

Assessing Functions

The Department raises revenue through taxes, duties and fees in accordance with the relevant legislation. Earnings and profits tax are assessed by reference to the incomes / profits of the taxpayers in the previous year, whereas duties and fees are charged at the time the relevant activities occur. For 2022-23, earnings and profits tax assessed increased by \$29.8 billion (12.3%) (**Schedule 2**) as compared with the previous year. The total amount of duties and fees collected decreased by \$29.2 billion (23.4%).

Profits Tax

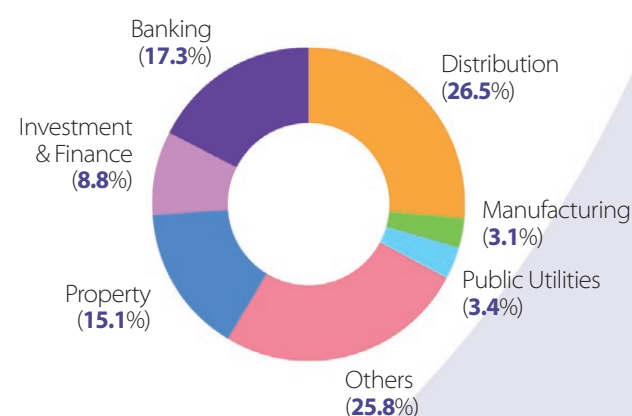
Profits tax is levied on individuals, corporations, bodies of persons and partnerships, in respect of assessable profits arising in or derived from Hong Kong. For the year of assessment 2021-22, the two-tiered profits tax rates remain unchanged. The profits tax rate for the first \$2 million of assessable profits is 8.25% for corporations and 7.5% for unincorporated businesses. Profits above that amount are subject to the tax rate of 16.5% and 15% respectively. For two or more connected entities, only one of them may elect for the two-tiered profits tax rates. The amount of profits tax assessed in 2022-23 was \$177.5 billion, which was \$23.1 billion (15.0%) more than that of the previous year (**Figure 5**).

The amounts of final tax assessed in respect of different business sectors are shown in **Schedules 3** and **4**. Of the total final tax assessed on corporations for the year of assessment 2021-22, the property, financial and banking sectors together contributed 41.2% and the distribution sector generated 26.5% (**Figure 6**).

Figure 5 Profits tax assessed



Figure 6 Ratios of corporation profits tax assessed under 2021-22 final assessments by business sectors

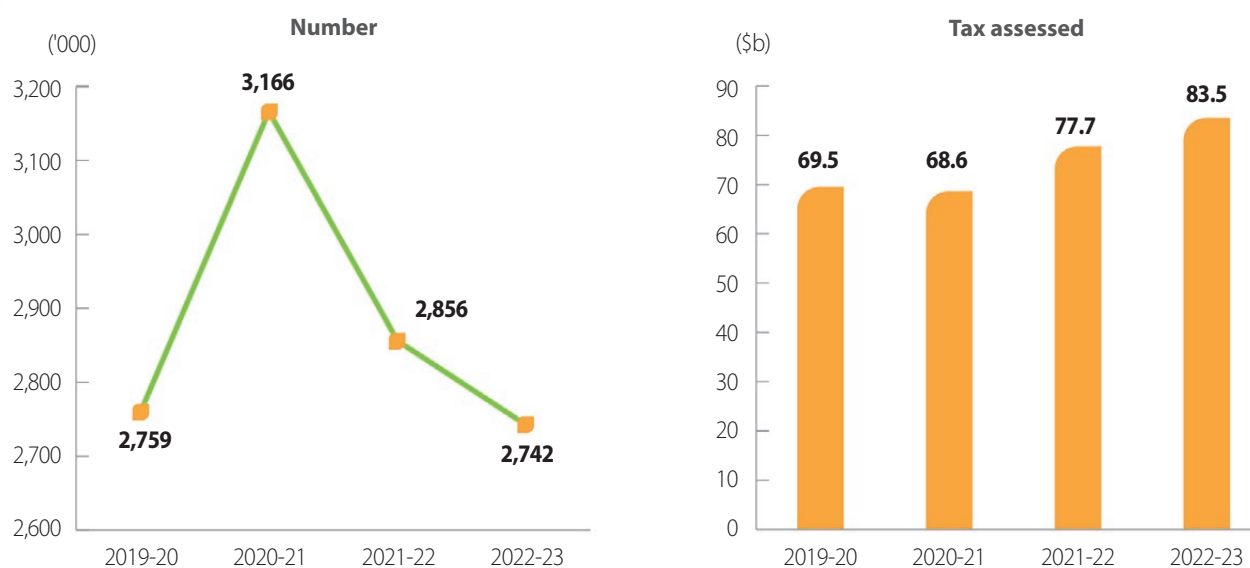


Salaries Tax

Salaries tax is charged on all incomes from any office (e.g. a directorship) or employment and pension arising in or derived from Hong Kong. The total amount of tax payable is restricted to the standard rate (15%) on the net total income (without deduction of allowances) of the individual concerned.

As compared with the previous year, the number of salaries tax assessments made during 2022-23 decreased by 4.0%. However, the rise in wages and earnings had led to a 7.5% increase in the amount of tax assessed (**Figure 7**).

Figure 7 Salaries tax assessments



Analyses of salaries tax assessments and allowances granted in respect of taxpayers at various income levels for the year of assessment 2021-22 are provided in **Schedules 5 and 6**.

For the year of assessment 2021-22, the number of standard rate taxpayers increased by 2,470 to 27,766. These taxpayers together contributed 35.6% of the final salaries tax assessed, an increase of 0.7% compared with last year (**Figure 8**).

Figure 8 Salaries Tax - standard rate taxpayers

Percentage of total number of taxpayers

Year of Assessment	2020-21	2021-22
Total number of taxpayers	1,821,130	1,806,645
Standard rate taxpayers	25,296	27,766
Percentage	1.4%	1.5%

Figure 8 Salaries Tax - standard rate taxpayers (continued)

Percentage of total final tax assessed

Year of Assessment	2020-21	2021-22
Total final tax assessed (\$M)	75,708	80,257
Final tax contributed by standard rate taxpayers (\$M)	26,395	28,559
Percentage	34.9%	35.6%

Notification Requirements of Employers

Employers are required to notify the Department of commencements and cessations of employment as well as employees' impending departure from Hong Kong for more than 1 month. Besides, employers are required to prepare annual employer's returns to report the emoluments of each of their employees. During the year, 380,469 employers filed employer's returns with the Department.

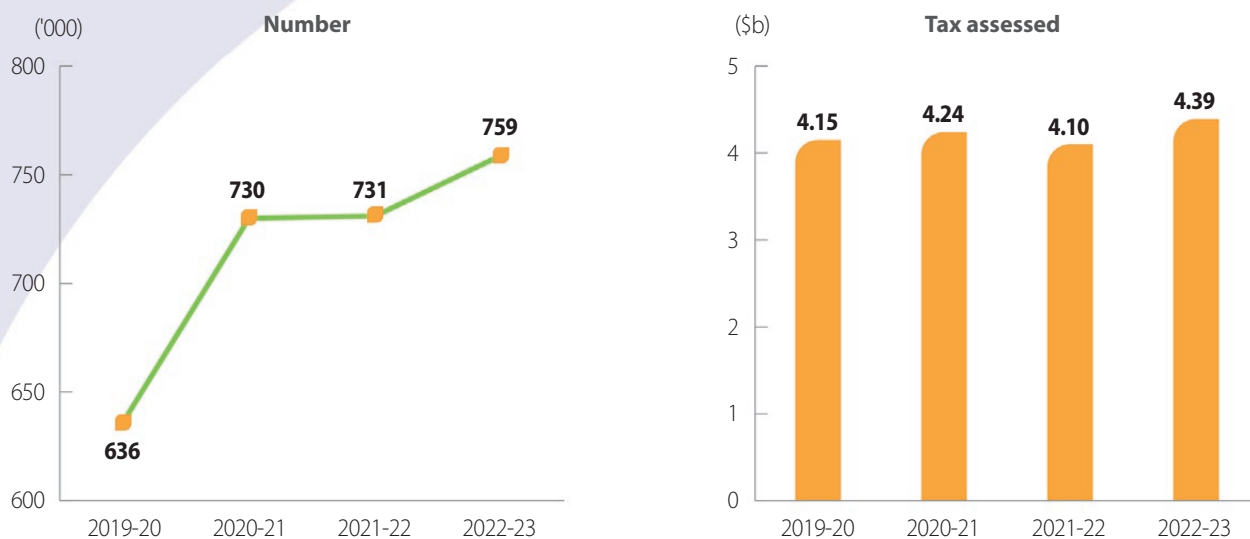
The Department provides e-Seminars and disseminates tax information to employers on the IRD website to help them understand the relevant statutory requirements. The contents cover completion of employer's returns, employer's obligations and answers to frequently asked questions. Employers can also obtain specimens of completed employer's returns and notification through the Fax-A-Form service.

Property Tax

Property owners (including corporations) are subject to property tax which is charged at the standard rate (15%) in respect of the net assessable value of the property. Rents received from properties solely owned by individuals should be declared in Tax Returns - Individuals (BIR60); whilst rents received from properties jointly owned or co-owned by individuals or properties held by corporations / bodies of persons should be declared in Property Tax Returns (BIR57 / BIR58). Property owners that pay property tax in respect of premises used for their businesses can have such payments set off against their profits tax liabilities. For corporations, income arising from properties owned by them is also subject to profits tax at the corporation rate. To obviate the need for yearly set-off of property tax against profits tax, a corporation can apply for exemption of property tax on the property concerned.

Statistics on the classification of properties and classification by number of owners, based on the records of the Department, are provided in **Schedule 7**. The number of assessments made in 2022-23 was more than that in the previous year by 3.8%. The amount of property tax assessed increased by 7.1% (**Figure 9**).

Figure 9 Property tax assessments

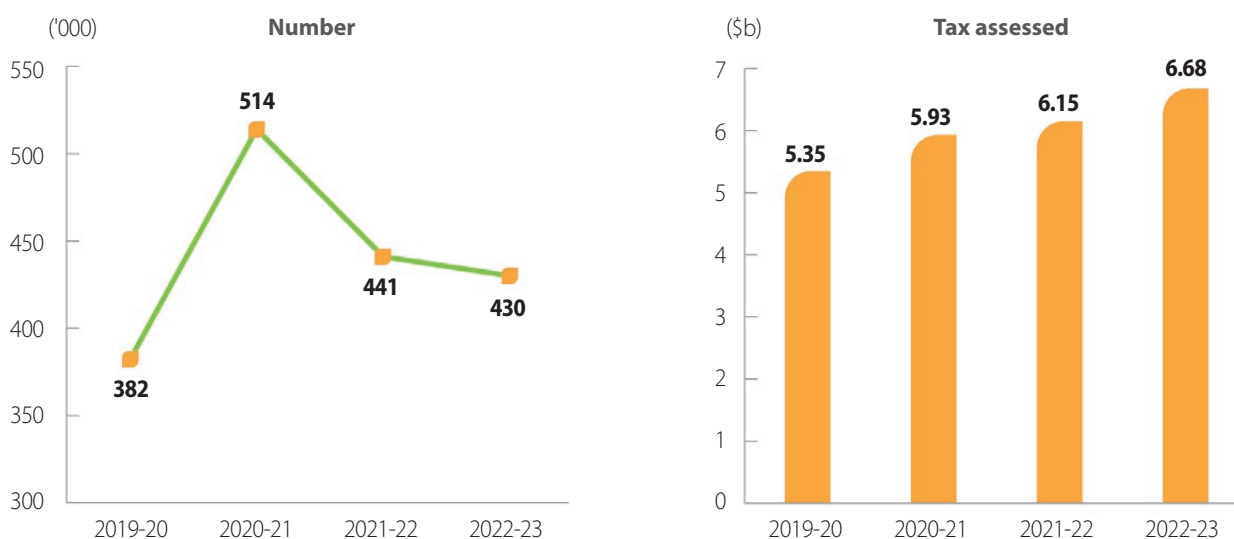


Personal Assessment

If an individual has income chargeable to profits tax and/or property tax, the individual may elect for personal assessment. Under personal assessment, all the incomes of the taxpayer are aggregated and, after deduction of allowances, are assessed at the progressive tax rates applicable to salaries tax. From the year of assessment 2018-19 onwards, a married person may elect for personal assessment separately from or jointly with the person's spouse. In appropriate circumstances, this would reduce the tax liability of the taxpayer or the total tax liability of the taxpayer and the taxpayer's spouse.

As compared with the previous year, the number of personal assessments made in 2022-23 decreased by 2.5% and the amount of tax assessed was 8.6% higher (Figure 10).

Figure 10 Assessments made under personal assessment



Advance Rulings

Taxpayers may apply for an advance ruling on how a provision of the Inland Revenue Ordinance applies in relation to a particular arrangement. A fee is charged for the service on a “cost recovery” basis. The applicant is required to pay an initial application fee of \$45,000 for a ruling concerning the application of the “Territorial Source Principle” in a profits tax case, or \$15,000 for a ruling on any other matter. An additional fee is payable if the processing time exceeds the specified limit. The Department endeavours to respond within 6 weeks of the date of application, provided that all relevant information is supplied with the application and further information from the applicant is not required.

During 2022-23, the Department completed the processing of 15 advance ruling applications (**Figure 11**). Most of the applications were for rulings on profits tax matters.

Figure 11 Advance rulings

	2021-22 Number	2022-23 Number
Awaiting decision at the beginning of the year	18	8
Add: Applications received during the year	<u>13</u>	<u>21</u>
	31	29
Less: Disposed of -		
Rulings made	11	10
Applications withdrawn	12	5
Rulings declined	<u>0</u>	<u>0</u>
	23	15
Awaiting decision at the end of the year	<u><u>8</u></u>	<u><u>14</u></u>

Objections

A taxpayer who is aggrieved by an assessment may lodge a notice of objection to the Commissioner within the prescribed time limit. If the objection is against an estimated assessment raised in the absence of a tax return, a properly completed return, together with the supporting accounts where applicable, must also be accompanied with the notice of objection. A significant proportion of the objections received each year arise from estimated assessments. Most of these objections are settled promptly by reference to the returns subsequently received. Many of the other types of objections are also settled by agreement between the taxpayers and the assessors concerned. Only relatively few objections are ultimately referred to the Commissioner for determination. During 2022-23, the Department completed the processing of 90,412 objections (**Figure 12**).

Figure 12 Objections

	2021-22 Number		2022-23 Number	
Being processed at the beginning of the year	41,371		41,704	
Add: Received during the year	<u>97,762</u>		89,330	
	139,133		131,034	
Less: Disposed of -				
Settled without determination	96,985		90,001	
Determinations:				
Assessments confirmed	214		209	
Assessments reduced	138		113	
Assessments increased	90		89	
Assessments annulled	<u>2</u>	<u>444</u>	0	411
	<u>97,429</u>		90,412	
Being processed at the end of the year	<u>41,704</u>		40,622	

Appeals to the Board of Review

A taxpayer who is dissatisfied with the Commissioner's determination of his objection may appeal to the Board of Review (Inland Revenue Ordinance) (the Board). The Board is an independent statutory body. As at 31 March 2023, the Board consisted of a chairman and 6 deputy chairmen, who have legal training and experience, as well as 68 members. During 2022-23, the Board settled 41 appeal cases (**Figure 13**).

Figure 13 Appeals to the Board of Review

	Number	
Awaiting hearing or decision as at 1 April 2022	46	
Add: Received during the year	<u>30</u>	
	76	
Less: Disposed of -		
Withdrawn	7	
Decided:		
Assessments confirmed	19	
Assessments reduced in full	0	
Assessments reduced in part	6	
Assessments increased	<u>9</u>	<u>34</u>
	<u>41</u>	
Awaiting hearing or decision as at 31 March 2023	<u>35</u>	

Appeals to the Courts

A decision of the Board is final, provided that either the taxpayer or the Commissioner may, pursuant to section 69 of the Inland Revenue Ordinance, appeal to the Court of First Instance against the Board's decision on a question of law. Before 1 April 2016, taxpayers or the Commissioner could only appeal to the court by way of case stated from the Board. With effect from that date, the case stated procedure was abolished and no appeal may be made unless leave to appeal has been granted by the court, on the application of the taxpayer or the Commissioner.

During 2022-23, the Court of First Instance allowed a taxpayer's appeal concerning profits tax. The Court ruled that the taxpayer did not have a business in Hong Kong nor did its profits arise in Hong Kong.

During the year, the Court of Appeal disposed of 4 appeals, of which 3 related to salaries tax and one concerned profits tax. In one case, the Court allowed the Commissioner's appeal and remitted the case to the Board to compute exempted employment income for services rendered outside Hong Kong based on an approved income apportionment formula. The Court ruled respectively in two other salaries tax cases that the share awards and dividends received by the taxpayer were not chargeable to tax, and that certain income for services rendered during rest days was not taxable income. In respect of the latter case, the Commissioner filed an appeal to the Court of Final Appeal. For the profits tax case, the Court dismissed the taxpayer's appeal on deduction of amortisation of spectrum utilisation fees.

The Hong Kong Court of Final Appeal Ordinance provides that, a taxpayer or the Commissioner may, with the leave of the Court of Appeal or the Court of Final Appeal, appeal against the judgment of the Court of Appeal. During 2022-23, the Court of Final Appeal dismissed the Commissioner's appeal concerning penalties imposed on directors under section 82A of the Inland Revenue Ordinance.

Figure 14 sets out the statistics concerning appeals to the Courts during 2022-23.

Figure 14 Appeals to the Courts

	Court of First Instance	Court of Appeal	Court of Final Appeal	Total
Awaiting hearing or decision as at 1 April 2022	2	4	1	7
Add: Lodged during the year	2	0	1	3
	4	4	2	10
Less: Disposed of	1	4	1	6
Awaiting hearing or decision as at 31 March 2023	3	0	1	4

Business Registration

The Department aims to maintain an efficient business registration system. A person carrying on a business in Hong Kong must register the business and pay the required fee and levy. The number of business registrations as at 31 March 2023 stood at 1,583,296. It was 35,701 more than that as at 31 March 2022 (**Figure 15**).

Business registration certificates are generally valid for one year, but businesses may elect for 3-year certificates. As at 31 March 2023, 26,890 businesses held 3-year certificates.

To help business enterprises, the Government waived the business registration fees for 2022-23. Businesses were still required to pay the levy on their business registration certificates. With effect from 17 June 2022, the levy was reduced from \$250 to \$150 for 1-year certificates. For businesses electing for 3-year certificates, they were required to pay \$3,200 for the business registration fees and \$450 for the levies.

Businesses that were not required to renew their registration certificates in 2022-23 could obtain concessionary refunds if they had paid the registration fees for that year. Up to 31 March 2023, the Department had issued concessionary refunds to 19,484 businesses totaling \$24 million.

As the waiver of business registration fees expired on 31 March 2023 and some businesses had settled in March 2023 the fees for the certificates commencing in April 2023, the amount of business registration fees and penalties collected in 2022-23 increased to \$129 million. It represents a significant increase of 126.3% compared with last year (**Figure 16**). Business registration statistics are set out in **Schedule 8**.

Figure 15 Number of business registrations

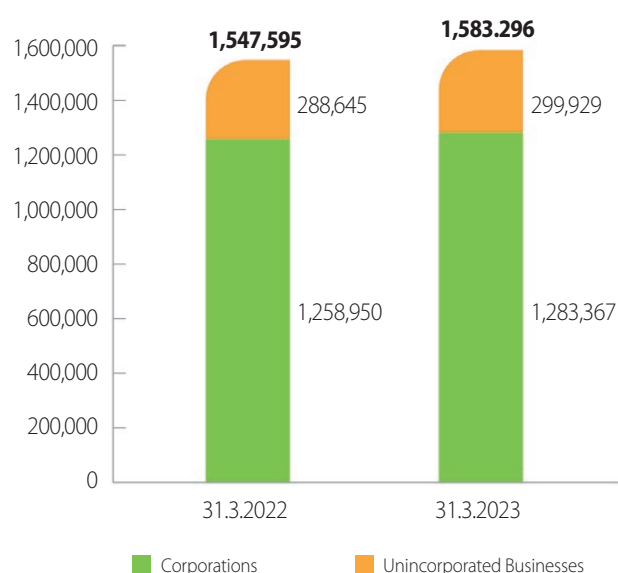


Figure 16 Business registration statistics

	2021-22	2022-23	Increase
Number of certificates paid (Main and Branch)	1,578,054	1,658,152	5.1%
Fees (inclusive of penalties) collected (\$m)	57	129	126.3%

Under the Business Registration Ordinance, a small business with average monthly sales or receipts below a specified limit (\$10,000 for businesses deriving profits mainly from the sale of services, and \$30,000 for other businesses) can apply for exemption from payment of the business registration fee and levy. Where an application for exemption is not allowed, the business operator may appeal to the Administrative Appeals Board. The number

of exemptions granted during 2022-23 was 9,448, representing a decrease of 3.7% from the previous year. No appeal case was received by the Board during 2022-23 (**Figure 17**).

Figure 17 Appeals to the Administrative Appeals Board

	2021-22 Number	2022-23 Number
Awaiting hearing at the beginning of the year	0	0
Add: Lodged during the year	1	0
	1	0
Less: Disposed of -		
Appeal allowed	0	0
Appeal dismissed	0	0
Appeal withdrawn	1	0
	1	0
Awaiting hearing at the end of the year	0	0

Stamp Duty

Stamp duty is charged on instruments effecting property transactions, stock transactions and leasing of property in Hong Kong (**Figure 18**).

Overall, there was a decrease of 29.8% (\$29.7 billion) in the total stamp duty collection for the year 2022-23 (**Figure 19** and **Schedule 9**). The decrease in the total stamp duty collection is attributable to the decrease in stamp duty collected from share transactions and property transactions.

Figure 18 Composition of stamp duty collections

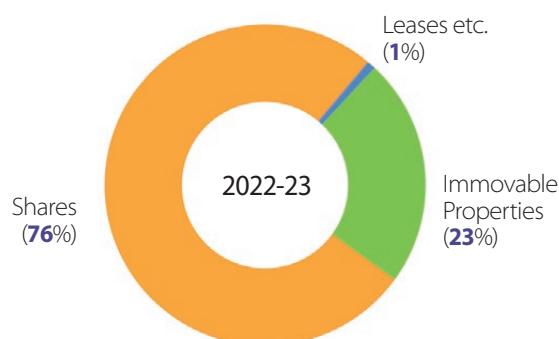


Figure 19 Stamp duty collections

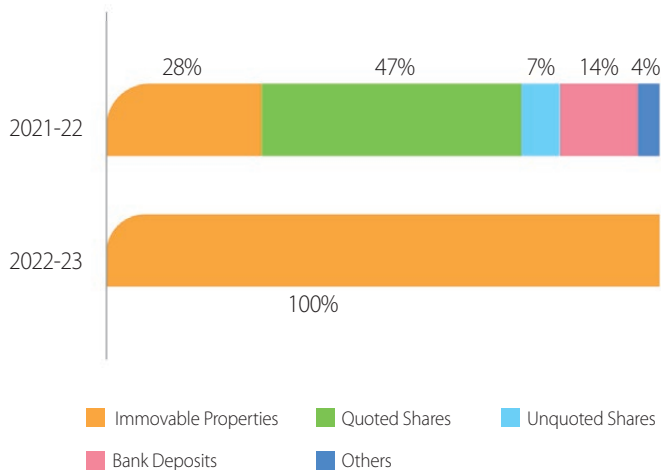
	2021-22 (\$m)	2022-23 (\$m)	Increase/Decrease
Immovable Properties	32,843	15,881	-51.6%
Shares	65,921	53,124	-19.4%
Leases and other documents	913	972	+6.5%
Total	99,677	69,977	-29.8%

Estate Duty

Estate duty is charged on a deceased person's estate situated in Hong Kong. The threshold for levying duty is \$7.5 million and the duty rates range from 5% to 15%, depending on the value of the estate.

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 abolishing estate duty in respect of persons who passed away on or after that date. The estate duty chargeable in respect of estates of persons died between the period 15 July 2005 to 10 February 2006, with the principal value exceeding \$7.5 million, is reduced to a nominal amount of \$100. The number of new cases stood at 357 in 2022-23, a slight increase of 0.6% from the last year (**Figure 21**).

Figure 20 Composition of estates for dutiable cases



Figures 20 and **21** show the composition of estates for dutiable cases and cases processed for the past two years.

Figure 21 Estate duty cases

	2021-22 Number	2022-23 Number
New cases	355	357
Cases finalised		
- Dutiable	5	2
- Exempt	354	375
	359	377

Estate duty of \$8.79 million was collected during the year (**Schedule 10**), an increase of \$6.84 million (351%) compared with the previous year.

Estate duty is payable on delivery of an estate duty affidavit or account (or within 6 months from the date of the deceased's death, whichever is the earlier). \$5.45 million was received during the year in advance of the issue of formal assessments (**Schedule 10**).

Betting Duty

Betting duty is charged on the net stake receipts from betting on horse races and football matches and on the proceeds of Mark Six lotteries, all administered by the Hong Kong Jockey Club. In 2022-23, the rates of betting duty on these betting activities remained unchanged (**Figure 22**).

Figure 22 Rates of betting duty in 2022-23

			Rate
Horse racing			
Local bets on local horse races	Net stake receipts		
	the first \$11 billion		72.5%
	the next \$1 billion		73%
	the next \$1 billion		73.5%
	the next \$1 billion		74%
	the next \$1 billion		74.5%
	the remainder		75%
Local bets on non-local horse races	Net stake receipts		72.5%
Mark Six lotteries	Proceeds		25%
Football betting	Net stake receipts		50%

The total betting duty collected in 2022-23 was 1.5% higher than that of the previous year (**Figure 23** and **Schedule 11**).

Figure 23 Betting duty collections

	2021-22 (\$m)	2022-23 (\$m)	Increase/Decrease
Horse racing	14,405.8	14,181.9	-1.6%
Mark Six lotteries	1,525.4	1,692.3	+10.9%
Football betting	9,501.0	9,949.7	+4.7%
Total	25,432.2	25,823.9	+1.5%

Tax Reserve Certificates

Taxpayers may purchase Tax Reserve Certificates (TRCs) under two situations.

The first situation applies to taxpayers who wish to save for the payment of their future tax liabilities. The Department has set up two schemes, namely the “Electronic Tax Reserve Certificates Scheme” for all taxpayers and the “Save-As-You-Earn” (SAYE) Scheme for civil servants and civil service pensioners. With a Tax Reserve Certificate account, taxpayers may purchase TRCs by various channels, including bank auto-pay, telephone, the Internet and bank ATM. Under the “SAYE Scheme”, civil servants and civil service pensioners can purchase TRCs through monthly deductions from their salaries / pensions. Interest is payable on the TRCs when they are redeemed for settlement of tax liabilities, based on the interest rate prevailing at the time of purchase, for a maximum period of 36 months from the date of purchase.

In 2022-23, the number and amount of TRCs sold under the “Electronic Tax Reserve Certificates Scheme” decreased by 4.8% and 3% respectively. For the “SAYE Scheme”, there was a decrease of 2.6% in the number but an increase of 4.2% in the amount of TRCs sold (**Schedule 12**). Overall, the total amount of TRCs sold under the “Electronic Tax Reserve Certificates Scheme” and “SAYE Scheme” decreased by 1.6% (**Figure 24**).

The second situation applies to taxpayers who object to tax assessments and are required to purchase TRCs in respect of the tax in dispute. Such TRCs are used to settle any tax found payable upon the finalisation of the objection or appeal. Interest is only payable on the amount of the TRC, if any, subsequently required to be repaid to the taxpayer, and is computed at floating rates over the tenure of the TRC.

In 2022-23, the number and amount of TRCs sold under tax in dispute decreased by 13.4% and 23% respectively (**Schedule 12**).

Figure 24 Certificates sold

