

3

Assessing Functions

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 2013-14, earnings and profits tax assessed increased by \$8.3 billion (4.6%) (**Schedule 2**). As for duties and fees, the total amount collected was slightly higher than that of last year by \$0.3 billion (0.6%).

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 2013-14, the tax rates for corporations and non-corporate persons remained unchanged at 16.5% and 15% respectively.

The amount of profits tax assessed in 2013-14 was \$122.9 billion, which was \$2.5 billion (2.1%) more than that of the previous year (**Figure 5**). The slight increase reflected the slowdown in economic growth.

Figure 5 Profits tax assessed

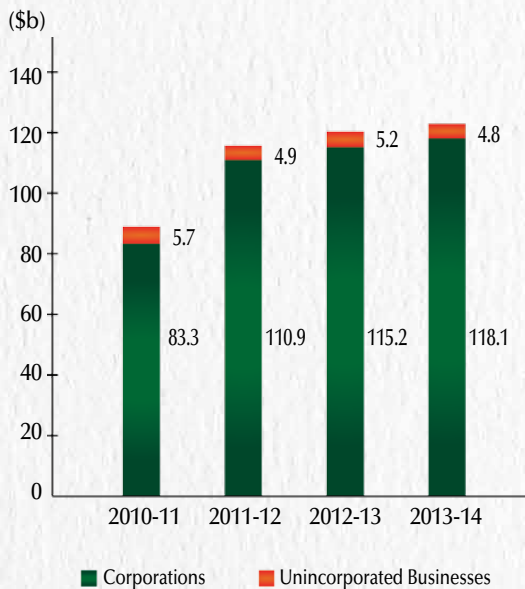
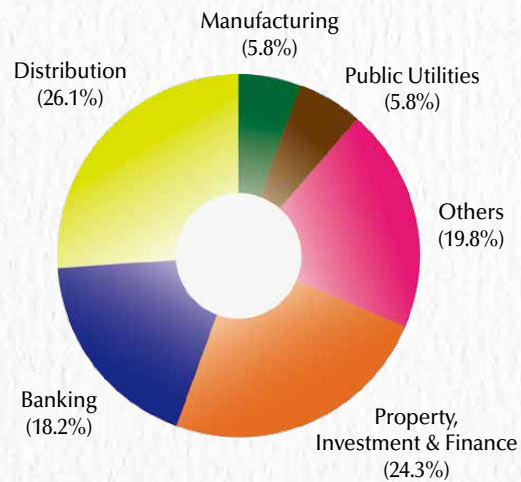


Figure 6 Ratios of corporation profits tax assessed under 2012-13 final assessments by business sectors



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 2012-13, the property and financial sectors together contributed 42.5% and the distribution sector generated 26.1% (**Figure 6**).

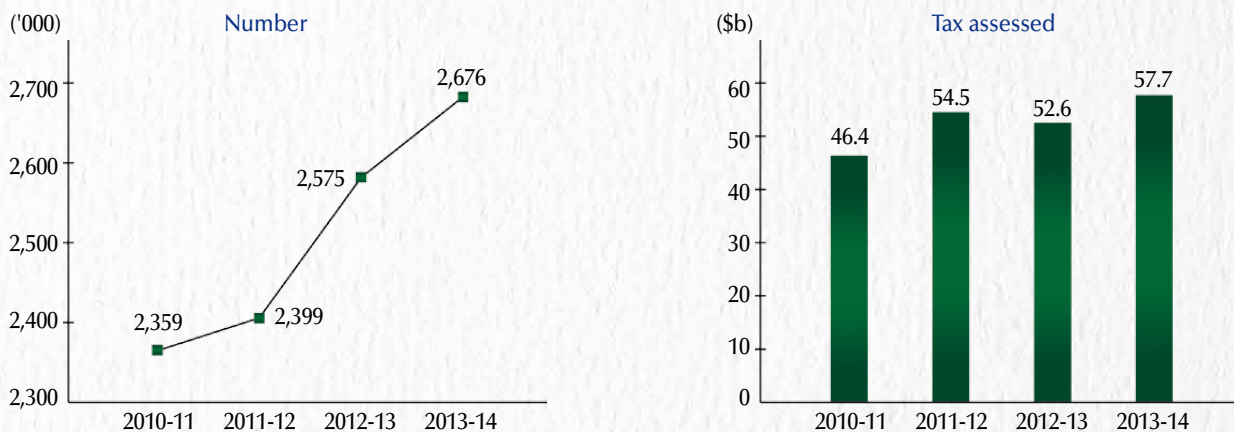


Salaries Tax

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 2013-14, the standard rate remained unchanged at 15%.

As compared with the previous year, the number of salaries tax assessments made during 2013-14 increased by 3.9%. The lowering of the maximum amount of tax reduction to \$10,000 for the year of assessment 2012-13 (\$12,000 for the previous year) and continued growth in wages and earnings, have resulted in a 9.7% increase in the total amount of tax assessed (**Figure 7**).

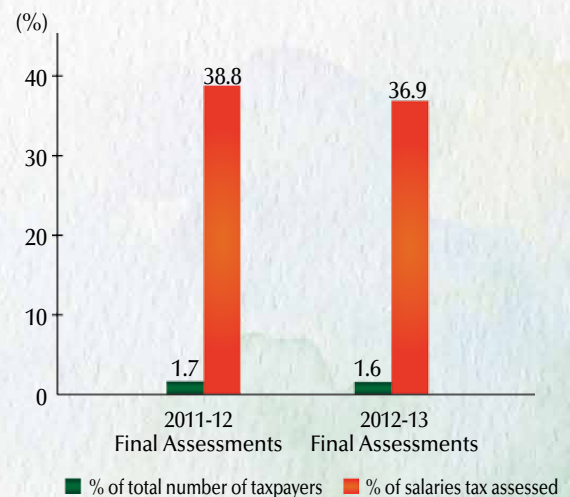
Figure 7 Salaries tax assessments



Analyses of salaries tax assessments and allowances granted in respect of taxpayers at various income levels for the year of assessment 2012-13 are provided in **Schedules 5** and **6**.

For the year of assessment 2012-13, the number of standard rate taxpayers decreased by 1,776 to 26,290. These taxpayers together contributed 36.9% of the salaries tax assessed, a slight decrease of 1.9% compared with last year (**Figure 8**).

Figure 8 Standard rate taxpayers



Notification Requirements of Employers

Apart from reporting commencements and cessations of employment, employers are required to prepare annual employer's returns to report the emoluments of each of their employees. During the year, 338,779 employers filed employer's returns with the Department.

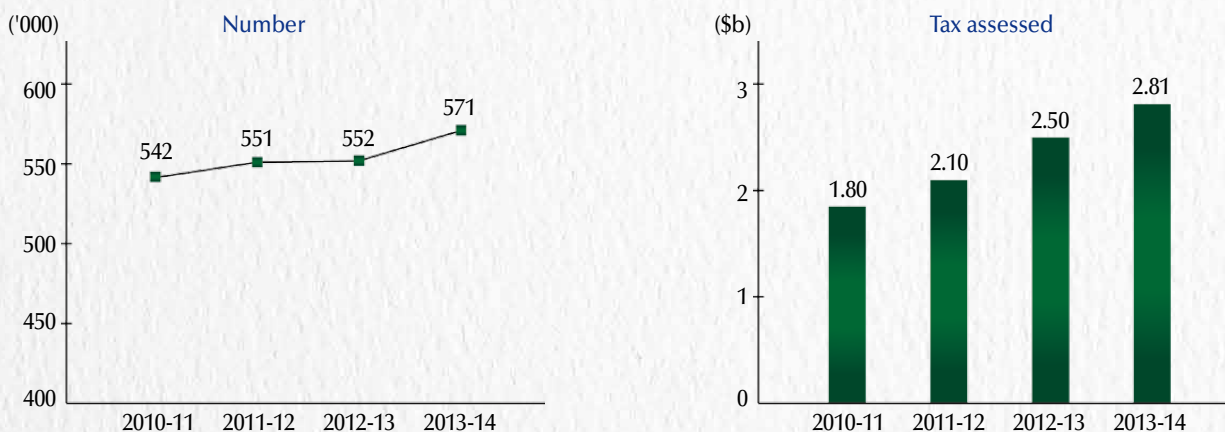
The Department provides e-Seminars and disseminates tax information to employers on the IRD Homepage to help them understand the relevant statutory requirements. The contents cover completion of employer's returns, employer's obligations and answers to frequently asked questions. Employers can also obtain 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 2013-14, 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 2013-14 was more than that in the previous year by 3.4%. Reflecting a continuous rising trend in rent, the total amount of property tax assessed increased by 12.4% (**Figure 9**).

Figure 9 Property tax assessments



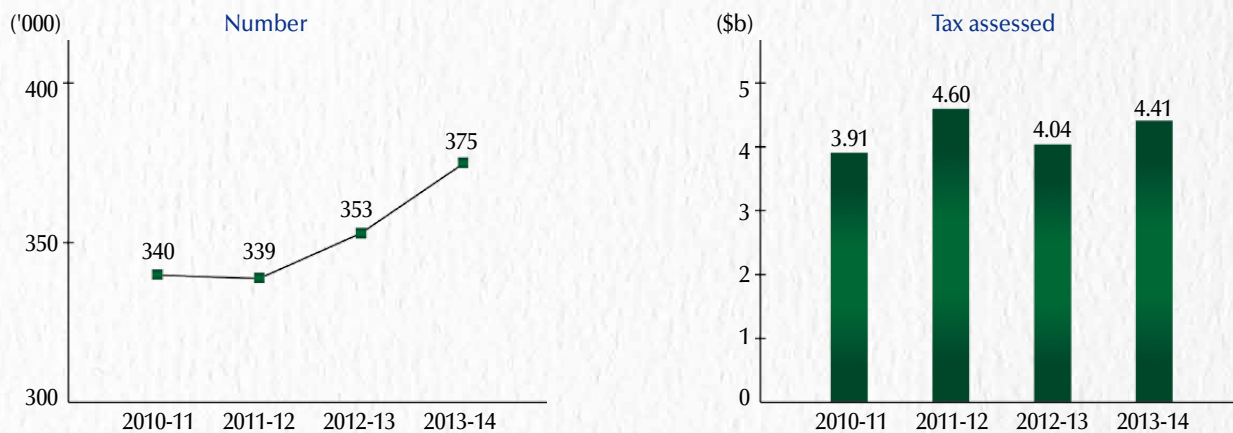


Personal Assessment

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 2013-14 increased by 6.2% and the amount of tax assessed was 9% higher (**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 2014, Hong Kong has signed comprehensive double taxation agreements (covering various types of income) with 29 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, Italy, Guernsey and Qatar.

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 2013-14, the Department completed the processing of 39 advance ruling applications (**Figure 11**). Most of the applications were for rulings on profits tax matters.

Figure 11 Advance rulings

	2012-13 Number	2013-14 Number
Awaiting decision at the beginning of the year	15	11
Add: Applications received during the year	41	35
	56	46
Less: Disposed of -		
Rulings made	27	25
Applications withdrawn	11	6
Rulings declined	7	8
	45	39
Awaiting decision at the end of the year	11	7

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, which are not agreed, are ultimately referred to the Commissioner for determination. During 2013-14, the Department completed the processing of 76,643 objections (**Figure 12**).



Figure 12 Objections

	2012-13 Number		2013-14 Number	
Being processed at the beginning of the year	28,986		31,165	
Add: Received during the year	72,299		78,349	
	101,285		109,514	
Less: Disposed of -				
Settled without determination	69,628		76,229	
Determinations:				
Assessments confirmed	290		243	
Assessments reduced	117		86	
Assessments increased	79		72	
Assessments annulled	6	492	13	414
	70,120		76,643	
Being processed at the end of the year	31,165		32,871	

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 2014, the Board consisted of a chairman and 6 deputy chairmen, who have legal training and experience, as well as 62 other members. During 2013-14, the Board settled 78 appeal cases (**Figure 13**).

Figure 13 Appeals to the Board of Review

	Number	
Awaiting hearing or decision as at 1 April 2013	61	
Add: Received during the year	70	
	131	
Less: Disposed of -		
Withdrawn	30	
Decided:		
Assessments confirmed	29	
Assessments reduced in part	3	
Assessments increased	10	
Assessments annulled	1	
Others	5	48
	78	
Awaiting hearing or decision as at 31 March 2014	53	

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 arising from its decision for the opinion of the Court of First Instance. In addition, according to section 67 of the Inland Revenue Ordinance whereby a notice of appeal has been given to the Board, if both parties so agree, an appeal can be transferred to the Court of First Instance direct without a hearing before the Board.

The Court of Appeal heard 3 cases (including 2 cases which are related) lodged by the taxpayers against judgments by the Court of First Instance concerning the Inland Revenue Ordinance during 2013-14. The issue involved in the first case was the chargeability of licence fees, whereas the issue in the 2 related cases was whether certain profits were trading in nature and not exempt from profits tax. The Court of Appeal reserved its judgment in all 3 cases, and they remained unsettled as at 31 March 2014.

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 2013-14, both the Court of Appeal and the Appeal Committee of the Court of Final Appeal respectively refused to grant leave to appeal to the Court of Final Appeal by a taxpayer who sought to deduct mould expenses under section 16G of the Inland Revenue Ordinance. On the other hand, the Court of Appeal granted leave to the Commissioner to appeal against its judgment concerning balancing charges on certain fixed assets, and the appeal will be heard by the Court of Final Appeal on 24 and 25 November 2014.

On the substantive appeal, the Court of Final Appeal handed down judgment on 1 case dismissing the Commissioner's appeal during 2013-14 concerning the taxability of certain gains arising from revaluation of trading investments to their market value at year-end dates.

Figure 14 sets out the statistics concerning appeals to the Courts during 2013-14.

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 2013	4	3	1	8
Add: Lodged during the year	0	0	1	1
	4	3	2	9
Less: Disposed of -				
Decided	0	0	1	1
Awaiting hearing or decision as at 31 March 2014	4	3	1	8



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 2014 stood at 1,352,655, which was an all time high. It was 129,068 more than that as at 31 March 2013 (**Figure 15**).

Business registration certificates are generally valid for one year, but businesses may elect for 3-year certificates. As at 31 March 2014, 16,545 businesses held 3-year certificates.

To help business enterprises, the Administration waived the business registration fees for 2013-14. Businesses were still required to pay the levy on their business registration certificates. With effect from 19 July 2013, the levy was reduced from \$450 to \$250 for 1-year certificates. For businesses electing for 3-year certificates, they were required to pay \$3,200 for the business registration fee and \$750 for the levy.

Businesses that were not required to renew their registration certificates in 2013-14 could apply for concessionary refunds if they had paid the registration fees for that year. Up to 31 March 2014, the Department had issued concessionary refunds to 8,934 businesses totalling \$11.4 million.

Due to the waiver of business registration fees for the whole financial year 2013-14, the amount of business registration fees and penalties collected in 2013-14 was reduced to \$73.5 million. It represents a decrease of 40% as compared to last year's, notwithstanding that 11% more certificates were issued during the year (**Figure 16**). Business registration statistics are set out in **Schedule 8**.

Figure 15 Number of business registrations

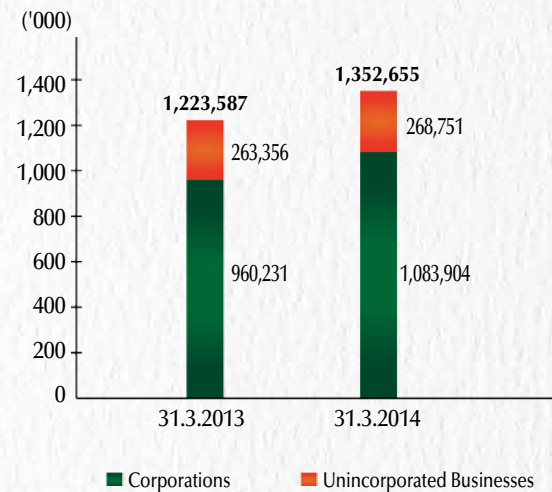


Figure 16 Certificates issued and fees collected

	2012-13	2013-14	Increase/Decrease
Number of certificates issued (Main and Branch)	1,264,736	1,403,124	+11%
Fees (inclusive of penalties) (\$m)	122.9	73.5	-40%

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 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 2013-14 was 9,779, representing a decrease of 18% from the previous year. 1 appeal case was received by the Board during the year, but was subsequently withdrawn by the appellant (**Figure 17**).

Figure 17 Appeals to the Administrative Appeals Board

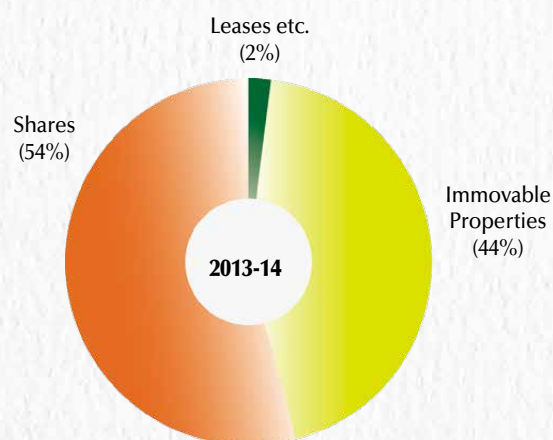
	2012-13 Number	2013-14 Number
Awaiting hearing at the beginning of the year	0	0
Add: Lodged during the year	0	1
	0	1
Less: Disposed of -		
Appeal allowed	0	0
Appeal dismissed	0	0
Appeal withdrawn	0	1
	0	1
Awaiting hearing at the end of the year	0	0

Stamp Duty

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

Following the enactment of the Stamp Duty (Amendment) Ordinance 2014, part of the enhanced special stamp duty and buyer's stamp duty payable were received in March 2014. As a result of various demand-side management measures for property market, the number of property transactions has decreased significantly, causing an overall drop in the stamp duty collections from property transactions. In 2013-14, the stamp duty collections from property transactions decreased by 19% to \$18.2 billion.

Figure 18 Composition of stamp duty collections





Amidst abundant liquidity, the stock market was active for most of the time in 2013-14. The stamp duty collections from share transactions in 2013-14 were \$22.7 billion, an increase of 14% from the previous year.

Overall, there was a decrease of 3% in the total stamp duty collected during the year, whilst the number of documents stamped increased by 4% (**Figure 19** and **Schedule 9**).

Figure 19 Stamp duty collections

	2012-13 (\$m)	2013-14 (\$m)	Increase/Decrease
Immovable Properties	22,355	18,161	-19%
Shares	19,882	22,704	+14%
Leases and other documents	643	650	+1%
Total	42,880	41,515	-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 956 in 2013-14, a drop of 13% from the 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

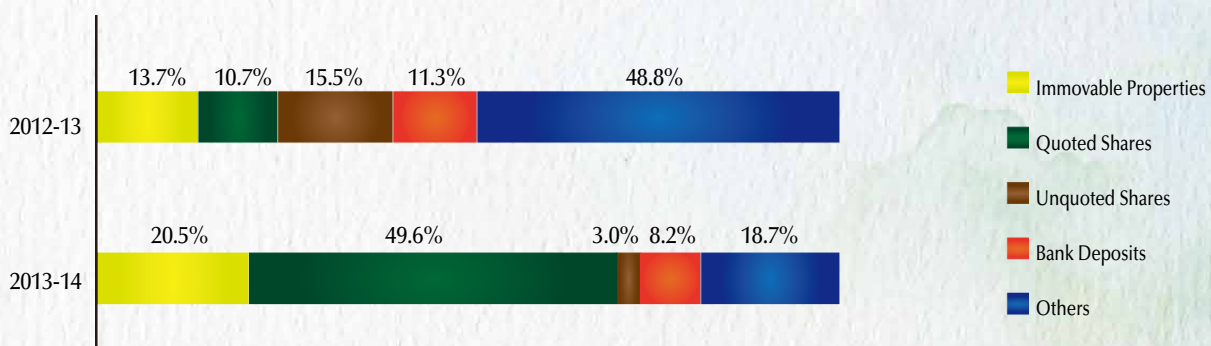


Figure 21 Estate duty cases

	2012-13 Number	2013-14 Number
New cases	<u>1,099</u>	<u>956</u>
Cases finalised		
• Dutiable	19	21
• Exempt	<u>1,075</u>	<u>961</u>
	<u>1,094</u>	<u>982</u>

Estate duty of \$388 million was collected during the year (**Schedule 10**), an increase of \$250 million (181%) 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). \$267 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. Pursuant to the Betting Duty (Amendment) Ordinance 2013 which came into operation on 1 September 2013, non-local bets on local horse races are no longer chargeable with betting duty. In respect of the local bets on non-local horse races, betting duty is charged at the standard rate of 72.5%. The rates of betting duty on the local bets on local horse races and other betting activities remained unchanged (**Figure 22**).



Figure 22 Rates of betting duty in 2013-14

		Rate
Horse racing		
Local bets on local horse races	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%
Local bets on non-local horse races	Net stake receipts	72.5%
Mark Six lotteries	Proceeds	25%
Football betting	Net stake receipts	50%

In 2013-14, betting duty collections from horse racing and football betting increased by 11.4% and 8% respectively while the betting duty collections from Mark Six lotteries decreased by 1.1% (**Schedule 11**). The total betting duty collected in 2013-14 was 9.1% higher than the previous year (**Figure 23**).

Figure 23 Betting duty collections

	2012-13 (\$m)	2013-14 (\$m)	Increase/Decrease
Horse racing	10,465.4	11,658.0	+11.4%
Mark Six lotteries	1,953.0	1,931.2	-1.1%
Football betting	4,146.4	4,477.2	+8%
Total	16,564.8	18,066.4	+9.1%

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 3.8% and 10.8% respectively in the number and the amount of TRCs sold under the “Electronic Tax Reserve Certificates Scheme” but a decrease of 0.3% and 0.5% respectively for the “SAYE Scheme” in 2013-14 (**Schedule 12**). Overall, the total amount of TRCs sold increased by 8.6% (**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.

Figure 24 Certificates sold

