2019/20 Hong Kong Budget Commentary

Overview

On 27th February, 2019, Mr. Paul M Chan, the Financial Secretary of Hong Kong, delivered his third budget speech at the Legislative Council.

Facing the external uncertainty in the global economic market, the GDP growth of the Hong Kong economy has decelerated starting from the third quarter. However, the Hong Kong economy grew solidly with a GDP real growth of 3% for the year 2018 as a whole, which is still above the 10-year growth trend of 2.8%. Benefited from the sustained growth of goods exports as well as the resilient domestic demand, the labour market remained to be a state of full employment. Total employment registered visible growth on a year-on-year basis and the seasonally adjusted unemployment rate stayed at 2.8%. Contributed by the higher global inflation and continued feed-through of earlier rises in fresh-letting residential rentals, the inflation rate increased significantly from 1.7% for 2017 to 2.6% for 2018.

Alongside the further tightening of financial conditions across advanced economies, particular in the United States and the European Union, the rise of protectionism seriously affect the global business sentiment. The US-China trade conflicts that began in early July 2018 also imposed huge uncertainties to global economy, especially to those in the Asia-Pacific region. Although truces and trade talks have been taken place attempting to reach mutual consent of both the US and China, the parties have not reached common consensus and additional tariffs may still be imposed. Developments of the conflicts would unavoidably pose a significant impact to the economy of Hong Kong. If the conflicts sustain or escalate, the impact on the Hong Kong economy will become more apparent.

The budget surplus of 2018/19 is HKD58.7 billion, which is HKD12.1 billion higher than the original estimated budget surplus of HKD46.6 billion. As mentioned in the budget this year, the Government will take actions to leverage our edges and seize opportunities to promote a diversified economy so as to support enterprises, safeguard jobs, stabilise the economy, and strengthen livelihoods. As such, the budget has proposed the following relief measures:-

Highlights

	Proposed fiscal/ tax measures
1	Reduce profits tax for 2018/19 by 75 percent, subject to a ceiling of HKD20,000
2	Reduce salaries tax and tax under personal assessment for 2018/19 by 75 percent, subject to a ceiling of HKD20,000
3	Waive rates for four quarters of 2019/20, subject to a ceiling of HKD1,500 per quarter
4	Waive business registration fees for 2019/20
5	Offer a 50 percent profits tax concession to the marine insurance industry and other eligible insurance businesses

	Policies for long-term development
1	Establish the Academy of Finance in mid-2019, which aims to attain the goal of nurturing financial leadership and encouraging applied research in cross-sectoral areas
2	Inject HKD2 billion into the Innovation & Technology Fund for launching a Re-industrialisation Funding Scheme to subsidise manufacturers on a matching basis to help them set up smart production lines in Hong Kong in order to develop real high-end production in Hong Kong
3	Consider establishing a limited partnership regime for private equity funds, with a view of providing the industry with more fund structure choices. Consider introducing a more competitive tax arrangement to attract private equity funds to set up and operate in Hong Kong

Exemption of Income or Claim for Tax Credit under Salaries Tax

The Inland Revenue (Amendment) (No. 6) Ordinance 2018 ("the Amendment Ordinance") enacted on 13th July, 2018 has introduced changes to Salaries Tax relating to double tax relief. This new arrangement has impact on employees based in Hong Kong who render service and pay income tax in other territories outside Hong Kong starting from the year of assessment 2018/19 (i.e. from 1st April, 2018 to 31st March, 2019).

Changes to Exemption of Income

Section 8(1A)(c) of the Inland Revenue Ordinance ("the IRO") allows a taxpayer's income to be exempt from Hong Kong Salaries Tax when the part of income was derived by the taxpayer from services rendered in any territory outside Hong Kong and is chargeable to tax of substantially the same nature as salaries tax in that territory. Starting from the year of assessment 2018/19, the Amendment Ordinance has disallowed the application of Section 8(1A)(c) to income derived in jurisdictions with which comprehensive avoidance of double taxation agreement ("DTA") were signed with Hong Kong. For those cases, the taxpayer will have to claim tax credit on such income under Section 50.

Changes to Claim for Tax Credit

For territories where DTAs were signed with Hong Kong, Section 50 of the IRO allows the income tax paid in those territories as a credit against Hong Kong tax payable in respect of the same income. The maximum tax credit allowable is restricted by the amount of tax imposed on that income in Hong Kong. To be eligible to claim for tax credit in Hong Kong for salaries tax purpose, a taxpayer must be a Hong Kong tax resident who ordinarily resides in Hong Kong or stays in Hong Kong for more than 180 days during the relevant year of assessment or for more than 300 days in two consecutive years of assessment which one of the years is the relevant year of assessment.

Furthermore, the Amendment Ordinance emphasizes the importance for taxpayers to take all reasonable steps to minimize the amount of foreign tax payable, such as claiming or securing the benefit of relief, deductions, reductions or allowances and making elections for tax purpose. The amount of relief granted from double taxation must not exceed the amount of relief that would be granted had all foreign tax minimization steps been taken. In addition, the period for claiming tax credit has been extended from two years to six years. Lastly, a taxpayer is required to give a written notice to the Inland Revenue Department ("the IRD") within three months after any adjustment made to the person's foreign tax under the laws of the foreign territory if the adjustment would make the relief granted to the taxpayer excessive. As such, taxpayers have to be more cautious when filing foreign tax returns and notify the IRD when there are any changes to the circumstances.

Apart from disallowing the application of Section 8(1A)(c) to exempt income derived from DTA territories, other tax relief allowable to individuals under the IRO remains unchanged. For individuals with source of employment outside Hong Kong, only the portion of income computed by time-basis apportionment with reference to services rendered by the taxpayer in Hong Kong is subject to salaries tax in Hong Kong. For individuals who visit Hong Kong for less than 60 days during the relevant year of assessment, exemption of income is entitled under Section 8(1B).

Application for Exemption of Income or Claim for Tax Credit

Taxpayer who would like to be benefit from the exemption of income or claim of tax credit should note that such relief is only granted upon application with supporting documents. The application should be done by completing section 3 (Relief Claimed under Comprehensive Double Taxation Agreement(s) / Arrangement(s)) or section 4 (Application for Full / Partial Exemption of Income included under Part 4.1 of BIR60) of the Appendix to Individual Tax Return for the relevant year of assessment. Evidence of tax payment including foreign Individual Income Tax Return, tax receipts, detailed computation of amounts for which relief sought and the taxpayer's travel schedule should be provided as valid supporting documents for such application.

Mobile employees who render services abroad and pay tax in both Hong Kong and overseas should consult their tax advisors to evaluate whether they would be subject to the new regulations.

Should you need further explanation on the above matters, please kindly contact us at (852) 3929-4800 to seek our professional advice.

Contact us:

For more information, please contact:

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About Aoba & Hopkins Group:

The Aoba & Hopkins Group consists of CPA firms and full service consulting firms located in Hong Kong, Guangzhou and Beijing that have been providing quality and efficient professional services to our valued clients aboard and at home since 1989.

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