Tax Information: 2014-15 Budget – Tax Measures

In his 2014-15 Budget, the Financial Secretary proposed a number of tax measures, all of which require legislative amendments before implementation.

- **Reducing profits tax, salaries tax and tax under personal assessment for the year of assessment 2013/14**
- **Increasing dependent parent/grandparent allowance and raising the deduction ceiling for elderly residential care expenses**
- **Waiving stamp duty for trading of all exchange traded funds**

Highlights of the measures and implementation details are set out in the following paragraphs. Answers to frequently asked questions (**FAQ**) and **illustrative examples** showing how the first two proposed measures, if implemented, would reduce taxpayers' salaries tax and tax under personal assessment are also provided.

You may use the **tax computation program** provided at www.gov.hk/etax to calculate your salaries tax and tax under personal assessment if the above proposals are implemented.

Reducing profits tax, salaries tax and tax under personal assessment for the year of assessment 2013/14

The Financial Secretary proposed a one-off reduction of profits tax, salaries tax and tax under **personal assessment** for the year of assessment 2013/14 by 75%, subject to a ceiling of $10,000 per case. This measure will be effected by amending the Inland Revenue Ordinance.

For profits tax, the ceiling of the tax reduction is applied to each business. For salaries tax, the ceiling is applied to each individual taxpayer; but for couples jointly assessed, the ceiling is applied to each couple. For personal assessment, single taxpayers will each be subject to the ceiling. Married couples must make their personal assessment election together and the ceiling will therefore apply to each couple.

The proposed tax reduction is not applicable to property tax. Individuals with rental income, **if eligible** for personal assessment, may be able to enjoy such reduction under personal assessment.

A taxpayer who is separately chargeable to salaries tax and profits tax can enjoy tax reduction under each of the tax types. For a taxpayer having business profits or rental income and electing for personal assessment, the reduction will be based on the tax payable under personal assessment. It might be different from the amount of tax reduction he would get if he was not assessed under personal assessment. The exact position will need to be evaluated case by case. The Inland Revenue Department will check if the election will reduce the amount of tax payable in each case, and assess each taxpayer in the way most advantageous to him.

To apply for personal assessment, if eligible, the taxpayer should complete Part 6 of his tax return for individuals for the year of assessment 2013/14 (BIR60). Individuals having salaries income only, but no business profits and rental income, need not elect for personal assessment.

The proposed reduction will reduce taxpayers' amount of tax payable for the year of assessment 2013/14. Taxpayers should file their profits tax returns and tax returns for individuals for the year of assessment 2013/14, to be issued in coming April and May respectively, as usual. Upon enactment of the relevant legislation, the Inland Revenue Department will effect the reduction in the final assessment. For any final assessment for 2013/14 issued before the enactment of the law, the Inland Revenue Department will make a reassessment after the enactment. It is expected that excess tax paid will be refunded starting from late July 2014. Taxpayers are not required to make any applications or enquiries to the Department.

The proposed tax reduction will only be applicable to the final tax for the year of assessment 2013/14, but not to the provisional tax of the same year. Therefore, taxpayers are still required to pay their provisional tax on time despite the proposed reduction. The provisional tax paid will be applied to pay the final tax for the year of assessment 2013/14 and the provisional tax for the year of assessment 2014/15. Excess balance, if any, will be refunded.

Increasing dependent parent/grandparent allowance and raising the deduction ceiling for elderly residential care expenses

The Financial Secretary proposed to increase **dependent parent/grandparent allowance** for maintaining parents/grandparents effective from the year of assessment 2014/15. The allowance for maintaining a dependent parent or grandparent aged 60 or above will increase from the present $38,000 to $40,000. The additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year will also increase from $38,000 to $40,000 in respect of each dependant. The allowance for maintaining a dependent parent or grandparent aged between 55 and 59 will increase from the current $19,000 to $20,000. The same increase applies to the additional allowance for taxpayers residing with these parents/grandparents throughout the year, i.e. from $19,000 to $20,000 in respect of each dependant.

Taxpayers having parents or grandparents aged 60 or above admitted to residential care homes could claim deduction for **elderly residential care expenses**. The Financial Secretary proposed to raise the deduction ceiling for elderly residential care expenses from the current $76,000 to $80,000 effective from the year of assessment 2014/15.

After enactment of the relevant legislation, the Inland Revenue Department will automatically apply the new level of allowances for maintaining dependent parents/grandparents in calculating the provisional salaries tax for the year of assessment 2014/15. Taxpayers who claim dependent parent/grandparent allowance in their returns for the year of assessment 2013/14 are not required to make separate applications for the increased allowances.

As for the arrangements to give effect to the raised deduction ceiling for elderly residential care expenses for the year of assessment 2014/15, please refer to **FAQ 9** and **10** and **Example 3**.

Waiving stamp duty for trading of all exchange traded funds

The Financial Secretary proposed to waive the stamp duty for the trading of all exchange traded funds. We will propose amendments to the Stamp Duty Ordinance.

Examples

Example 1

Mr. Leung is single. His salary income during the year 2013/14 was $273,000. He has paid 2013/14 provisional tax of $32,000.

Before Implementation of Budget Proposals

	2013/14 Final Tax ($)	2014/15 Provisional Tax ($)	Total Tax Repayable ($)
Income	273,000	273,000	
Less: Basic Allowance	120,000	120,000	
Net Chargeable Income	153,000	153,000	
Tax charged	14,010	14,010	
Less: 2013/14 Provisional Tax paid	32,000		
Balance Payable / (repayable)	(17,990)	14,010	(3,980)

After Implementation of Budget Proposals

	2013/14 Final Tax ($)	2014/15 Provisional Tax ($)	Total Tax Repayable ($)
Income	273,000	273,000	
Less: Basic Allowance	120,000	120,000	
Net Chargeable Income	153,000	153,000	
Tax thereon	14,010		
Less: Tax reduction, capped at	10,000		
Tax charged	4,010	14,010	
Less: 2013/14 Provisional Tax paid	32,000		
Balance Payable / (repayable)	(27,990)	14,010	(13,980)

The tax savings for Mr. Leung resulting from the 2013/14 tax reduction will be $10,000. He has no tax payable and will receive a refund cheque of $13,980.

Example 2

Mr. Chan is single. His salary income during the year 2013/14 was $324,000. Mr. Chan maintained his father (aged 62) and mother (aged 58) and resided with them continuously throughout the year 2013/14. He has paid 2013/14 provisional tax of $5,000.

Before Implementation of Budget Proposals

	2013/14 Final Tax ($)		2014/15 Provisional Tax ($)		Total Tax Payable ($)
Income		324,000		324,000	
Less: Allowances					
Basic	120,000		120,000		
Dependent Parent	57,000		57,000		
Additional Dependent Parent	57,000	234,000	57,000	234,000	
Net Chargeable Income		90,000		90,000	
Tax charged		4,800		4,800	
Less: 2013/14 Provisional Tax paid		5,000			
Balance Payable / (repayable)		(200)		4,800	4,600

After Implementation of Budget Proposals

	2013/14 Final Tax ($)		2014/15 Provisional Tax ($)		Total Tax Payable ($)
Income		324,000		324,000	
Less: Allowances					
Basic	120,000		120,000		
Dependent Parent	57,000		60,000		
Additional Dependent Parent	57,000	234,000	60,000	240,000	
Net Chargeable Income		90,000		84,000	
Tax thereon		4,800			
Less: 75% tax reduction		3,600			
Tax charged		1,200		4,080	
Less: 2013/14 Provisional Tax paid		5,000			
Balance Payable / (repayable)		(3,800)		4,080	280

Note: Dependent Parent Allowance for 2014/15 would be $60,000 i.e. $40,000 (for parent aged over 60) + $20,000 (for parent aged 55 to 59). Additional Dependent Parent Allowance would also be $60,000.

The tax savings for Mr. Chan resulting from the 2013/14 tax reduction and increase in Basic and Additional Dependent Parent Allowances in 2014/15 will be $4,320. His salaries tax bill will be reduced from $4,600 to $280.

Example 3

Mr. Lee is married. His wife is a housewife. In the year 2013/14, Mr. Lee earned a salary income of $558,000. Mr. Lee paid residential care expenses of $90,000 in respect of his grandfather (aged 85) who lived in a residential care home. Mr. Lee has paid 2013/14 provisional tax of $15,000.

Before Implementation of Budget Proposals

	2013/14 Final Tax ($)	2014/15 Provisional Tax ($)	Total Tax Payable ($)
Income	558,000	558,000	
Less: Deduction			
Elderly Residential Care Expenses	76,000	76,000	
	482,000	482,000	
Less: Allowances			
Married Person's	240,000	240,000	
Net Chargeable Income	242,000	242,000	
Tax charged	29,140	29,140	
Less: 2013/14 Provisional Tax paid	15,000		
Balance Payable	14,140	29,140	43,280

After Implementation of Budget Proposals

	2013/14 Final Tax ($)	2014/15 Provisional Tax ($)	Total Tax Payable ($)
Income	558,000	558,000	
Less: Deduction			
Elderly Residential Care Expenses	76,000	80,000	
	482,000	478,000	
Less: Allowances			
Married Person's	240,000	240,000	
Net Chargeable Income	242,000	238,000	
Tax thereon	29,140		
Less: Tax reduction, capped at	10,000		
Tax charged	19,140	28,460	
Less: 20113/14 Provisional Tax paid	15,000		
Balance Payable	4,140	28,460	32,600

Note:

. Elderly Residential Care Expenses deduction is restricted to the statutory specified amount.

The tax savings for Mr. Lee resulting from the 2013/14 tax reduction and increase in deduction of Elderly Residential Care Expenses in 2014/15 will be $10,680. His salaries tax bill will be reduced from $43,280 to $32,600.

Example 4

Mr. Ho is married with 2 children. The incomes and expenses reported in the 2013/14 tax returns of Mr. and Mrs. Ho are as below. The couple elected for personal assessment and has not paid any provisional salaries tax for 2013/14.

	Mr. Ho	Mrs. Ho
	Amount ($)	Amount ($)
Salaries	450,000	288,000
Assessable Profits from Sole Proprietorship Business	120,000	-
Rental Income	480,000	-
Mortgage Interest on Rented Out Property	380,000	-

Salaries Tax Assessments, Profits Tax Assessment, Property Tax Assessment and Personal Assessment will be issued as follows:

Salaries Tax Assessment

	Mr. Ho	Mrs. Ho
	2013/14	2013/14
	Final Tax ($)	Final Tax ($)
Income	450,000	288,000
Less: Allowances		
Basic	120,000	120,000
Child	140,000	-
Net Chargeable Income	190,000	168,000
Tax thereon	20,300	16,560
Less: Tax reduction, capped at	10,000	10,000
Tax charged	10,300	6,560

Profits Tax Assessment

	Mr. Ho	Mrs. Ho
	Amount ($)	Amount ($)
Assessable profits	120,000	-
Tax thereon	18,000	
Less: Tax reduction, capped at	10,000	
Tax charged	8,000	

Property Tax Assessment

	Mr. Ho	Mrs. Ho
	Amount ($)	Amount ($)
Net Assessable Value (Rental Income x 80%)	384,000	-
Tax thereon	57,600	-

As the couple have elected for personal assessment, the assessable profits and net assessable value will be included in their personal assessment and no tax will be demanded in the profits tax and property tax assessments. The couple, however, is still required to pay their respective salaries tax demand notes.

Personal Assessment

	Mr. Ho 2013/14 Final Tax ($)	Mrs. Ho 2013/14 Final Tax ($)	Total Final Tax ($)
Salaries	450,000	288,000	738,000
Assessable Profits	120,000		120,000
Net Assessable Value	384,000	-	384,000
Total Income	954,000	288,000	1,242,000
Less: Deduction			
Interest Paid	380,000	-	380,000
Reduced Total Income	574,000	288,000	862,000
Less: Allowances			
Married Person's			240,000
Child			140,000
Net Chargeable Income			482,000
Tax thereon			69,940
Less: Tax reduction, capped at			10,000
Tax charged	39,914[1]	20,026[2]	59,940
Less: Tax Set-off			
Salaries Tax	10,300	6,560	16,860
Balance Payable	29,614	13,466	43,080

Notes:
1. $39,914 = $59,940 x (574,000 / 862,000)
2. $20,026 = $59,940 x (288,000 / 862,000)

Taxes Payable under Schedular Basis

		Final Tax ($)
Salaries Tax:	Mr. Ho	10,300
	Mrs. Ho	6,560
Profits Tax:	Mr. Ho ($120,000 x 15%) - $10,000	8,000
Property Tax:	Mr. Ho ($384,000 x 15%)	57,600
		82,460

Note: As the total tax payable under personal assessment ($59,940) will be less than the total schedular tax ($82,460), the election for personal assessment is advantageous to the couple.

If no personal assessment is elected, Mr. and Mrs. Ho will each obtain a tax reduction of $10,000 under their respective salaries tax assessments. Mr. Ho will also obtain a tax reduction of $10,000 under his profits tax assessment. The total tax payable will then be $82,460 ($10,300 + $6,560 + $8,000 + $57,600). However, by electing for personal assessment, their tax will be $22,520 less despite the fact that they will only obtain a tax reduction of $10,000 instead of $30,000. Their tax bills will be reduced from $82,460 to $59,940.

Frequently Asked Questions

Q1: What tax measures are proposed in the 2014-15 Budget for individual taxpayers?

A1: Subject to passage of the law amendments by the Legislative Council, individual taxpayers will get a one-off reduction of 75% of the final tax for the year of assessment 2013/14 in respect of profits tax, salaries tax and tax under personal assessment, subject to a ceiling of $10,000 per case. Furthermore, the following tax measures, the implementation of which require law amendments, will be introduced from the year of assessment 2014/15 onwards to alleviate taxpayers' burden :

(a) Increase in the following allowances:

Year of Assessment	Present (2013/14) $	Proposed (From 2014/15 onwards) $
Dependent Parent / Grandparent Allowance (For each dependant)		
Parent / Grandparent aged 60 or above, or is eligible to claim an allowance under the Government's Disability Allowance Scheme	38,000	40,000
Parent / Grandparent aged between 55 and 59	19,000	20,000
Additional Dependent Parent / Grandparent Allowance (For each dependant who is living with the taxpayer continuously throughout the year)		
Parent / Grandparent aged 60 or above, or is eligible to claim an allowance under the Government's Disability Allowance Scheme	38,000	40,000
Parent / Grandparent aged between 55 and 59	19,000	20,000

(b) Increase in the maximum allowable deduction for elderly residential care expenses as follows:

Year of Assessment	Present (2013/14) $	Proposed (From 2014/15 onwards) $
Elderly Residential Care Expenses	76,000	80,000

Q2: Do I need to apply for the tax reduction and the new allowances?

A2: You only need to file, as usual, your 2013/14 tax return for individuals (BIR60) which will be issued in May this year. After enactment of the relevant legislation, IRD will effect the tax reduction in the final assessment for 2013/14 and apply the new allowances in calculating the 2014/15 provisional tax. For 2013/14 assessments issued before the legislative amendment, IRD will revise them after enactment of the legislation. It is expected that the excess tax paid, if any, will be refunded to taxpayers starting from late July 2014. There is no need for you to make a separate application.

Q3: Can I withhold payment of the 2nd instalment of 2013/14 provisional tax falling due from April 2014 onwards because of the proposed tax reduction?

A3: You are required to pay on time the 2nd instalment of the 2013/14 provisional tax falling due from April 2014. Otherwise, recovery action will be taken by IRD . Similar to previous occasions, the tax reduction is to reduce the 2013/14 final tax that will be charged and not relating to the 2013/14 provisional tax that has already been charged. Therefore, you are still required to pay the 2013/14 provisional tax as charged.

Q4: Will the Inland Revenue Department refund the 2013/14 provisional tax already paid by me?

A4: As the tax reduction is to reduce the 2013/14 final tax that will be charged, the reduction will only be reflected in the notices of salaries tax assessment, profits tax assessment and personal assessment for 2013/14 that will be issued starting from the third quarter of 2014. The tax reduction is not applicable to the 2013/14 provisional tax. The provisional tax paid will be applied to pay the 2013/14 final tax and 2014/15 provisional tax. Excess balance, if any, will be refunded.

Q5: How to compute the tax reduction?

A5: You can use the **tax computation program** (www.gov.hk/etax) to calculate your 2013/14 and 2014/15 salaries tax and tax under personal assessment.

Q6: I have to pay salaries tax for the year 2013/14 and I have elected for personal assessment for the year. How the tax reduction should be computed?

A6: Under personal assessment, all income of an individual taxpayer, including salaries, will be aggregated to compute the tax payable. Hence, the amount of tax reduction for the year 2013/14 is 75% of the tax assessed under personal assessment and not the tax payable under salaries tax.

Q7: A husband and a wife, each with employment income and liable to salaries tax, are separately assessed to tax and they can enjoy a maximum tax reduction of $20,000 in total. However, when the husband and the wife are assessed under personal assessment, they can only get a reduction

of $10,000. Is it unfair to a couple electing for personal assessment?

A7: Profits tax, salaries tax and tax under personal assessment for the year of assessment 2013/14 are reduced by 75%, subject to a ceiling of $10,000 per case. Under salaries tax, a husband and a wife are separately assessed. Each of them will get a tax reduction of 75%, subject to a ceiling of $10,000. However, under personal assessment, there is no separate taxation and only one assessment will be issued. Therefore, the tax reduction for the couple is 75%, capped at $10,000. Whether a taxpayer should apply for personal assessment will depend on his situation. When considering an election for personal assessment for the year of assessment 2013/14, taxpayers should take into account the factor that the tax reduction for each couple will be capped at $10,000. IRD will check each personal assessment election to see if it will reduce the amount of tax payable, and assess each taxpayer in the way most advantageous to him.

Q8: I have two businesses in the year of assessment 2013/14, can I get a tax reduction in respect of each business?

A8: For each business, you can get the tax reduction of 75% of the profits tax payable for 2013/14, subject to a ceiling of $10,000.

Q9: I paid elderly residential care expenses of $82,000 in 2013/14, which exceeded the specified maximum of $76,000 for 2013/14. What amount should I write down in the 2013/14 tax return for individuals (BIR60) for claiming the residential care expenses deduction?

A9: You should state the actual amount of $82,000 paid in Part 8.4 of your 2013/14 tax return for individuals (BIR 60). After enactment of the relevant legislation, the Assessor will allow the respective maximum deductions at $76,000 and $80,000 when computing your 2013/14 final salaries tax and 2014/15 provisional salaries tax liabilities.

Q10: I had filed my 2013/14 tax return for individuals (BIR 60), the residential care home, in which my 65 years old father stays, informed me that the residential care expenses payable in 2014/15 will be increased from $65,000 to $85,000. What should I do if I want to claim the increased deduction?

A10: If the amount of Elderly Residential Care Expenses paid or payable for 2014/15 exceeds $76,000, you may apply in writing for holding over the 2014/15 provisional salaries tax upon receiving the assessment and notice for payment of provisional salaries tax. The application must be lodged not later than:

(a) 28 days before the due date for payment of the provisional tax, or

(b) 14 days after the date of issue of the notice for payment of the provisional tax, whichever is the later.

In computing the provisional salaries tax payable for 2014/15, the Assessor will not deduct $85,000 as the amount of Elderly Residential Care Expenses but will restrict the deduction to $80,000.

Q11: What is an Exchange-Traded Fund (ETF)?

A11: An ETF is an investment fund or unit trust that is designed to track the performance of its underlying benchmark (e.g. a stock index or a commodity such as gold bullion etc.) In Hong Kong, an ETF is an open-ended fund authorised by the Securities and Futures Commission as a collective investment scheme and traded on the Stock Exchange of Hong Kong Limited ("SEHK").

Q12: Is the transfer of ETF subject to stamp duty?

A12: In general, all securities listed on the SEHK are subject to a stamp duty at a rate of 0.1% on the value of the transaction, on both the buyer and the seller. Under the Stamp Duty Ordinance, the transfer of ETF is subject to stamp duty.

Q13: Is there any proposal to exempt the stamp duty on the trading of ETFs in the 2014-15 budget?

A13: The Financial Secretary has proposed in the 2014-15 budget to waive the stamp duty for the trading of all ETFs.

Q14: When would the proposed relief be effected?

A14: Law amendments are required to provide for the proposed stamp duty relief. The Administration is taking preparatory steps to implement the proposal, with a view to introducing the legislative amendments to the Legislative Council for scrutiny in the 2014-2015 session.