



Hong Kong Budget Summary 2019-2020



Commentary



The financial secretary, the Honourable Paul MP Chan, forecasts a healthy surplus of HKD 58.7 billion for 2018-19. Overall, the government expects to have robust fiscal reserves of HKD 1,161.6 billion by 31 March 2019. Looking ahead, the government anticipates maintaining this solid position over the next five years. Hong Kong is fortunate to have a very strong fiscal position which allows the government to continue to invest now and into the future.

As expected, livelihood issues were a main focus, and included tax rebates and targeted welfare measures to return part of the government's surplus to the people of Hong Kong. Most sectors have benefited in some way from the budget, with the financial services sector and the innovation and technology industry as the biggest winners. That said, education is the single largest area of government expenditure, and should perhaps have received greater attention. In a recent KPMG survey on smart cities, key priorities that respondents identified included strengthening education and developing a future-focused workforce. Ensuring that Hong Kong's education system is fit for purpose in giving people the right skills for tomorrow should be at the core of every budget.

Building on the last few budgets, the 2019-20 budget supports initiatives for a wide range of issues and sectors. Overall, this budget strikes a fair balance and will likely put money where it is needed in Hong Kong.



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Legislative proposals do not generally become law until their enactment and may be modified by the Legislative Council before enactment.

It should be noted that the information is presented in summary form and readers are advised to seek professional advice before formulating business decisions.

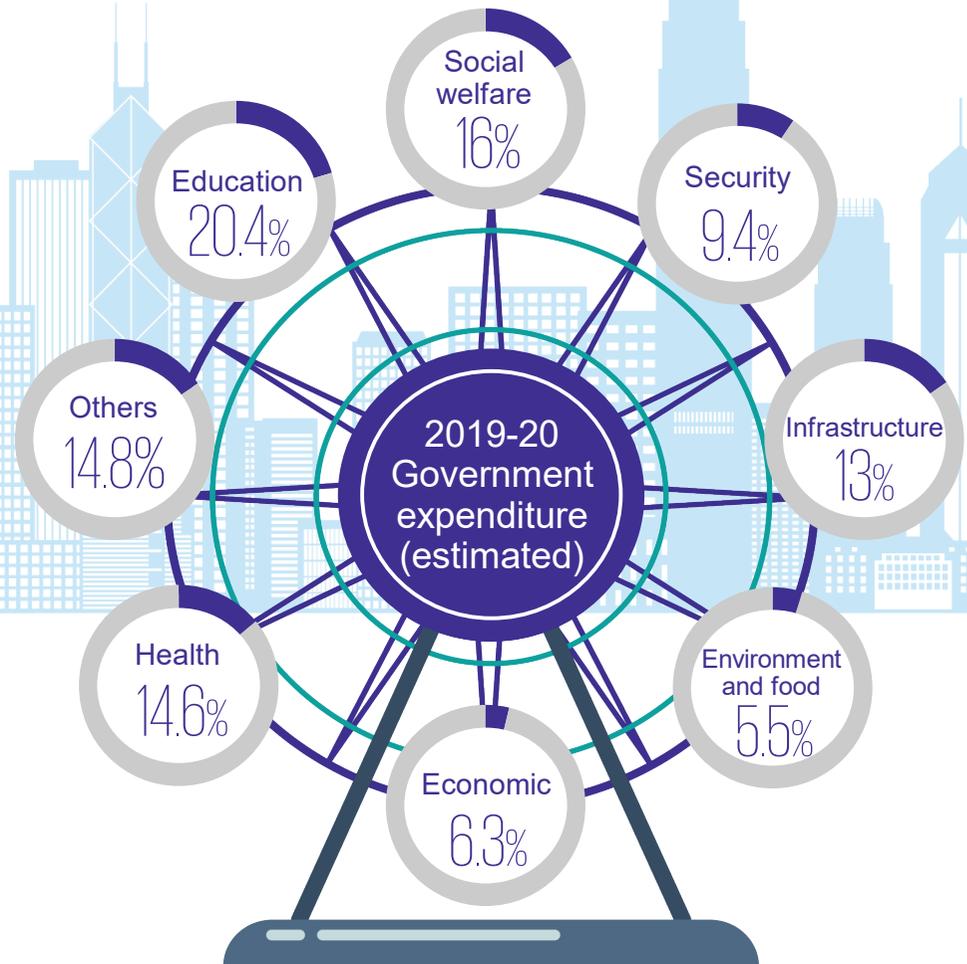
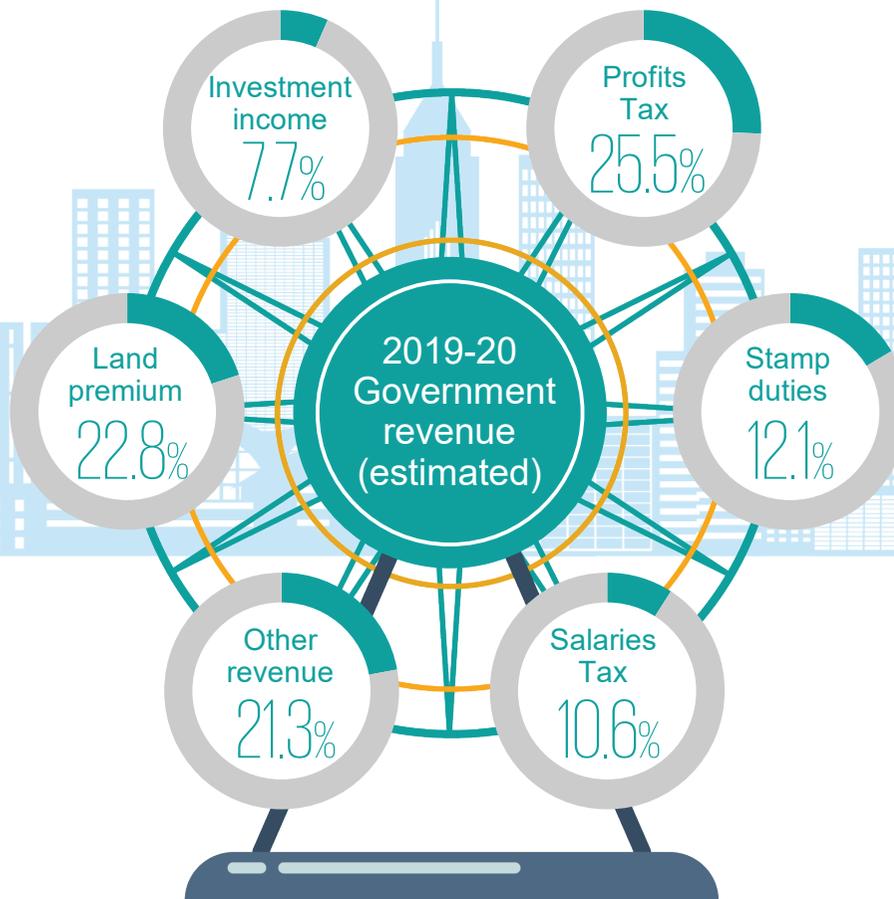
Hong Kong economic indicators





2019-20 Government revenue and expenditure (estimated)

The total government revenue for 2019-20 is estimated to be HKD 626.1 billion, within which tax revenues (i.e. Profits Tax, Stamp Duty, Salaries Tax) account for about 48% of total revenue, followed by land premium (22.8%) and investment income (7.7%). The total government expenditure is estimated at HKD 607.8 billion. Education, social welfare and healthcare account for about 51% of the total government expenditure. The government forecasts an overall surplus in the next five years. However, this has not taken into account the tax rebate and relief measures which the government may implement during the next five-year period.

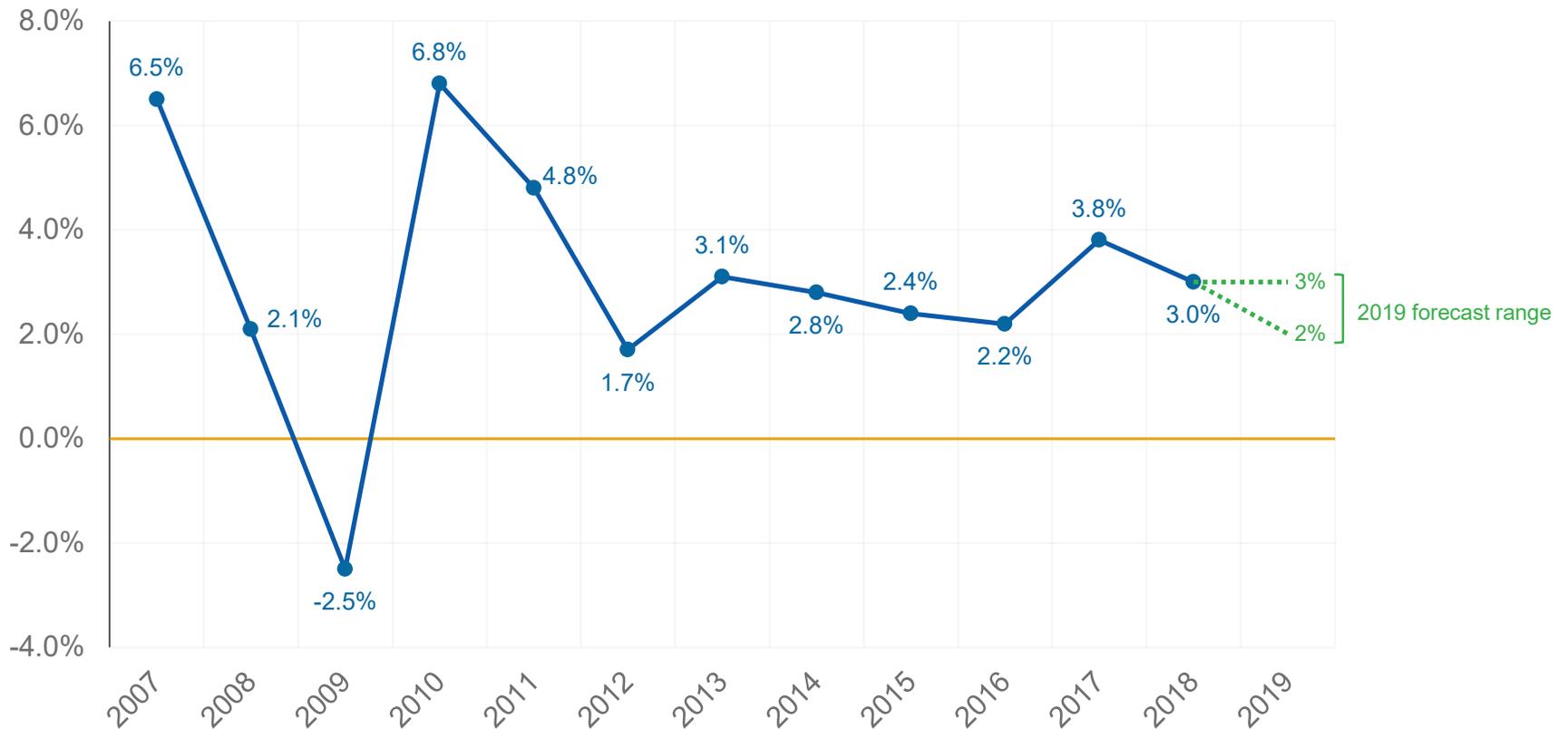


Source: 2019-20 Budget Speech by the financial secretary



Real gross domestic product growth rate

Overall, Hong Kong's economy grew by 3% in 2018. Pressures from global uncertainties such as Brexit and the US-China trade tension restrained Hong Kong's economic performance. Mainland China's economic slowdown also continues to affect Hong Kong's outlook. As such, Hong Kong's economic growth is projected to be between 2% and 3% in 2019. However, the financial secretary is confident that Hong Kong is fundamentally strong enough to withstand these pressures, given its sizeable foreign currency reserves and strong surpluses.

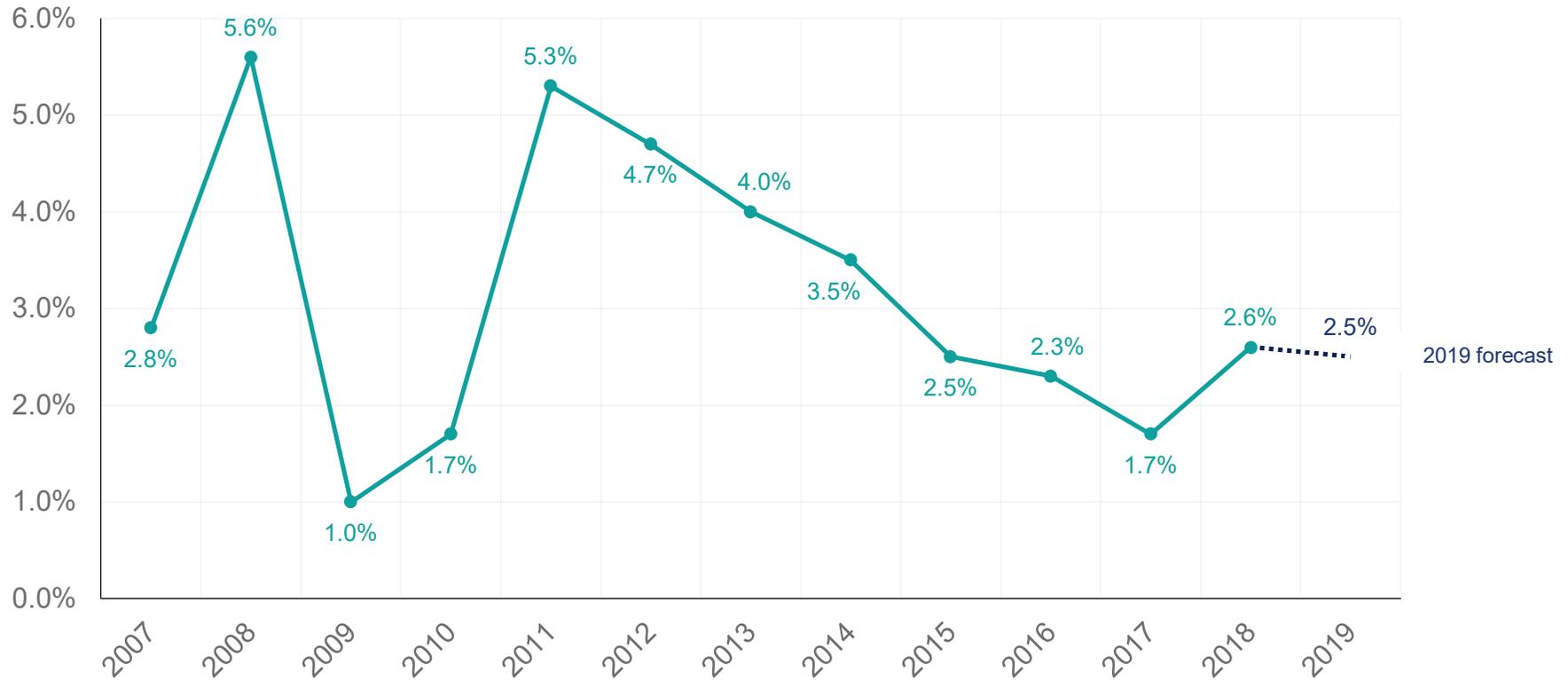


Source: Census and Statistics Department's website



Underlying inflation rate

The underlying inflation rate in 2018 is 2.6% and is forecast to be 2.5% in 2019. The government expects the moderate economic growth forecast and the strengthening of the US dollar vis-à-vis other major currencies to help keep external price pressures in check.

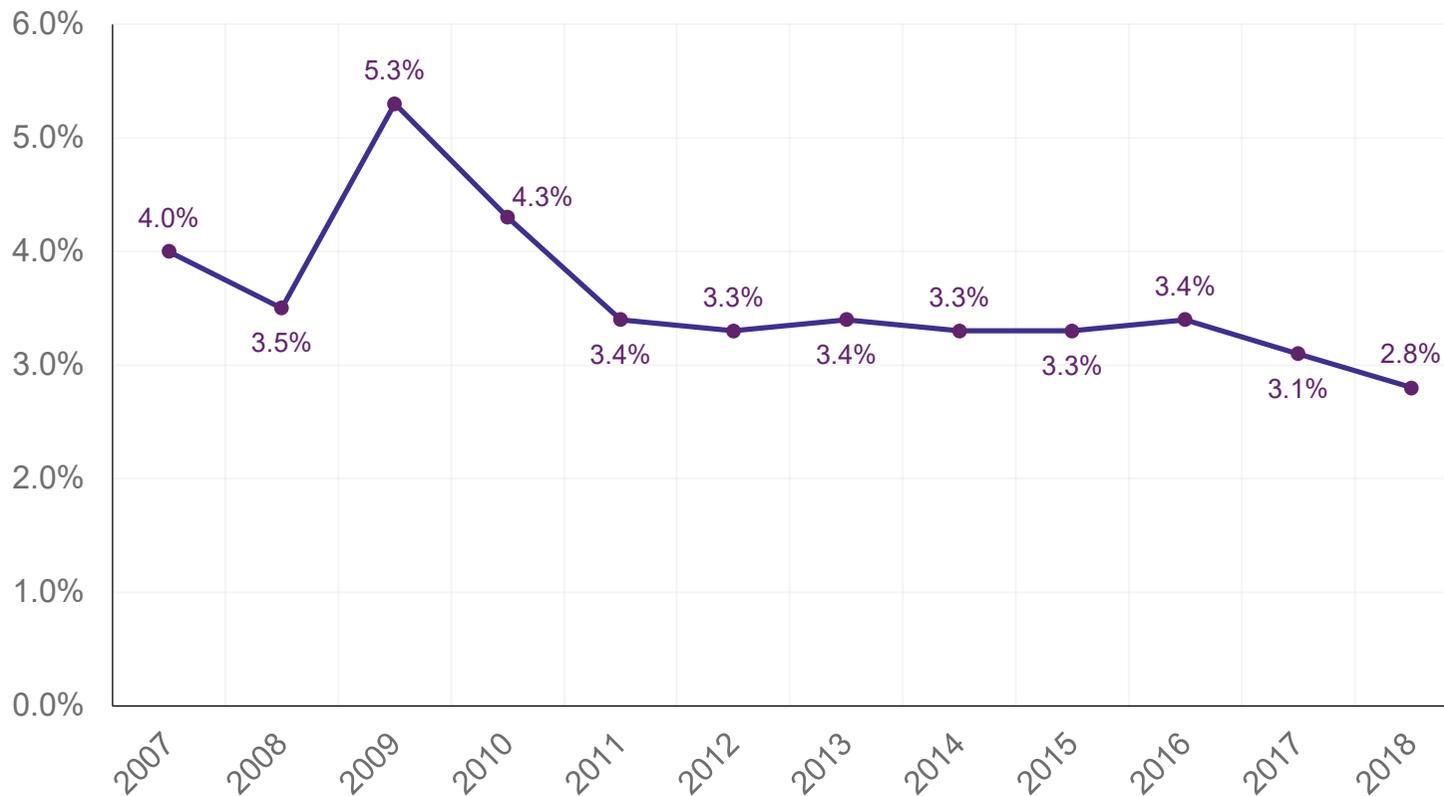


Source: Census and Statistics Department's website



Unemployment rate

The unemployment rate in Hong Kong stood at 2.8% in 2018, the lowest level since January 1998. On a yearly basis, the unemployment situation continued to improve for most of the main services sector (e.g. retail) amid stable local consumption and the buoyant performance of inbound tourism. Looking ahead, the labour market will likely remain tight in the short term.



Source: Census and Statistics Department's website

Budget proposals at a glance



Economy



International transportation centre

- Consider introducing tax and related measures to attract ship finance companies to develop ship leasing businesses in Hong Kong
- Provide a 50% tax concession to marine insurance businesses



Financial services

- Consider establishing a limited partnership regime and introducing a tax arrangement to attract private equity funds to set up and operate in Hong Kong
- Provide tax concessions for marine insurance and underwriting of specialty risks, and allow the setting up of special purpose vehicle companies to issue insurance-linked securities
- Provide **HKD 400 million** seed capital to the Financial Reporting Council and enable it to waive the levy for the first two years under the new regulatory regime



Innovation and technology

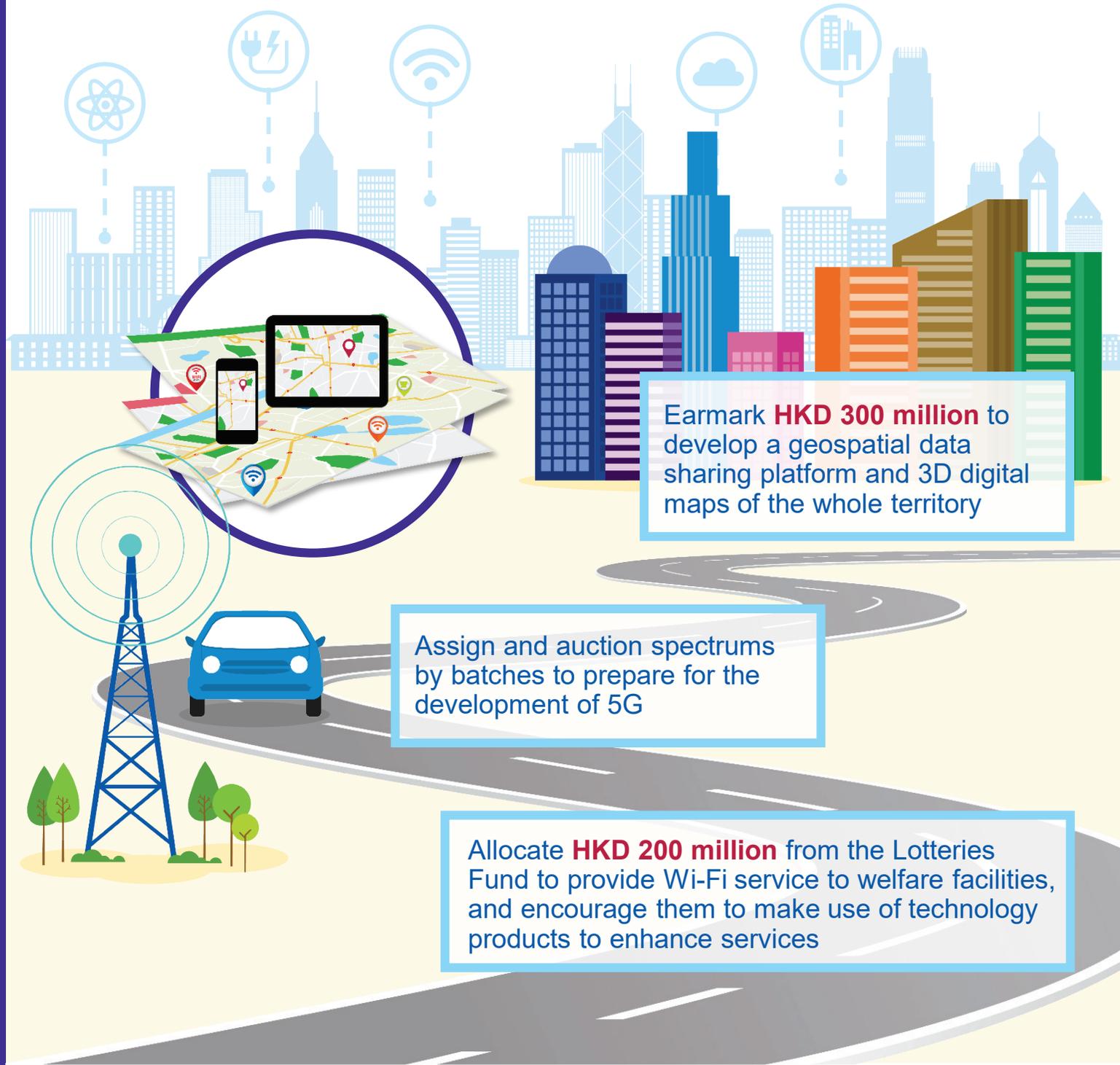
- Set aside **HKD 5.5 billion** for the development of Cyberport 5 to accommodate more technology companies and start-ups
- Inject **HKD 20 billion** into the Research Endowment Fund of the Research Grants Council under the University Grants Committee to provide research funding
- Establish two innovative clusters in the Science Park focusing on “artificial intelligence and robotic technologies” and “healthcare technologies”
- Launch the **HKD 2 billion** Re-industrialisation Funding Scheme in 2019
- Expand the Corporate Venture Fund of the Science Park to **HKD 200 million**
- Allocate **HKD 800 million** over five years to support research and development (R&D) work and the realisation of R&D results by universities, key laboratories and engineering research centres

Construction

- Promote the digitisation of the works supervision system to enhance the standard and efficiency in public works monitoring
- Implement Construction 2.0 to improve productivity, quality, safety and environmental performance



Smart city



Earmark **HKD 300 million** to develop a geospatial data sharing platform and 3D digital maps of the whole territory

Assign and auction spectrums by batches to prepare for the development of 5G

Allocate **HKD 200 million** from the Lotteries Fund to provide Wi-Fi service to welfare facilities, and encourage them to make use of technology products to enhance services

Community development and infrastructure



Healthcare

- Earmark **HKD 10 billion** as a Public Healthcare Stabilisation Fund to ensure stable funding for public healthcare services and for coping with unexpected circumstances
- Earmark **HKD 5 billion** to expedite the upgrading and acquisition of medical equipment
- Provide **HKD 400 million** additional recurrent funding to expand the scope of the Drug Formulary
- Provide over **HKD 700 million** additional recurrent funding for the Hospital Authority to implement measures to boost staff morale and retain staff.
- Allocate **HKD 1.2 billion** to establish the Hong Kong Genome Institute for promoting the application and development of genomic medicine

Arts and culture

- Provide **HKD 176 million** for hosting large-scale world-class arts programmes and strengthening district arts activities in the next five years
- Allocate **HKD 20 million** to support the digital conversion of film copies and film heritage
- Provide additional recurrent funding of **HKD 54 million** to support the operation of art groups

District facilities

- Earmark **HKD 6 billion** for the enhancement of the waterfront
- Allocate **HKD 600 million** to refurbish public toilets
- Set up a **HKD 200 million** Urban Forestry Support Fund to strengthen public education and promotion of tree care, enhance professionalism of the arboriculture and horticulture sector, and attract new blood

Sports

- Inject **HKD 250 million** into the Hong Kong Athletes Fund to support athletes in pursuing athletic training and academic studies concurrently
- Allocate around **HKD 100 million** in the next two years to support the operation of 60 national sports associations



Caring society



Allocate **HKD 1.36 billion** to provide 500 residential care places and 300 subsidised day-care places for the elderly, and launch a pilot scheme to offer outreach services for private elderly homes

Allocate **HKD 290 million** to strengthen rehabilitation services, including increasing service places, support centres and relevant manpower

Allocate **HKD 20 billion** to purchase 60 properties for accommodating over 130 welfare facilities

Provide a one-off grant of **HKD 2,500** to each student in need

Propose one-off additional Elderly Health Care Vouchers of **HKD 1,000**

Allocate **HKD 1.298 billion** to enhance services for toddlers, children and youths, including increasing the number of school social workers to two per secondary school

Inject **HKD 150 million** into the Enhancing Self-Reliance Through District Partnership Programme

Land and housing



Set aside **HKD 2 billion** to support NGOs in constructing transitional housing

Public housing: Estimated production for the next five years is about **100,400** units

Potential land supply for private housing in 2019-20 is expected to have a capacity to produce about **15,500** units

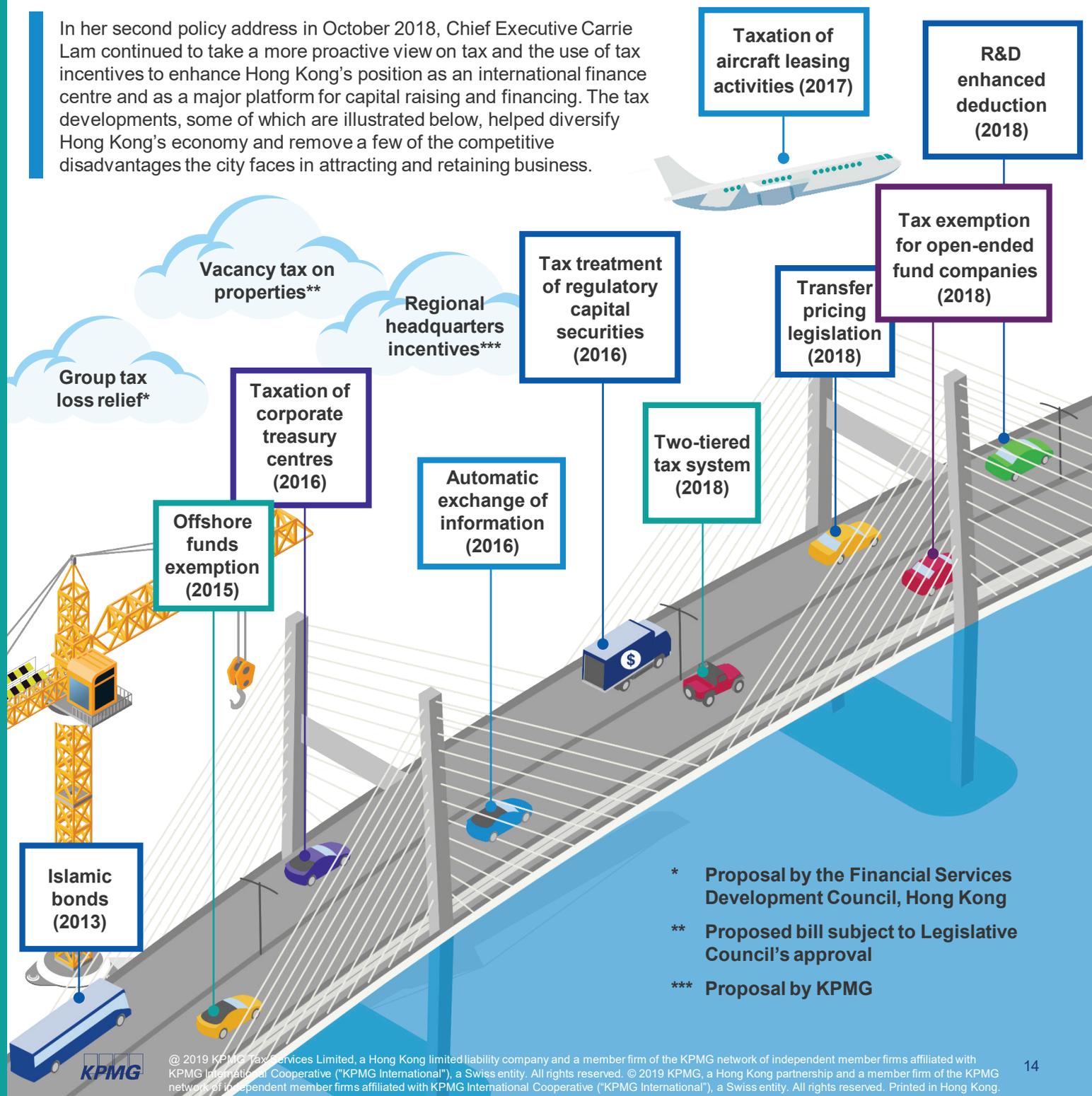
Private housing: Projected supply of first-hand private residential property of about **93,000** units in the next 3 to 4 years. Estimated average annual production will be about **18,800** residential units in the next 5 years.

Key tax developments



Key tax developments

In her second policy address in October 2018, Chief Executive Carrie Lam continued to take a more proactive view on tax and the use of tax incentives to enhance Hong Kong's position as an international finance centre and as a major platform for capital raising and financing. The tax developments, some of which are illustrated below, helped diversify Hong Kong's economy and remove a few of the competitive disadvantages the city faces in attracting and retaining business.



For further details, please access our *Tax Alerts* through the link below:

<https://home.kpmg/cn/en/home/insights/2019/01/hk-tax-alert.html>

- * Proposal by the Financial Services Development Council, Hong Kong
- ** Proposed bill subject to Legislative Council's approval
- *** Proposal by KPMG



Profits Tax





Profits Tax

Key proposed changes

Reduction of 75% in Profits Tax payable for 2018-19, subject to a ceiling of **HKD 20,000**

Continue to enhance tax concessions related to qualifying corporate treasury centres

Consider establishing a limited partnership regime and introducing tax arrangement to attract private equity funds to set up and operate in Hong Kong

Provide a 50% tax concession to marine insurance business



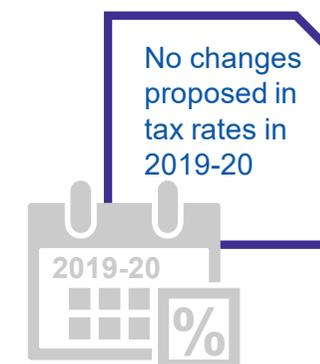
Tax rates		
	Corporation	Unincorporated business
Standard tax rate	16.5%	15%
Two-tiered Profits Tax regime Qualifying taxpayers may be taxed at the following reduced rates: <ul style="list-style-type: none"> - First HKD 2 million of assessable profits - Remaining balance Only one entity within a group can benefit from the above reduced rates.	8.25% 16.5%	7.5% 15%

Royalties paid to non-residents

When payment is derived from an associated company and the relevant intellectual property has once been owned by any Hong Kong taxpayer, the assessable profits are deemed to be 100% of the payment (i.e. effective tax rate is 16.5%). In other cases, the assessable profits are generally deemed at 30% of the payment (i.e. effective tax rate is 4.95%). The effective tax rate may be reduced under the terms of the applicable double taxation agreement or election of the two-tiered Profits Tax rate.

Capital allowances	
Depreciation allowances for plant and machinery <ul style="list-style-type: none"> - Initial allowance - Annual allowance 	60% 10%, 20% or 30%
Industrial building allowances <ul style="list-style-type: none"> - Initial allowance - Annual allowance 	20% 4%
Commercial building allowance	4%
Building refurbishment	20% deduction for 5 years
Expenditure on computer hardware and software	100% deduction
Expenditure on environmentally friendly machinery and equipment	100% deduction
Enhanced tax deduction for qualifying research and development expenditure	300% (for the first HKD 2 million) 200% (for the remaining balance)

Source: Inland Revenue Department's website



Salaries Tax





Salaries Tax

Key proposed changes

No changes proposed to tax rates and allowances for individuals

Reduction of 75% in Salaries Tax payable for 2018-19, subject to a ceiling of **HKD 20,000**

New deduction – annuity premiums and MPF voluntary contributions which is capped at **HKD 60,000**

Tax rates

The tax charge for Salaries Tax is the lower of the:

- (a) Net assessable income less charitable donations and allowable deductions at the standard rate (15%); or
- (b) Net assessable income less charitable donations, allowable deductions and personal allowances, charged at the progressive rates below.

2013-14 to 2016-17			2017-18			2018-19/ 2019-20		
	Rate	HKD		Rate	HKD		Rate	HKD
First HKD 40,000	2%	800	First HKD 45,000	2%	900	First HKD 50,000	2%	1,000
Next HKD 40,000	7%	2,800	Next HKD 45,000	7%	3,150	Next HKD 50,000	6%	3,000
Next HKD 40,000	12%	4,800	Next HKD 45,000	12%	5,400	Next HKD 50,000	10%	5,000
						Next HKD 50,000	14%	7,000
Balance	17%			17%			17%	

Allowances for individuals		2013-14 HKD	2014-15 HKD	2015-16 HKD	2016-17 HKD	2017-18 HKD	2018-19 HKD	2019-20 HKD
Personal allowances 	Basic	120,000	120,000	120,000	132,000	132,000	132,000	132,000
	Married	240,000	240,000	240,000	264,000	264,000	264,000	264,000
	Single parent	120,000	120,000	120,000	132,000	132,000	132,000	132,000
	Disabled	-	-	-	-	-	75,000	75,000
Child allowances 	1st to 9th child (each)							
	- Year of birth	140,000	140,000	200,000	200,000	200,000	240,000	240,000
	- Other years	70,000	70,000	100,000	100,000	100,000	120,000	120,000
Dependent parent and grandparent allowances 	Aged 60 or above	38,000	40,000	40,000	46,000	46,000	50,000	50,000
	Aged between 55 and 59	19,000	20,000	20,000	23,000	23,000	25,000	25,000
Additional dependent parent and grandparent allowances 	Aged 60 or above	38,000	40,000	40,000	46,000	46,000	50,000	50,000
	Aged between 55 and 59	19,000	20,000	20,000	23,000	23,000	25,000	25,000
Disabled dependent (spouse/child/parent/grandparent/brother/sister) allowances 		66,000	66,000	66,000	66,000	75,000	75,000	75,000
Dependent brother/sister allowances 		33,000	33,000	33,000	33,000	37,500	37,500	37,500

Deductions – maximum limit	2013-14 HKD	2014-15 HKD	2015-16 HKD	2016-17 HKD	2017-18 HKD	2018-19 HKD	2019-20 HKD
Self-education expenses	80,000	80,000	80,000	80,000	100,000	100,000	100,000
Elderly residential care expenses	76,000	80,000	80,000	92,000	92,000	100,000	100,000
Mandatory contributions to recognised retirement schemes	15,000	17,500	18,000	18,000	18,000	18,000	18,000
Home loan interest	100,000						
Approved charitable donations	35% of assessable income						
Qualifying voluntary health insurance scheme policy premiums	-	-	-	-	-	-	8,000 per insured person
Annuity premiums and MPF voluntary contributions	-	-	-	-	-	-	60,000*

* Proposed bill subject to Legislative Council's approval
Source: Inland Revenue Department's website

Property Tax, Rates and Stamp Duty





Property Tax, Rates and Stamp Duty

Property Tax

No changes proposed

Stamp Duty

No changes proposed

Rates

Rates waiver for all four quarters of 2019-20, subject to a ceiling of HKD 1,500 per quarter for each rateable property

Stamp Duty



Lease of immovable properties

Lease term	Rate
Not defined or is uncertain	0.25% of the yearly or average yearly rent
Does not exceed 1 year	0.25% of the total rent payable over the term of the lease
Exceeds 1 year but not exceeding 3 years	0.5% of the yearly or average yearly rent
Exceeds 3 years	1% of the yearly or average yearly rent

Sale and purchase of Hong Kong stock



0.2% of the consideration or the value of the stock as at the transfer date – whichever is higher

Sale on transfer of immovable properties



Ad valorem stamp duty

Property consideration

Exceeds	Does not exceed	Flat rate (for residential properties)	Scale 1 rates* (for non-residential properties)	Scale 2 rates* (for Hong Kong permanent residents who do not own other residential properties and in other specified circumstances)
	HKD 2,000,000	15%	1.5%	HKD 100
HKD 2,000,000	HKD 3,000,000		3.0%	1.5%
HKD 3,000,000	HKD 4,000,000		4.5%	2.25%
HKD 4,000,000	HKD 6,000,000		6.0%	3.0%
HKD 6,000,000	HKD 20,000,000		7.5%	3.75%
HKD 20,000,000			8.5%	4.25%

* Subject to marginal relief



Special stamp duty on disposal of residential properties

Property holding period	Tax rate
6 months or less	20%#
More than 6 months but not exceeding 12 months	15%#
More than 12 months but not exceeding 36 months	10%#

On the sales consideration or market value of property at the date of sale (whichever is higher)

Property Tax

Tax rate 15%

The tax rate is applied to the “net assessable value” of the property which is calculated at the total rent receivable (net of rates) less 20% statutory allowance for repairs and outgoings.

Sources: Inland Revenue Ordinance
Stamp Duty Ordinance
Rating and Valuation Department's website



Buyer's stamp duty on acquisition of residential properties

	Tax rate
For non-Hong Kong permanent residents	15%#

Rates

Tax rate 5%

The tax rate is applied to the “rateable value” which is the estimated annual rental value of the property at a designated valuation reference date.

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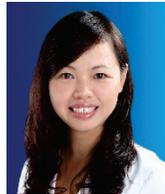
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