than the original estimate.



- Land revenue has declined significantly after 1997-98. Its contribution to Government revenue and its level as a percentage of GDP have likewise dropped drastically.
- In the Updated Scenario for 2001-02, it is assumed that revenue from land premium would be \$8.5 billion, 69% less than the 2001-02 original estimate.

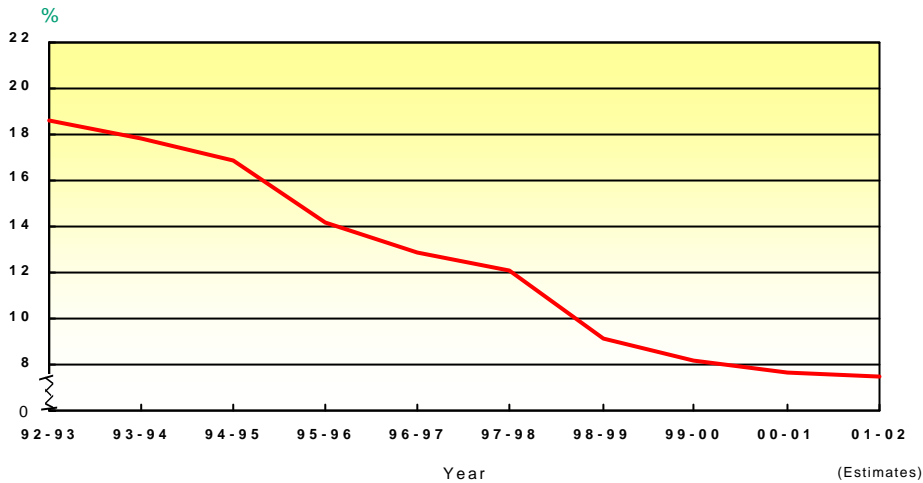
Fees and Charges

Types of Fees & Charges

- Full-cost fees (e.g. Fees for certificates of no criminal conviction)
- Subsidized fees (e.g. Outpatient clinic charges)
- Tax-loaded fees (e.g. Business registration fees)
- Utilities fees (e.g. Government tunnel tolls)
- Market-related fees (e.g. Gazette advertisement fees)

- It is a well-established policy of the Government to apply the “user pays” and “full cost recovery” principle for setting the fees and charges for services where a Government subsidy is not justified.
- The rationale is to ensure that those who benefit from the services should pay for them, so that the costs of the services do not fall on the general taxpayers. This underpins our low tax policy and is an important tool in striving to achieve fiscal balance.

Utilities and Fees & Charges As Percentage of Total Government Recurrent Expenditure Declining



- In 1992-93, revenue from fees and charges and utilities constituted 19% of total Government recurrent expenditure. This percentage is estimated to drop significantly to 7% in 2001-02.
- The Government had frozen most fees and charges since 1998 as an exceptional measure to ease the burden on the community at a time of economic setback. In view of the steady recovery of the economy at the time, the Government started revisiting some of the Government fees and charges that do not affect people's livelihood or general business activities in 2000-01.
- Following the onset of a further economic slowdown in 2001, we will need to consider when is the appropriate time to revisit these other fees and charges to restore the "user pays" and "full cost recovery" principles.