

The Department raises revenue through taxes, duties and fees in accordance with the relevant legislations. While the duties and fees collected for a year are based on the actual results of the year, the earnings and profits tax assessed are principally computed by reference to the incomes/profits of the taxpayers in the previous year. For 2007–08, the earnings and profits tax assessed increased by \$13.6 billion (11%), as compared with the previous year. The total of duties and fees collected also rose significantly by 68%.

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 2007–08, the profits tax rates for corporations and non-corporate persons remained unchanged at 17.5% and 16% respectively.

With a buoyant economy and a growth in business profits, profits tax assessed in 2007–08 increased by \$16 billion (20%) compared with the previous year. Total profits tax assessed during the year amounted to \$95.9 billion (**Figure 5**). Of the total tax assessed, the property and financial sectors together contributed 41.6% (**Figure 6**). Further statistics relating to the tax assessed in respect of different business sectors are shown in **Schedules 3** and **4**.

Figure 5 Profits tax assessed

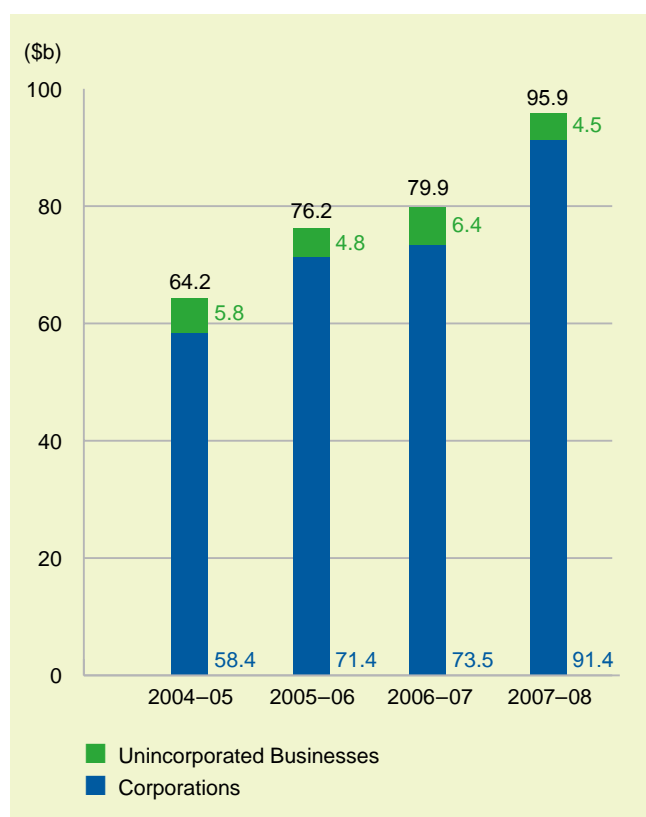
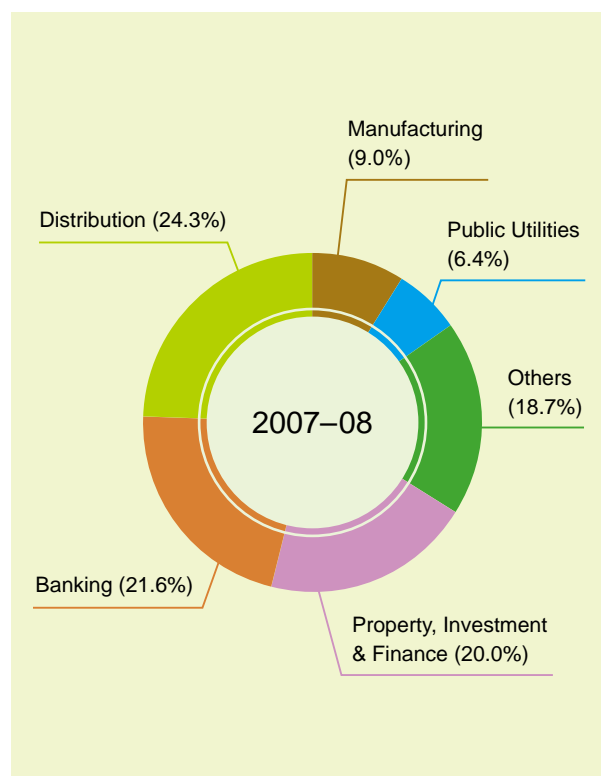


Figure 6 Corporate profits tax assessed ratios by business sectors



Salaries Tax

Salaries tax is charged on all income arising in or derived from Hong Kong from any office (e.g. a directorship), employment or pension. The total tax payable is restricted to an amount not exceeding

the standard rate of salaries tax of the net total income (without allowances) of the individual concerned. For the year of assessment 2007–08, the standard rate remained unchanged at 16%.

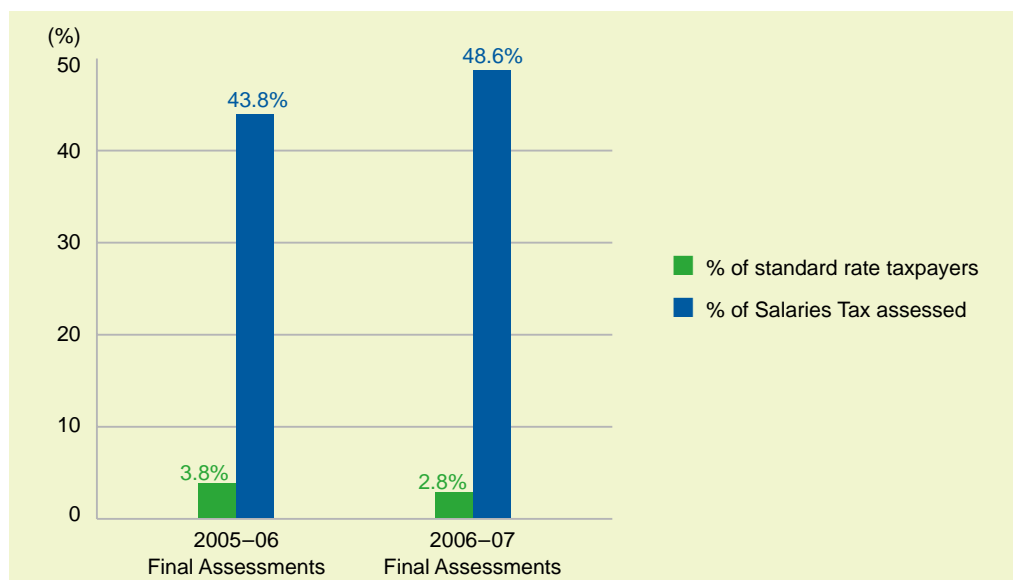
Compared with the previous year, the number of assessments made increased slightly by 2.2% whereas 5.6% less tax was assessed during 2007–08 following the implementation of the tax relief measures for salaries tax in the 2007–08 Budget (**Figure 7**). Analyses of tax assessed and allowances granted in respect of taxpayers at various income levels are provided in **Schedules 5** and **6**.

Figure 7 Salaries tax assessment



The number of standard rate taxpayers decreased by 10,749 from 47,455 last year to 36,706 this year. These taxpayers together contributed 48.6% of the salaries tax assessed, compared to 43.8% last year (**Figure 8**).

Figure 8 Standard rate taxpayers



Notification Requirements of Employers

Apart from reporting commencements and cessations of employments, employers are required to prepare annual returns to report the emoluments of each of their employees. During the year, 267,178 employers filed employer's returns with the Department.

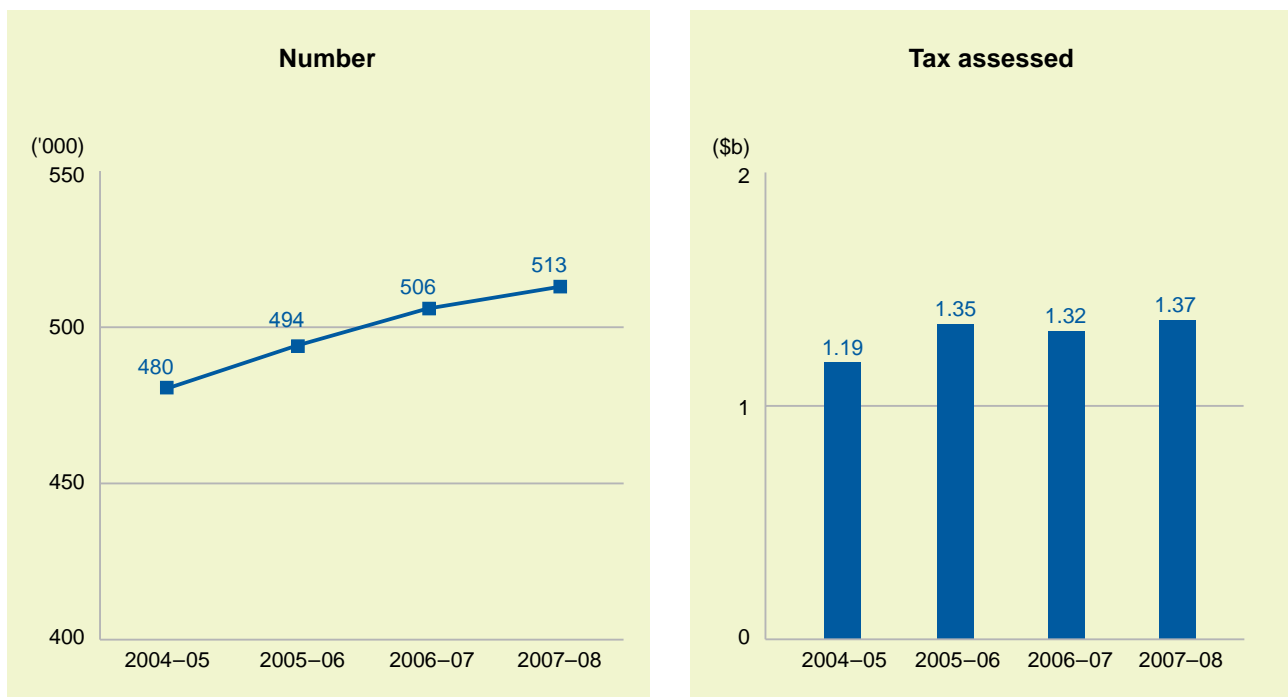
The Department provides e-Seminars and disseminates tax information to employers on the IRD Homepage in order to enhance their understanding of the relevant statutory requirements. The contents relate to completion of employer's return, employer's obligation, answers to frequently asked questions etc. Employers can also obtain specimens of completed employer's return and notification forms through the Fax-A-Form service.

Property Tax

Property owners (including corporations) are subject to property tax which is charged at the standard rate in respect of the net assessable value of the property. For the year of assessment 2007–08, the standard rate remained unchanged at 16%. Incorporated and unincorporated businesses that pay property tax in respect of their business premises 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 corporate 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 and ownership of properties, based on the records of the Department, are provided in **Schedule 7**. The number of assessments made during the year increased by 1.4%, compared with the previous year. Reflecting a continuous rising trend in rent, the amount of property tax assessed increased by 3.9% (**Figure 9**).

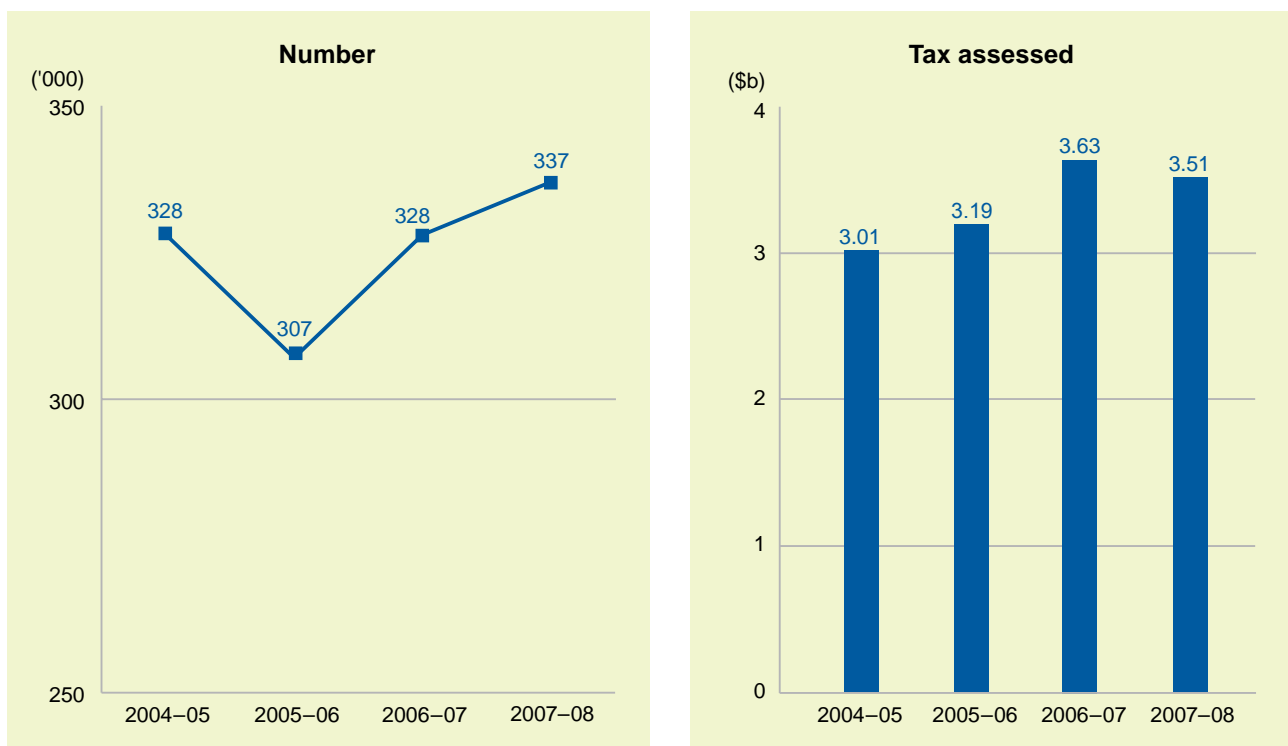
Figure 9 Property tax assessment



Personal Assessment

An individual may elect personal assessment in respect of his or her total income. Under personal assessment, all the incomes of the taxpayer and his or her spouse are aggregated and, after the deduction of all allowances, assessed at the graduated tax rates. In appropriate circumstances, this reduces the total tax liability of the individual (e.g. an individual who would otherwise be chargeable at the standard rate on each separate income source). The number of assessments made in 2007–08 was 2.7% more than the previous year whereas the amount of tax assessed decreased by 3.3% following the implementation of the tax waiving measure in the 2007–08 Budget for personal assessment (**Figure 10**).

Figure 10 Assessment made under personal assessment



Advance Ruling

The advance ruling service allows a person to apply for a 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 \$30,000 for a ruling concerning the "Territorial Source Principle", or \$10,000 for a ruling on any other matter.

The Department endeavours to provide a ruling within 6 weeks of the date of application, provided that all relevant information is furnished with the application and further information from the applicant is not required.

During the year, 50 advance ruling applications were processed (**Figure 11**). Most of the applications were for rulings on profits tax matters.

Figure 11 Advance ruling

	2006–07 Number	2007–08 Number
Awaiting decision at the beginning of the year	10	15
Add: Application received during the year	<u>47</u>	<u>47</u>
	57	62
Less: Disposed of –		
Ruling made	31	33
Application withdrawn	9	12
Ruling declined	<u>2</u>	<u>5</u>
	42	50
Awaiting decision at the end of the year	<u>15</u>	<u>12</u>

Objection

A taxpayer who is aggrieved by an assessment made under the Inland Revenue Ordinance may lodge an objection to the Commissioner. A significant proportion of the objections received each year arises from estimated assessments issued to taxpayers who fail to lodge returns on time. An objection of this nature must be supported by a completed return and, where applicable, by supporting accounts. Most of these objections are settled promptly by reference to the returns subsequently submitted. Many of the other types of objections are also settled by agreements between the taxpayers and the assessors concerned. Relatively few objections are ultimately referred to the Commissioner for determination. During the year, the Department processed over 65,500 objections (**Figure 12**).

Figure 12 Objection statistics

	2006–07 Number	2007–08 Number
Awaiting settlement at the beginning of the year	26,605	26,929
Add: Received during the year	<u>75,394</u>	<u>62,651</u>
	101,999	89,580
Less: Disposed of –		
Settled or withdrawn	74,237	64,673
Assessment confirmed	510	454
Assessment reduced	202	254
Assessment increased	113	131
Assessment annulled	<u>8</u>	<u>9</u>
	75,070	65,521
Awaiting settlement at the end of the year	<u>26,929</u>	<u>24,059</u>

Appeal 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) to have the determination reviewed. As at 31 March 2008, the Board consisted of a chairman and 8 deputy chairmen, who have legal training and experience, as well as 102 other members. During the year, the Board processed 89 appeals (**Figure 13**).

Figure 13 Appeal to the Board of Review

	Number
Awaiting hearing or decision as at 1 April 2007	52
Add: Lodged during the year	<u>95</u>
	147
Less: Disposed of –	
Withdrawn	29
Assessment confirmed	36
Assessment reduced in full	3
Assessment reduced in part	10
Assessment increased	8
Assessment annulled	1
Others	<u>2</u>
	<u>89</u>
Awaiting hearing or decision as at 31 March 2008	<u><u>58</u></u>

Appeal to the Courts

A decision of the Board of Review is final, provided that either the taxpayer or the Commissioner may, pursuant to section 69(1) of the Inland Revenue Ordinance, make an application requiring the Board to state a case on a question of law for the opinion of the Court of First Instance. Apart from appeals by way of case stated, occasionally the parties may lodge appeals to the Court through judicial review proceedings.

During 2007–08 the Court of First Instance ruled on five cases relating to the Inland Revenue Ordinance, including one judicial review case initiated by a taxpayer against the Board's refusal to state a case. The Court found that the Board acted reasonably in refusing the application. The issues decided in the other four cases included the taxability of gratuity received by a taxpayer upon termination of employment, deductibility of expenses incurred in acquiring permanent quota under profits tax, and whether the anti-avoidance provisions had been correctly applied.

After delivery of the five judgments by the Court of First Instance, appeals to the Court of Appeal were made by taxpayers in two avoidance cases and by the Commissioner in the gratuity case which was allowed by the Court of First Instance.

During the year the Court of Appeal handed down eight judgments relating to the Inland Revenue Ordinance, six of which were in favour of the Commissioner. One of these judgments related to judicial

review proceedings initiated by the taxpayer, four of them related to the taxability of profits from property redevelopment and the remaining one concerned the deductibility of share dealing loss. The Court ruled against the Commissioner in two cases which were related to application of the anti-avoidance provisions. While the judicial review case had become final, in the other seven cases either the taxpayers or the Commissioner lodged appeal to the Court of Final Appeal against the judgments.

The Court of Final Appeal heard six cases during the year and ruled in favour of the Commissioner in five of them which related to the application of anti-avoidance provisions, taxability of profits from property transaction, and the deductibility of share dealing loss. In respect of the remaining case which involved the source of brokerage income under profits tax, the Court of Final Appeal allowed the taxpayer's appeal.

Figure 14 sets out statistics concerning appeals to the Courts for 2007–08.

Figure 14 Appeal to the Courts

	Court of First Instance	Court of Appeal	Court of Final Appeal	Total
Awaiting hearing or decision as at 1 April 2007	6	10	5	21
Add: Lodged during the year	<u>8</u>	<u>2</u>	<u>5</u>	<u>15</u>
	14	12	10	36
Less: Disposed of –				
Decided	5	8	6	
Discontinued	<u>1</u>	<u>6</u>	<u>–</u>	<u>8</u>
		8	–	20
Awaiting hearing or decision as at 31 March 2008	<u>8</u>	<u>4</u>	<u>4</u>	<u>16</u>

Business Registration

The Department aims to maintain an efficient business registration system. Every person carrying on business in Hong Kong must register the business and pay the required fee. Registered businesses may renew their registration certificates either annually or once every 3 years. The registration fee and levy for the Protection of Wages on Insolvency Fund are respectively \$2,000 and \$450 (from 14 March 2008) if paid annually, or \$5,200 and \$1,350 (from 14 March 2008) if paid every three years. Up to 31 March 2008, 13,246 businesses had taken the 3-year certificates.



As the economy continued to grow, the total number of new and re-opened registrations in 2007–08 was 14,885 higher than that of the previous year while the number of cancelled registrations decreased by 8,453 (**Schedule 8**). The total number of active registrations recorded a growth of 54,468 for the year (**Figure 15**). There was a corresponding increase in the number of certificates issued, leading to an increase of \$68 million in the business registration fees collections (**Figure 16**).

Figure 15 Active business registration

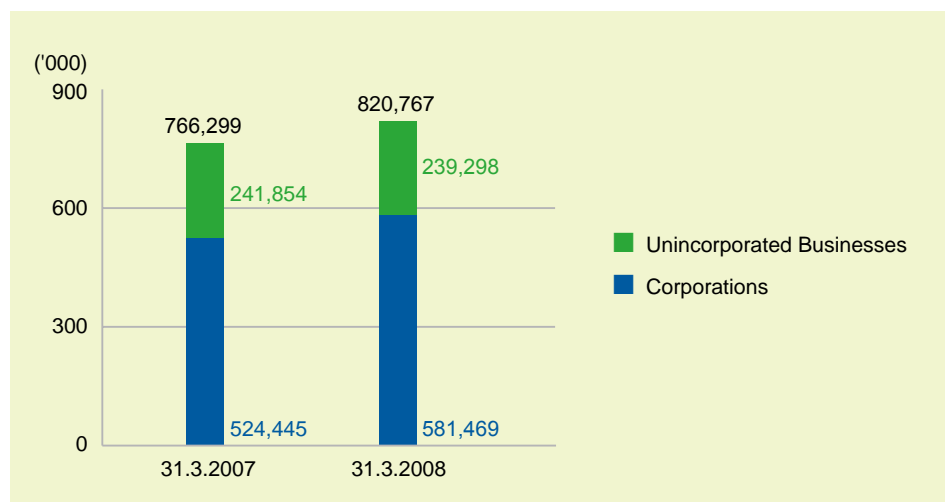


Figure 16 Certificates issued and fees collected

	2006–07	2007–08	Increase
Number of certificates issued (Main and Branch)	805,915	856,489	+6.3%
Fees (inclusive of penalties) (\$m)	1,497.9	1,565.8	+4.5%

Under the Business Registration Ordinance, a small business with average monthly sales or receipts below a specified limit (\$10,000 for a business mainly deriving profits from the sale of services or \$30,000 for other businesses) could apply for exemption from payment of the fee and levy. The number of total exemptions granted during the year was 18,120, representing a decrease of 4.5% from the previous year.

Where an application for exemption is not allowed, the business operator may appeal to the Administrative Appeals Board. 6 appeals were received by the Board in 2007–08, of which 1 was allowed and 1 was dismissed by the Board. The remaining cases were subsequently withdrawn by the appellant (**Figure 17**).

Figure 17 Appeal to the Administrative Appeals Board

	Number
Awaiting hearing as at 1 April 2007	2
Add: Lodged during the year	<u>6</u>
	8
Less: Disposed of –	
Appeal allowed	1
Appeal dismissed	1
Appeal withdrawn	<u>6</u>
	<u>8</u>
Awaiting hearing as at 31 March 2008	<u>0</u>

Stamp Duty

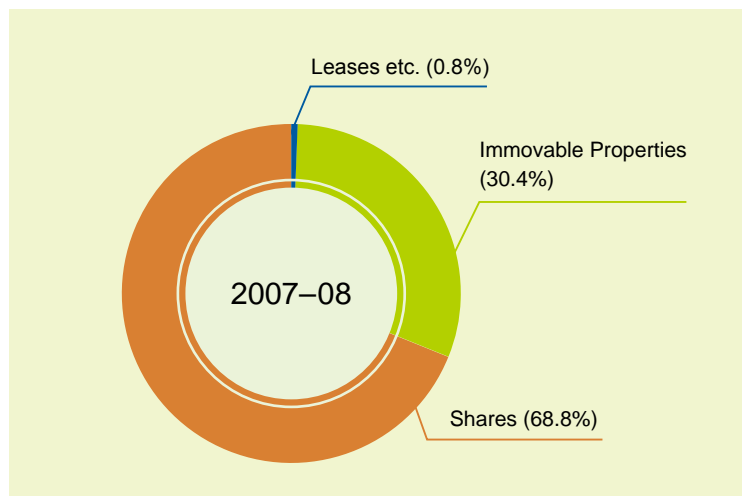
Stamp duty is charged on instruments effecting property and stock transactions and leasing of property (**Figure 18**).

With the prospering economy, the property market in 2007–08 performed strongly with an increase in both the number and value of property transactions. The stamp duty collections from property transactions increased by 62% when compared with the previous year.

The stock market was very active throughout the year, with trading value reaching an all-time high. The stamp duty collections from share transactions in 2007–08 reached a record high of \$35.4 billion, an increase of 136% from the previous year.

Overall, there was an increase of 106% in total stamp duty collections during the year (**Figure 19** and **Schedule 9**). The number of documents being stamped also increased by 25% (**Schedule 10**).



Figure 18 Composition of stamp duty collections**Figure 19 Stamp duty collections**

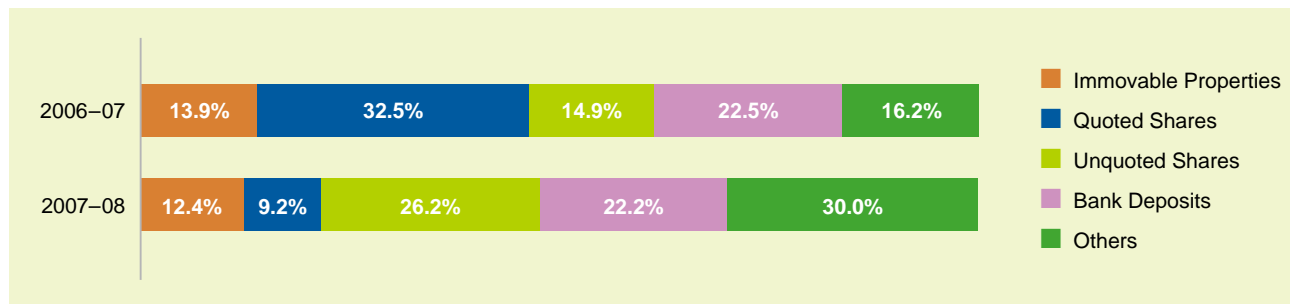
	2006–07 (\$m)	2007–08 (\$m)	Increase
Immovable Properties	9,700	15,701	+62%
Shares	15,027	35,447	+136%
Leases etc.	349	401	+15%
Total	25,076	51,549	+106%

Estate Duty

Estate duty is charged on that part of 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 passing away on or after that date. No estate duty affidavits and accounts need to be filed and no estate duty clearance papers are needed for the application for a grant of representation in respect of deaths occurring on or after that date. The estate duty chargeable in respect of estates of persons dying on or after 15 July 2005 and before 11 February 2006, with the principal value exceeding \$7.5 million, will be reduced to a nominal amount of \$100. Due to the abolition of estate duty, the number of new cases in 2007–08 decreased significantly by 54.7% to 2,885, as compared with last year (**Figure 21**).

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

Figure 20 Composition of estates**Figure 21 Estate duty cases**

	2006-07	2007-08
New cases	<u>6,362</u>	<u>2,885</u>
Cases finalised		
Dutiable	412	159
Exempt	<u>6,827</u>	<u>2,893</u>
	<u>7,239*</u>	<u>3,052</u>

Note: * The figure does not include the support services provided to the estate beneficiaries of 4,988 cases on behalf of the Secretary for Home Affairs.

Estate duty of \$353 million was collected during the year (**Schedule 11**), a decrease of \$424 million (54.6%) 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). \$129 million was received during the year in advance of the issue of formal assessments (**Schedule 12**).

Betting Duty

Betting duty is charged on the net stake receipts derived from the conduct of authorised betting on horse races by the HKJC Horse Race Betting Limited; on the proceeds of lotteries conducted by the HKJC Lotteries Limited and on the net stake receipts derived from the conduct of authorised betting on football matches by the HKJC Football Betting Limited. Before 1 September 2006, the effective date of the Betting Duty (Amendment) Ordinance 2006, betting duty on horse racing was charged on bets made on totalisators at race meetings conducted by the Hong Kong Jockey Club.

In 2007-08, the rates of duty on horse racing, lotteries and football betting remained unchanged (**Figure 22**).

Figure 22 Rates of betting duty in 2007–08

		Rate
Horse race betting	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%
Lotteries	Proceeds	25%
Football betting	Net stake receipts	50%

Note: * For overseas bets, the discount rate for specified places (e.g. Macau) is 40%, whereas the discount rate for a place outside Hong Kong (other than specified places) is 50%.

In 2007–08, the racing attendance increased (**Schedule 13**) and the duty collections from horse racing rose by 9.2%. The lotteries duty collections and the football betting duty collections increased respectively by 9.0% and 5.4%. Total betting duty collections in 2007–08 was 8.3% higher than the previous year (**Figure 23**).

Figure 23 Betting duty collections

	2006–07 (\$m)	2007–08 (\$m)	Increase
Horse racing	7,703.5	8,414.9 *	+9.2%
Lotteries	1,547.4	1,686.0	+9.0%
Football betting	2,796.5	2,947.5	+5.4%
Total	12,047.4	13,048.4	+8.3%

Note: * Included the "top-up" amount of \$119 million for the racing year of 2006–07 — The Hong Kong Jockey Club has provided to the Government a guarantee of \$8 billion on the duty on horse race betting in each of the first three years of implementation of the Betting Duty (Amendment) Ordinance 2006.

Hotel Accommodation Tax

Hotel accommodation tax is imposed on hotel and guesthouse accommodation at the rate of 3% of the accommodation charges paid by guests and is collected quarterly in arrears.

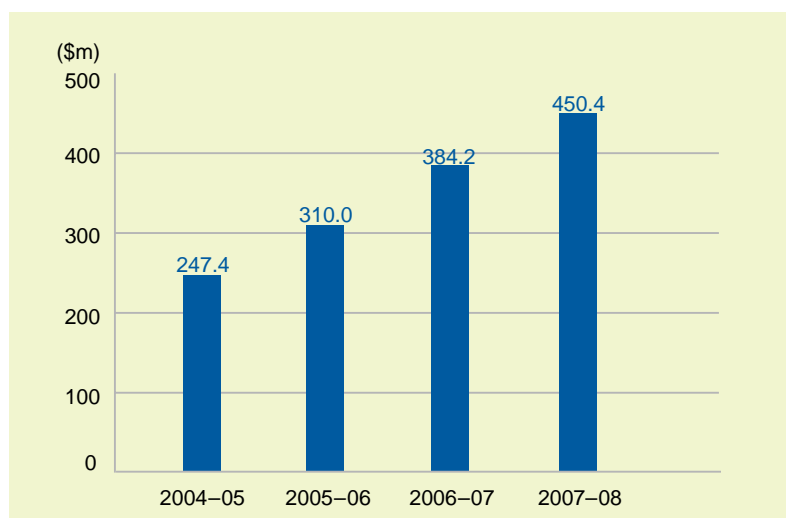
In 2007–08, there was an increase in the number of hotels, guesthouses and taxable rooms (**Figure 24**). Though the average room occupancy rate slightly decreased by 2% (**Figure 25**), both the number of the room days occupied and the average room charge increased (**Schedule 14**). As a result, total tax collected in the year was 17% higher than that of the previous year (**Figure 26**).

Figure 24 Hotels, boarding houses, taxable rooms and exempted rooms

	2006–07	2007–08	Increase
Hotels and boarding houses	217	230	+6.0%
Taxable rooms	48,470	53,550	+10.5%
Exempted rooms	6,776	6,947	+2.5%

Figure 25 Room occupancy rates

	2006–07	2007–08	Increase/Decrease
Room days	13,757,183	15,135,422	+10%
Occupancy rate	87.4%	85.4%	- 2%

Figure 26 Hotel accommodation tax collections

Tax Reserve Certificates

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

The first applies to taxpayers who wish to save for the payment of their future tax liabilities. IRD 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 2007–08, there was a modest decrease in both the number and the amount of TRCs sold under the "Electronic Tax Reserve Certificates Scheme" and the "SAYE Scheme". The number and the amount of TRCs sold dropped by 1% and 6% respectively under the "Electronic Tax Reserve Certificates Scheme", and by 2% and 4% respectively for the "SAYE Scheme" (**Schedule 15**). Overall, the total amount of TRCs sold decreased by 6% (**Figure 27**).

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, if any, subsequently required to be repaid to the taxpayer, and is computed at floating rates over the tenure of the TRC.

Figure 27 Certificates sold

