

The Department raises revenue through taxes, duties and fees in accordance with the relevant legislation. Broadly speaking, 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 2012-13, earnings and profits tax assessed slightly increased by \$2.5 billion (1.4%) (**Schedule 2**). On the other hand, the total amount of duties and fees collected dropped by \$1.8 billion (2.9%).

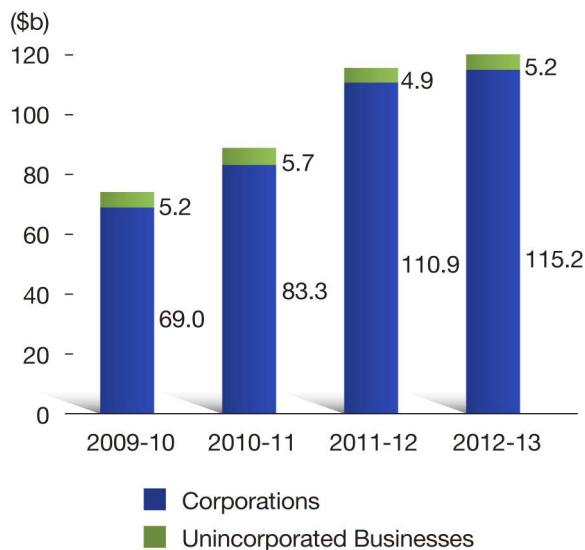
## PROFITS TAX

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 2012-13, the tax rates for corporations and non-corporate persons remained unchanged at 16.5% and 15% respectively.

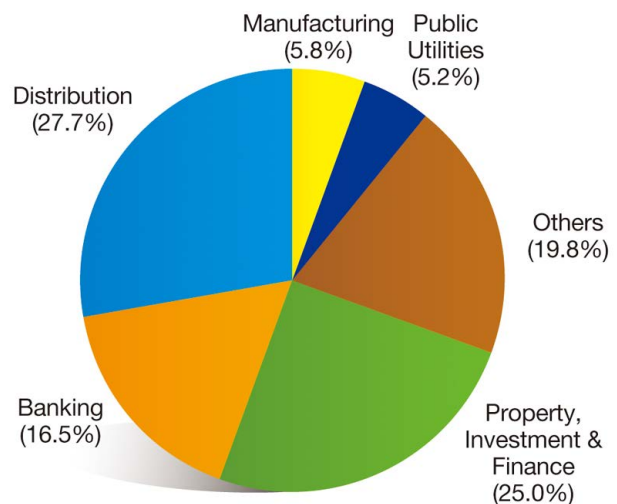
The amount of profits tax assessed in 2012-13 increased to \$120.4 billion, which was \$4.6 billion (4.0%) more than that of the previous year (**Figure 5**). The slight increase reflected the slowdown in economic growth.

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 for the year of assessment 2011-12, the property and financial sectors together contributed 41.5% and the distribution sector generated 27.7% (**Figure 6**).

**Figure 5 Profits tax assessed**



**Figure 6 Ratios of corporation profits tax assessed under 2011-12 final assessments by business sectors**

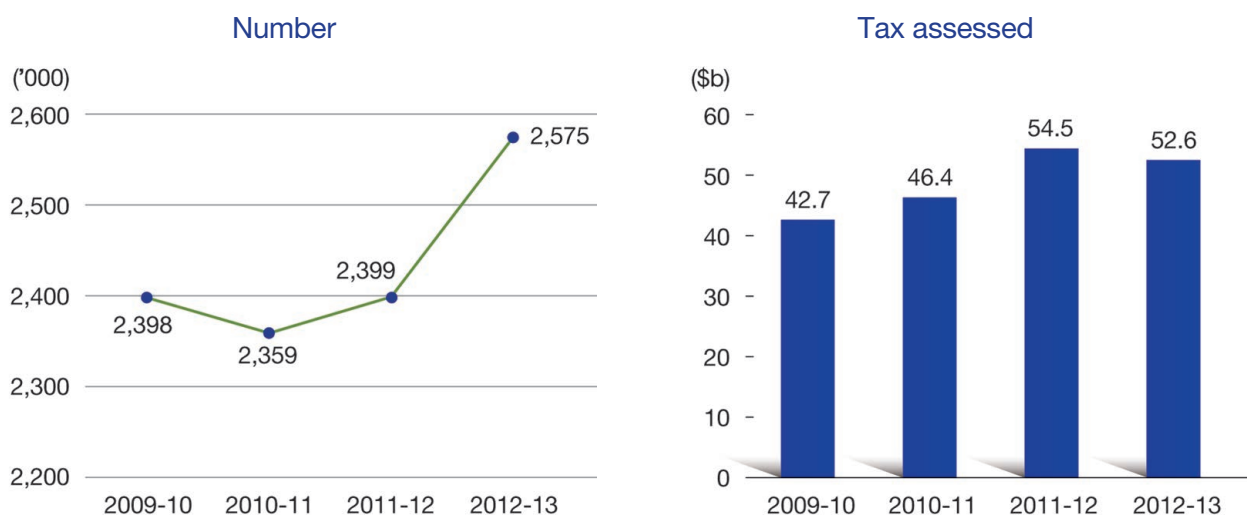


## SALARIES TAX

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 on the net total income (without allowances) of the individual concerned. For the year of assessment 2012-13, the standard rate remained unchanged at 15%.

As compared with the previous year, the number of salaries tax assessments made during 2012-13 increased by 7.3%, but the amount of tax assessed was 3.5% less after implementing the salaries tax relief measures introduced in the 2012-13 Budget (**Figure 7**).

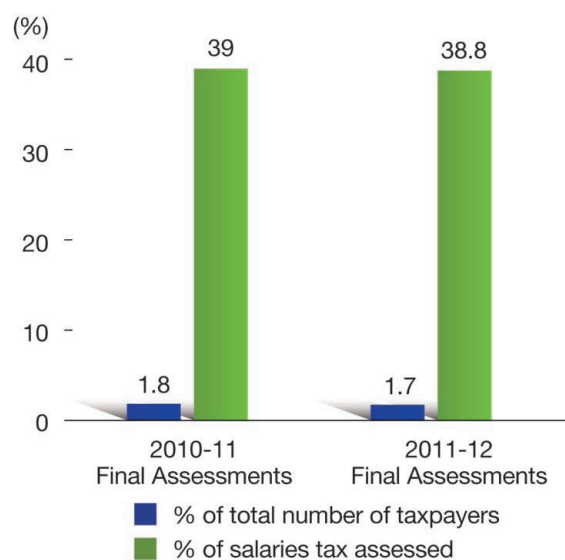
**Figure 7 Salaries tax assessments**



Analyses of salaries tax assessments and allowances granted in respect of taxpayers at various income levels for the year of assessment 2011-12 are provided in **Schedules 5** and **6**.

For the year of assessment 2011-12, the number of standard rate taxpayers increased by 1,286 to 28,066. These taxpayers together contributed 38.8% of the salaries tax assessed, a slight decrease of 0.2% compared with 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 employer's returns to report the emoluments of each of their employees. During the year, 290,461 employers filed employer's returns with the Department.

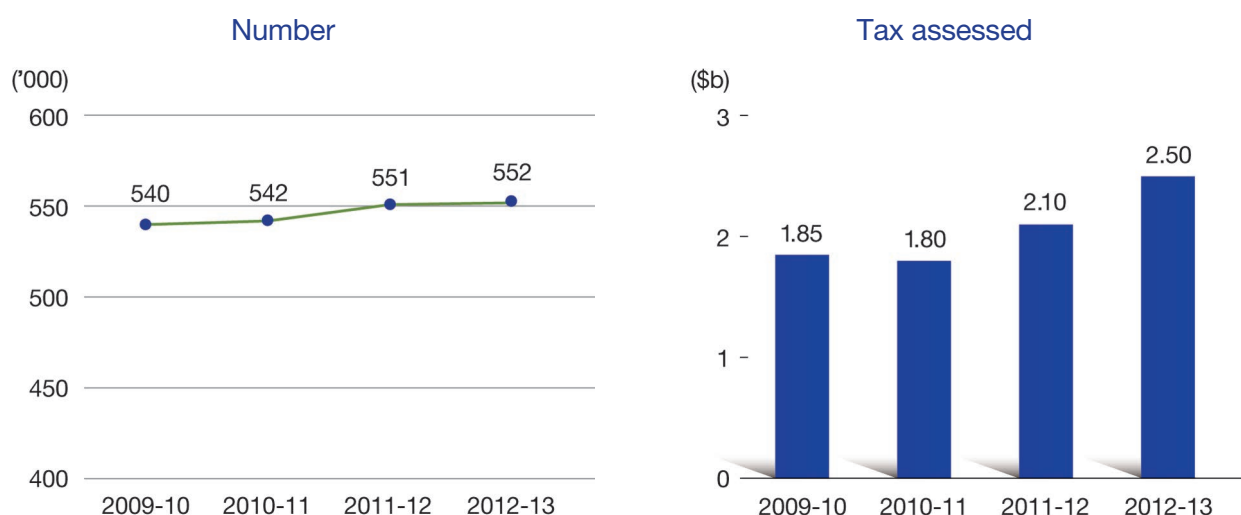
The Department provides e-Seminars and disseminates tax information to employers on the IRD Homepage to help them understand the relevant statutory requirements. The contents cover completion of employer's returns, employer's obligations and answers to frequently asked questions. Employers can also obtain specimens of completed employer's returns and notification 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 2012-13, the standard rate remained unchanged at 15%. 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 2012-13 was slightly more than that in the previous year by 0.2%. Reflecting a continuous rising trend in rent, the total amount of property tax assessed increased by 19.1% (**Figure 9**).

Figure 9 Property tax assessments

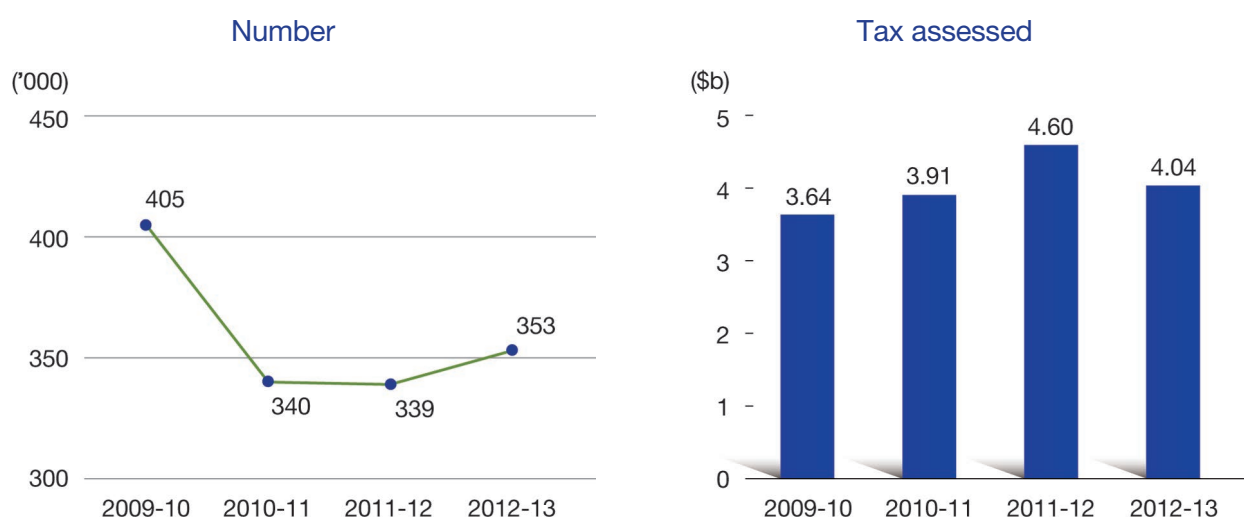


## PERSONAL ASSESSMENT

An individual may elect for 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 deduction of all allowances, are assessed at the graduated tax rates. In appropriate circumstances, this would reduce the total tax liability of the taxpayer and his or her spouse.

As compared with the previous year, the number of assessments made in 2012-13 increased by 4.2%. The amount of tax assessed, however, was reduced by 12.1% after effecting the tax reduction for personal assessment introduced in the 2012-13 Budget (**Figure 10**).

**Figure 10 Assessments made under personal assessment**



## TAX TREATY NETWORK

Double taxation arises where the same item of income or profit of a taxpayer is subject to tax in Hong Kong as well as in another tax jurisdiction. To establish a tax treaty network can help minimise exposure of Hong Kong residents and residents of the tax treaty partners to double taxation. It will also facilitate the flows of trade, investment and talent between Hong Kong and the rest of the world, and enhance Hong Kong's competitiveness as an international financial, investment and commercial hub.



As at 31 March 2013, Hong Kong has signed comprehensive double taxation agreements (covering various types of income) with 27 jurisdictions. They are Belgium, Thailand, the Mainland of China, Luxembourg, Vietnam, Brunei, the Netherlands, Indonesia, Hungary, Kuwait, Austria, the United Kingdom, Ireland, Liechtenstein, France, Japan, New Zealand, Switzerland, Portugal, Spain, the Czech Republic, Malta, Jersey, Malaysia, Mexico, Canada and Italy.

## 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 \$30,000 for a ruling concerning the application of the “Territorial Source Principle” in a profits tax case, or \$10,000 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 2012-13, the Department completed the processing of 45 advance ruling applications (**Figure 11**). Most of the applications were for rulings on profits tax matters.

**Figure 11 Advance rulings**

	2011-12 Number	2012-13 Number
Awaiting decision at the beginning of the year	18	15
Add: Applications received during the year	50	41
	68	56
Less: Disposed of —		
Rulings made	35	27
Applications withdrawn	14	11
Rulings declined	4	7
	53	45
Awaiting decision at the end of the year	15	11

## 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 issued because of the failure to lodge a tax return on time, a properly completed return, together with the supporting accounts where applicable, must also be submitted 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 2012-13, the Department completed the processing of 70,120 objections (**Figure 12**).

Figure 12 Objections

	2011-12 Number			2012-13 Number		
Being processed at the beginning of the year	26,689			28,986		
Add: Received during the year	<u>72,662</u>			<u>72,299</u>		
	99,351			101,285		
Less: Disposed of —						
Settled without determination	69,637			69,628		
Determinations:						
Assessments confirmed	398			290		
Assessments reduced	228			117		
Assessments increased	92			79		
Assessments annulled	<u>10</u>	<u>728</u>	<u>70,365</u>	<u>6</u>	<u>492</u>	<u>70,120</u>
Being processed at the end of the year	<u>28,986</u>			<u>31,165</u>		

## 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 2013, the Board consisted of a chairman and 4 deputy chairmen, who have legal training and experience, as well as 70 other members. During 2012-13, the Board settled 67 appeal cases (**Figure 13**).

Figure 13 Appeals to the Board of Review

			Number
Awaiting hearing or decision as at 1 April 2012			82
Add: Received during the year			<u>46</u>
			128
Less: Disposed of –			
Withdrawn			14
Decided:			
Assessments confirmed	33		
Assessments reduced in full	2		
Assessments reduced in part	4		
Assessments increased	13		
Assessments annulled	<u>1</u>	<u>53</u>	<u>67</u>
Awaiting hearing or decision as at 31 March 2013			<u>61</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(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 appealing to the Board and then further appealing to the Court of First Instance by way of case stated, where both parties agree, an appeal can be transferred to the Court of First Instance direct under section 67 of the Inland Revenue Ordinance without a hearing before the Board.

During 2012-13, the Court of First Instance ruled on one case which was transferred under section 67 of Inland Revenue Ordinance. The issues involved were the chargeability of technical costs and licence fees. The Court of First Instance allowed the taxpayer's appeal only to the extent of the technical costs. The taxpayer has lodged an appeal to the Court of Appeal against the adverse judgment on licence fees.

During 2012-13, the Court of Appeal handed down three judgments concerning the Inland Revenue Ordinance. One judgment was related to an appeal against the Board's decision, which was made directly to the Court of Appeal pursuant to section 69A of the Inland Revenue Ordinance. The issue involved was the deductibility of mould expenses under section 16G of the Inland Revenue Ordinance. The Court of Appeal ruled in favour of the Commissioner. The taxpayer has applied for leave to appeal to the Court of Final Appeal.

The other two judgments by the Court of Appeal were related to the taxability of unrealized gains arising from revaluation of trading investments and the taxability of a lump sum received by the taxpayer pursuant to a franchise agreement respectively. Against the adverse judgments of the Court of Appeal, the Commissioner has appealed to the Court of Final Appeal in respect of the former case and applied for leave to appeal to the Court of Final Appeal in respect of the latter case.

**Figure 14** sets out the statistics concerning appeals to the Courts during 2012-13.

**Figure 14 Appeals to the Courts**

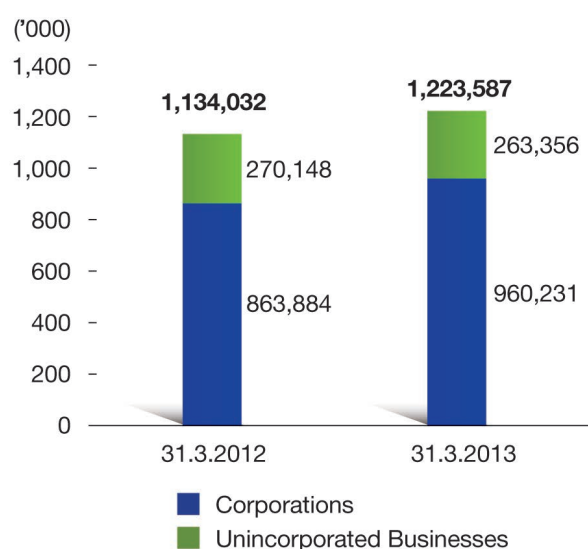
	Court of First Instance		Court of Appeal		Court of Final Appeal		Total
Awaiting hearing or decision as at 1 April 2012	5		5		0		10
Add: Lodged during the year	<u>0</u>		<u>1</u>		<u>1</u>		<u>2</u>
	5		6		1		12
Less: Disposed of —							
Decided	1		3		0		4
Discontinued	<u>0</u>	<u>1</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>4</u>
Awaiting hearing or decision as at 31 March 2013	<u>4</u>		<u>3</u>		<u>1</u>		<u>8</u>

## 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 2013 stood at 1,223,587, which was an all time high. It was 89,555 more than that as at 31 March 2012 (**Figure 15**).

Business registration certificates are valid for one year, but businesses may elect for 3-year certificates. As at 31 March 2013, 15,986 businesses held 3-year certificates.

**Figure 15 Number of business registrations**





To help business enterprises, the Administration waived the business registration fees for 2012-13. Businesses were still required to pay the levy on their business registration certificates. For a 1-year certificate, the levy was \$450. For businesses electing for 3-year certificates, they were required to pay \$3,200 for the business registration fee and \$1,350 for the levy.

Businesses that were not required to renew their registration certificates in 2012-13 could apply for concessionary refunds if they had paid the registration fees for that year. Up to 31 March 2013, the Department had issued concessionary refunds to 10,856 businesses totalling \$16.3 million.

Due to the waiver of business registration fees for the whole financial year 2012-13, the amount of business registration fees and penalties collected in 2012-13 was reduced to \$122.9 million. It represents a significant decrease of 90% as compared to last year's, notwithstanding that 9% more certificates were issued during the year (**Figure 16**). Business registration statistics are set out in **Schedule 8**.

**Figure 16 Certificates issued and fees collected**

	2011-12	2012-13	Increase/ Decrease
Number of certificates issued (Main and Branch)	1,158,838	<b>1,264,736</b>	+9%
Fees (inclusive of penalties) (\$m)	1,292.9	<b>122.9</b>	-90%

Under the Business Registration Ordinance, a small business with average monthly sales or receipts below a specified limit, i.e. \$10,000 for businesses deriving profits mainly from the sale of services, and \$30,000 for other business, 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 2012-13 was 11,907, representing a decrease of 13% from the previous year. No appeal case was received by the Board during the year.

## STAMP DUTY

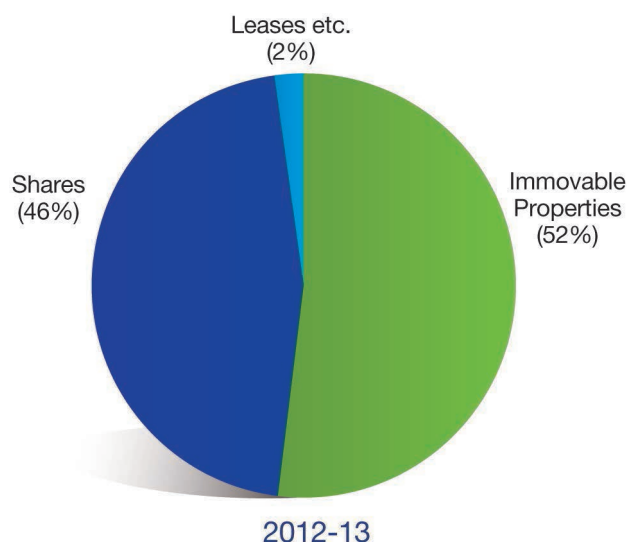
Stamp duty is charged on instruments effecting property transactions, stock transactions and leasing of property in Hong Kong (**Figure 17**).

Due to the environment of persistently low interest rates and abundant liquidity, the property market had been exuberant. The overall residential property prices rose significantly during the first six months of 2012-13, causing an increased risk of an asset bubble. The Government introduced a number of demand-side management measures including some proposed amendments to the Stamp Duty Ordinance to address the overheated property market. In 2012-13, the stamp duty collections from property transactions increased by 9% to \$22.4 billion. The stamp duty collections from leases and other documents also increased by 7% to \$643 million.

The unstable global economic conditions had caused a stagnant stock market for most of the time in 2012-13. The stamp duty collections from share transactions in 2012-13 were \$19.9 billion, a decrease of 15% from the previous year.

Overall, there was a slight decrease of 3% in the total stamp duty collected during the year and the number of documents stamped also decreased by 4% (**Figure 18** and **Schedule 9**).

**Figure 17** Composition of stamp duty collections



**Figure 18** Stamp duty collections

	2011-12 (\$m)	2012-13 (\$m)	Increase/ Decrease
Immovable Properties	20,448	<b>22,355</b>	+9%
Shares	23,306	<b>19,882</b>	-15%
Leases and other documents	602	<b>643</b>	+7%
<b>Total</b>	<b>44,356</b>	<b>42,880</b>	-3%

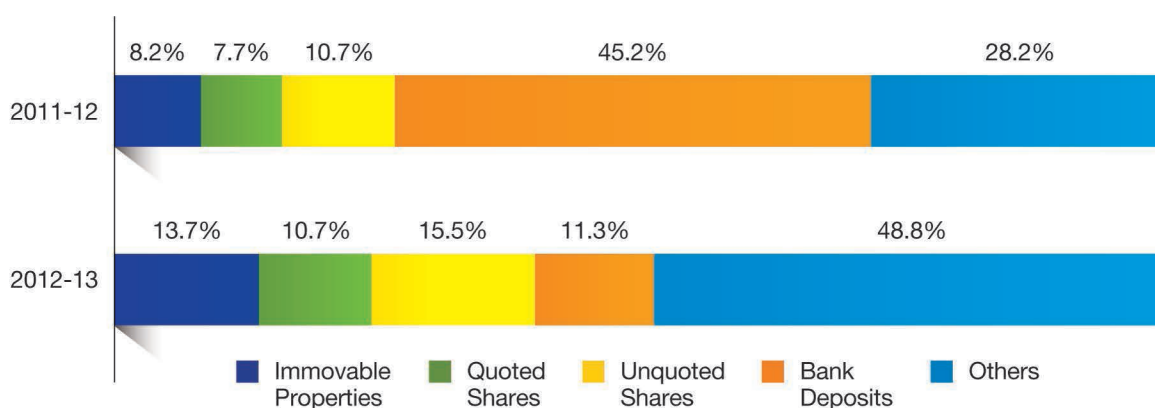
## ESTATE DUTY

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. The estate duty chargeable in respect of estates of persons dying 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. With the abolition of estate duty, the number of new cases reduced gradually to 1,099 in 2012-13, a drop of 15.5% from the last year (**Figure 20**).

**Figures 19 and 20** show the composition of estates and cases processed for the past two years.

**Figure 19 Composition of estates**



**Figure 20 Estate duty cases**

	2011-12 Number	2012-13 Number
New cases	<u>1,301</u>	<u>1,099</u>
Cases finalised		
— Dutiable	35	<b>19</b>
— Exempt	<u>1,293</u>	<u>1,075</u>
	<u>1,328</u>	<u>1,094</u>

Estate duty of \$138 million was collected during the year (**Schedule 10**), an increase of \$44 million (47%) 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). \$0.5 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 2012-13, the rates of betting duty on these betting activities remained unchanged (**Figure 21**).

**Figure 21 Rates of betting duty in 2012-13**

		Rate
Horse racing	Net stake receipts	
	the first \$1 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%
Mark Six 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 2012-13, betting duty collections from horse racing and football betting increased by 4.6% and 10.7% respectively while the betting duty collections from Mark Six lotteries decreased by 3% (**Schedule 11**). The total betting duty collected in 2012-13 was 5.1% higher than the previous year (**Figure 22**).

**Figure 22 Betting duty collections**

	2011-12 (\$m)	2012-13 (\$m)	Increase/ Decrease
Horse racing	10,002.4	<b>10,465.4</b>	+4.6%
Mark Six lotteries	2,013.6	<b>1,953.0</b>	-3.0%
Football betting	3,744.6	<b>4,146.4</b>	+10.7%
Total	15,760.6	<b>16,564.8</b>	+5.1%

## 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.

As compared with last year, there was an increase of 2.5% and 10.4% respectively in the number and the amount of TRCs sold under the “Electronic Tax Reserve Certificates Scheme” but a decrease of 1.6% and 2.3% respectively for the “SAYE Scheme” in 2012-13 (**Schedule 12**). Overall, the total amount of TRCs sold increased by 7.7% (**Figure 23**).

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.

**Figure 23 Certificates sold**

