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## HONG KONG TAX NEWS

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### HONG KONG BUDGET 2003/2004

#### Salaries Tax

A number of changes have been proposed to the Salaries Tax for 2003/2004. The tax rates, including the standard rate), will be increased, the progressive rate marginal tax bands will be reduced and a number of the personal allowances will be reduced too. In addition, further increases to the tax rates and reductions in personal allowances are proposed for 2004/2005.

The tax exemption for holiday warrants and passage benefits-in-kind provided to employees is removed as proposed by the Financial Secretary, Mr. Antony Leung.

#### Standard rate

The standard rate will be increased from 15% to 15.5% for 2003/2004. The proposed standard rate for 2004/2005 is 16%.

#### Tax charge

The tax charge for 2002/2003 and 2003/2004 are the lower of :-

- (a) net assessable income less charitable donations and allowable deductions at the standard rate, or
- (b) net assessable income less charitable donations and allowable deductions and personal allowances, charged at progressive rates as follows :-

<b>2002/2003</b>	<b>Tax</b>	<b>HK\$</b>
First \$35,000	2%	700
Next \$35,000	7%	2,450
Next \$35,000	12%	4,200
Balance	17%	
<b>2003/2004</b>	<b>Tax</b>	<b>HK\$</b>
First \$32,500	2%	650
Next \$32,500	7.5%	2,438
Next \$32,500	13%	4,225
Balance	18.5%	

It is proposed that the progressive rates for 2004/2005 are increased to 2%, 8%, 14% and 20% and the progressive rate marginal tax bands reduced to HK\$30,000 for each tax band.

## Personal allowances

The personal allowances for 2002/2003 and 2003/2004 are:-

	2002/03 HK\$	2003/04 HK\$
Aggregate personal allowances (single)	108,000	104,000
(married)	216,000	208,000
Single parent allowance	108,000	104,000
Child allowances: 1st and 2nd child (each)	30,000	30,000
3rd to 9th child (each)	15,000	30,000
Dependent parent allowance	30,000	30,000
Dependent grandparent allowance	30,000	30,000
Additional dependent parent & grandparent allowances	30,000	30,000
Disabled dependant (spouse/child/parent/grandparent/ brother/sister) allowance	60,000	60,000
Dependent brother/sister allowance	30,000	30,000

It is proposed that the basic, married and single parent personal allowances for 2004/2005 will be reduced further to HK\$100,000, HK\$200,000 and HK\$100,000 respectively.

## Tax deductions

### Mortgage relief

Home mortgage interest payments are deductible against income subject to Salaries Tax. Owner-occupiers may claim a deduction for mortgage interest payments up to a maximum of HK\$100,000 per year for 2003/2004 for one property. The deduction can be claimed for five tax years. (The maximum amount of deduction for home loan interest was raised from HK\$100,000 to HK\$150,000 for the years of assessment 2001/2002 and 2002/2003.)

### Caring for the elderly

A deductible expense (maximum of HK\$60,000 each year) is available for expenses of a dependent parent/grandparent in residential care.

### Contributions to retirement schemes

A deduction up to the maximum of HK\$12,000 each year will be available for contributions made by employees to recognized retirement schemes and Mandatory Provident Fund schemes.

### Self-education costs

A maximum deduction of HK\$40,000 per year for training courses run by approved institutions is available.

### Charitable Donations

To encourage private donations to educational and other charitable organisations, it is proposed that the ceiling for tax-exempted donations to approved charitable organizations is increased from 10% of assessable income to 25% of assessable income.

## Property Tax

Property Tax is charged on the owner of any land or buildings situated in Hong Kong at the standard rate on the "net assessable value" of such land or buildings. Generally, the net assessable value means the amount of rent receivable by the owner of the subject land or buildings after deducting the rates which are paid by the owner less a statutory allowance (20%) for repairs and maintenance.

The standard property tax rate will be increased from 15% to 15.5% for 2003/2004 and 16% for 2004/2005.

## Rates

Rates on properties remain at 5% of the rateable value throughout the territory. Recent revaluation indicates that the rateable values of premises have fallen by an average of 8%. It is expected that rates payable on properties will be reduced.

## **Profits Tax**

Any person who carrying on business in Hong Kong is liable to Profits Tax on profits arising in or derived from Hong Kong.

The profits tax rate for corporations will be increased from 16% to 17.5% with effect from 2003/2004.

The profits tax rate for unincorporated businesses will be increased from 15% to 16%. The increase will be effected in two phases over two years. The rates for 2003/2004 and 2004/2005 will be 15.5% and 16%, respectively.

The rate of deeming assessable profits from royalty type payments for the use in Hong Kong of intellectual property will be increased from 10% of the payment to 30% of the payment. The effective tax rate on such payments will therefore increase from 1.6% (current rate) to 5.25% for 2003/2004.

## **Charitable Donations**

The Government will raise the existing ceiling for tax exempted donations from 10% of assessable profits to 25%.

## **Fund Management**

The Government will amend the Inland Revenue Ordinance to expand the exemption from profits tax to other offshore funds. This expansion to the current exemption provisions applying to certain types of funds is designed to reinforce the status of Hong Kong as an international financial centre. No further details of the type of offshore funds that will be covered by this concession were provided in the Budget Speech.

## **Debt Instruments**

To promote the development of the bond market, profits from qualifying debt instruments with a maturity period of seven years or more will be fully exempt from profits tax. The eligible maturity period for the current 50% tax concession on profits from such debt instruments will be reduced from five to three years.

## **Capital allowances**

The depreciation allowance for plant and machinery remain unchanged at:-

Initial allowance : 60% of qualifying expenditure in the year expenditure is incurred.

Annual allowance : 10%, 20% or 30% on written down value depending on the category to which the asset belongs.

Industrial Building Allowances remain unchanged at:-

Initial allowance : 20% of qualifying expenditure.

Annual allowance : 4% of qualifying expenditure.

The Commercial Building Allowance on qualifying expenditure remains at 4% per annum.

A full deduction is available for certain expenditure on computer hardware and software.

## **Further information**

For further information regarding the Hong Kong Budget 2003/2004, please contact us at (852) 2351 4806 or send mail to [info@ajmcs1.com.hk](mailto:info@ajmcs1.com.hk) with questions.