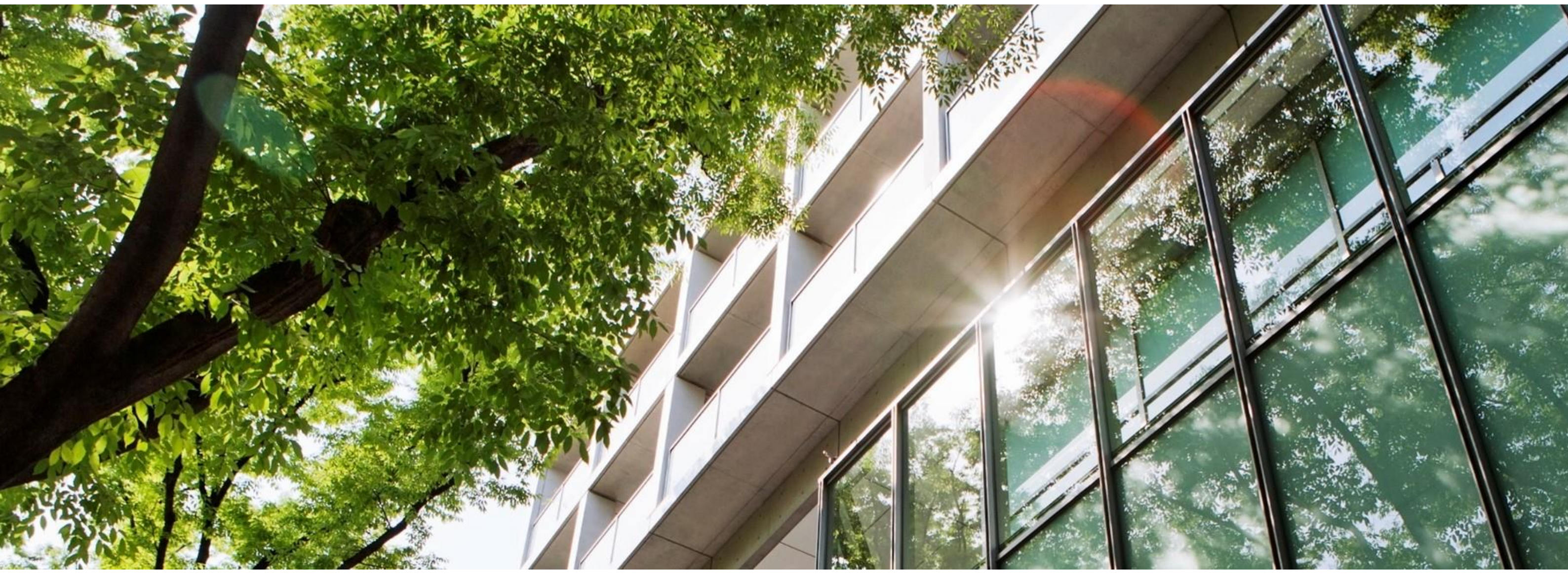

# Hong Kong Budget 2024-25

## Mazars tax newsletter – February 2024

## Introduction

**The Financial Secretary, Mr Paul Chan, delivered the 2024-25 Hong Kong budget on 28 February 2024. This is the second budget prepared by Mr Chan for the current-term government.**

**The theme of the 2024-25 Hong Kong budget is "Advance with Confidence, Seize Opportunities, Strive for High-quality Development." which has been prepared against the backdrop of geopolitical uncertainties, high interest rates, complicated and ever-changing international environment and acceleration of digital transformation. By leveraging Hong Kong's institutional advantages and the connectivity with the Mainland and the rest of the world under "One Country, Two Systems", Mr Chan had absolute confidence in Hong Kong's future.**

**The 2023-24 revised estimate on government revenue is $554.6 billion, lower than the original estimate by 13.7% or $87.8 billion. This is mainly because revenues from land premium and stamp duty have decreased under a softened asset market. The 2023-24 revised estimate on government expenditure is $727.9 billion, lower than the original estimate by 4.3% or $33.1 billion, due to a reduction of total government expenditure after pandemic. Mr Chan forecasted a consolidated deficit of $101.6 billion for 2023-24. Fiscal reserves are expected to be $733.2 billion as of 31 March 2024.**

**After consideration of current situation, Mr Chan proposed to withdraw all residential property demand management measures, including Special Stamp Duty, Buyer's Stamp Duty and New Residential Stamp Duty for any residential property transactions with immediate effect.**

**For easing the tax burden of small and medium enterprises, Mr Chan proposed tax deduction for expense incurred in reinstating the condition of the leased premises to their original condition and removal of time limit for claiming the allowances for industrial / commercial buildings and structures.**

**For increasing revenue, Mr Chan proposed implementing a two-tiered standard rates regime for salaries tax and tax under personal assessment starting from the year of assessment 2024/25 and revising the progressive rates system for domestic properties. Mr Chan also proposed resuming the collection of the Hotel Accommodation Tax at a rate of three per cent, effective from 1 January 2025.**

**With respect to one-off relief measures, Mr Chan proposed a reduction of final salaries tax, tax under personal assessment and profits tax for 2023-24 by 100%, subject to a ceiling of $3,000, which is less than last year's cap of $6,000, and a waiver of rates for domestic and non-domestic properties for the first quarter of 2024-25, subject to a ceiling of $1,000 for each rateable property.**

**Mr Chan also proposed various tax measures to attract businesses to settle in Hong Kong which will be summarized in Tax Changes section.**

## Economic performance and outlook

Mr Chan reported the economic performance for 2023 and forecast the outlook for 2024 as follows:

- The 2023-24 revised estimate on government revenue is $554.6 billion, lower than the original estimate by 13.7% or $87.8 billion, mainly due to the lower revenue from land premium and stamp duty under a soften asset market.
- As for 2023-24 government expenditure, the revised estimate is $727.9 billion, decreased by 10.2% compared with previous year.
- The revised estimate on government fiscal deficit for 2023-24 is $101.6 billion and the fiscal reserves by 31 March 2024 is expected to be $733.2 billion.
- For 2024-25, Mr Chan estimated the government revenue of $633 billion and expenditure of $776.9 billion.
- Taking into account the proceeds from issuance of government bonds of about $120 billion, Mr Chan forecasted a fiscal deficit of $48.1 billion for 2024-25.
- For 2023, real GDP increased by 3.2%. The forecast GDP growth rate ranged between 2.5% and 3.5% in real terms in 2024, subject to external economic conditions.
- For 2023, the annual average unemployment rate is 2.9% (2022 at 4.3%). The seasonally adjusted unemployment rate declined from 3.5% in the fourth quarter of 2022 to the latest 2.9%.

- Headline and underlying inflation rates for 2023 were 2.1% and 1.7% respectively. Estimated headline and underlying inflation rates for 2024 are 2.4% and 1.7% respectively.

- In the medium range forecast, Hong Kong will have a fiscal surplus in Operating Account from 2026-27 onwards. There will be a surplus in the Capital Account in 2028-29. The fiscal reserves are estimated at $832.2 billion by the end of March 2029, representing 21.2% of our GDP, equivalent to 12 months of government expenditure.

## Tax changes

In this newsletter, we have summarized the budget proposals with a focus on tax matters. Please note that they are not final and will be reviewed by the Legislative Council ("LegCo") shortly. The proposals are subject to amendments.

### To creating favourable conditions for recovery

Property market

The Government announced on 25 October 2023 the adjustment of demand-side management measures for residential properties. The relevant adjustments included shortening the applicable period of the Special Stamp Duty (SSD) from three years to two years, reducing the rates of the Buyer's Stamp Duty (BSD) and the New Residential Stamp Duty (NRSD) by half, and introducing a stamp duty suspension arrangement for incoming talents' acquisition of residential properties.

The Government has been keeping a close watch on the residential property market. After prudent consideration of the overall current situation, the Government decided to withdraw all demand-side management measures for residential properties with immediate effect, that is, no SSD, BSD or NRSD needs to be paid for any residential property transactions starting from 28 February 2024.

Stock market

To further enhance market competitiveness, stamp duties payable on the transfer of real estate investment trust units and the jobbing business of option market-makers will be waived.

### To strengthen asset and wealth management centre

The Government will further enhance the preferential tax regimes for related funds, single family offices and carried interest, including reviewing the scope of the tax concession regimes, increasing the types of qualifying transactions and enhancing flexibility in handling incidental transactions, all to attract more funds and family offices with potential to establish a presence in Hong Kong.

## To move towards a Green Future

The Government has been encouraging a wider use of electric vehicles.  The first registration tax (FRT) concessions for electric vehicles, due to terminate at the end of March this year, will be extended for two years.  Nevertheless, given the price reduction of electric vehicles and increasing availability of vehicle options, the Government will reduce the concessions by 40 per cent.  Specifically, the maximum FRT concession for electric private cars (e-PCs), granted under the "One-for-One Replacement" Scheme, will be adjusted to $172,500, whereas the concession ceiling for general e-PCs will be lowered to $58,500.  At the same time, e-PCs valued at over $500,000 before tax will not be entitled to concessions under the "affordable users pay" principle.  As for other types of electric vehicles, including electric commercial vehicles, electric motorcycles and electric motor tricycles, the FRT will continue to be waived in full over the next two years.

## To assist small and medium enterprises

Mr Chan proposed to introduce two enhancement measures for deduction of expenses under profits tax.  Profits-tax payers will be granted tax deduction for expenses incurred in reinstating the condition of the leased premises to their original condition.  As regards the allowances for industrial buildings and structures as well as commercial buildings and structures, the time limit for claiming the allowances will be removed.  This will allow the new owner to claim allowances for the property after a change of ownership, subject to factors such as the construction cost of the property and the balancing charge of its previous owner. Both enhancement measures will take effect from the year of assessment 2024/25.

## To provide "Patent Box" tax incentive

Mr Chan proposed to provide “patent box” tax incentive in his last Budget.  The Government will introduce into the LegCoin the first half of 2024 a proposal to amend the Inland Revenue Ordinance with a view to implementing the "patent box" tax incentive, which will reduce substantially the tax rate for profits derived from qualifying Intellectual Property (IP) to five per cent.  This incentive aims to encourage enterprises to devote more resources to research and development and conduct commercialisation transactions making use of patents and other IP protections.

## To develop high value-added maritime services

Hong Kong's ship registration regime is widely recognised internationally.  The Government plans to offer block registration incentive to attract shipowners to register ships in Hong Kong extensively.  The Government will amend the relevant regulations regarding this incentive starting this year, and provide an outline of the incentive rules, eligibility criteria and so forth.

## To increase revenue

Mr Chan proposed to implement a two-tiered standard rates regime for salaries tax and tax under personal assessment starting from the year of assessment 2024/25.  In calculating the amount of tax for taxpayers whose net income exceeds $5 million and whose salaries tax or tax under personal assessment is to be charged at a standard rate, the first $5 million of their net income will continue to be subject to the standard rate of 15 per cent, while the portion of their net income exceeding $5 million will be subject to the standard rate of 16 per cent. Mr Chan considered that even with the two-tiered standard rates regime above in place, Hong Kong tax rates will still be lower than those of other advanced economies.

The Government will introduce legislative amendments in the first half of this year to implement the progressive rating system for domestic properties, with the aim to bring the system into effect from the fourth quarter of 2024-25 onwards. The new system will only affect domestic properties with rateable value over $550,000, which account for about 1.9 per cent of the relevant properties.

The Government will review various fees and charges in a timely manner. Besides adhering to the "user pays" principle, the affordability of the general public and businesses will also be taken into account. Business registration fees will increase by $200 to $2,200 per annum with effect from 1 April 2024.

Mr Chan proposed to resume the collection of the Hotel Accommodation Tax at a rate of three per cent. This will take effect from 1 January 2025 in order to allow the hotel and tourism industries more time for preparation.

## One-off relief measures

Mr Chan proposed the following tax related relief measures to support enterprises and people.

### Supporting enterprises

- To reduce profits tax for 2023-24 by 100%, subject to a ceiling of $3,000 ($6,000 for 2022-23).
- To waive rates for non-domestic properties for the first quarter of 2024-25, subject to a ceiling of $1,000 for each rateable property ($1,000 for first two quarters for 2023-24 per quarter for each rateable property).

### Supporting the people

- To reduce salaries tax and tax under personal assessment for 2023-24 by 100%, subject to a ceiling of $3,000 ($6,000 for 2022-23).
- To waive rates for domestic properties for the first quarter of 2024-25, subject to a ceiling of $1,000 for each rateable property ($1,000 for the first two quarters for 2023-24 per quarter for each rateable property).

## Other taxation issues

### Developments in International Taxation

The Government will continue to take forward the implementation of the global minimum tax proposal drawn up by the Organisation for Economic Co-operation and Development to address base erosion and profit shifting. The Government aims to apply the global minimum tax rate of 15 per cent on large multinational enterprise groups with an annual consolidated group revenue of at least EUR 750 million and impose the Hong Kong minimum top-up tax starting from 2025. The Government is now conducting consultation on the implementation of the above proposals and expect to submit a legislative proposal to LegCo in the second half of this year. It is estimated that these proposals will bring in tax revenue of about $15 billion for the Government annually starting from 2027-28. Hong Kong maintains an edge over other tax jurisdictions in terms of tax competitiveness after the implementation of the proposals.

### Tobacco duty

Increasing the tobacco duty is recognised internationally as the most effective means of reducing tobacco use. The Government now proposed to increase the duty on cigarettes by 80 cents per stick, with immediate effect. Duties on other tobacco products will be increased by the same proportion.

### Re-domiciliation Mechanisms

The Government has already taken the first step by putting in place user-friendly fund re-domiciliation mechanisms for Open-ended Fund Companies and Limited Partnership Funds. These mechanisms attract existing foreign funds to establish and operate in Hong Kong. In the first half of 2024, the Government will submit a legislative proposal enabling companies domiciled overseas, especially enterprises with a business focus in the Asia-Pacific region, to re-domicile in Hong Kong.

# Tax facts

## Salaries tax and personal assessment

### Tax rates, deductions & allowances

The progressive tax bands and tax rates remain unchanged.

| 2024-25 and 2023-24 | |
|---|---|
| **Progressive rates** | |
| Income net of allowances (HK$) | |
| Under 50,001 | 2% |
| 50,001-100,000 | 6% |
| 100,001-150,000 | 10% |
| 150,001-200,000 | 14% |
| Over 200,000 | 17% |

Mr Chan proposed to implement a two-tiered standard rates regime for salaries tax and tax under personal assessment starting from the year of assessment 2024-25. The first $5 million of their net income will continue to be subject to the standard rate of 15 per cent, while the portion of their net income exceeding $5 million will be subject to the standard rate of 16 per cent.

| | 2024-25 | 2023-24 |
|---|---|---|
| **Standard rate** | | |
| Net Income (HK$) | | |
| On the first $5,000,000 | 15% | 15% |
| Remaining | 16% | 15% |

The Chief Executive proposed in his 2023 Policy Address that the Government will raise the deduction ceiling for home loan interest or domestic rents from the current $100,000 to $120,000 for taxpayers who reside with his / her first child born on or after 25 October 2023, until the child reaches the age of 18 and provide deduction for expenses on assisted reproductive services, subject to the ceiling of $100,000 per year. The tax deductions are summarized below:

| In HK$ | 2024-25 | 2023-24 |
|---|---|---|
| **Deduction limits** | | |
| Self-education | 100,000 | 100,000 |
| Home loan interest | 100,000 / 120,000 | 100,000 |
| Approved charitable donations | 35% of income | 35% of income |
| Elderly residential care | 100,000 | 100,000 |
| Contribution to retirement scheme | 18,000 | 18,000 |
| Qualifying voluntary health insurance scheme policy premiums | 8,000 per insured person | 8,000 per insured person |
| Tax-reduction MPF voluntary contribution and qualifying annuity premium payment | 60,000 in total | 60,000 in total |
| Domestic rental expenses | 100,000 / 120,000 | 100,000 |
| Assisted reproductive services expenses | 100,000 | Nil |

The tax allowances which are summarized below remain unchanged.

| In HK$ | 2024-25 and 2023-24 |
|---|---|
| **Allowances** | |
| **Personal** | |
| • Basic | 132,000 |
| • Married person | 264,000 |
| • Single parent | 132,000 |
| • Disability | 75,000 |
| **Child** | |
| • 1st to 9th child, each | 130,000 |
| • Additional child allowance in the year of birth, each | 130,000 |
| **Dependent parent / grandparent** | |
| • Basic | |
| Aged 55 – 59 | 25,000 |
| Aged 60 or above | 50,000 |
| • Additional | |
| Aged 55 – 59 | 25,000 |
| Aged 60 or above | 50,000 |
| **Disabled dependent** | 75,000 |
| **Dependent brother/sister** | 37,500 |

Salaries tax and tax under personal assessment for 2023-24 will be reduced by 100%, capped at $3,000.

As an illustration, the break-even points for 2024-25 and 2023-24 where the progressive rates of tax will not apply for a) a person being assessed under separate assessment; and b) a married couple who are jointly assessed (or a single parent who is entitled to single parent allowance) with up to two children respectively are shown below:

Scenario (a)

| In HK$ | 2024-25 and 2023-24 |
|---|---|
| | **Separate assessment** |
| **No. of children** | |
| None | 2,022,000 |
| 1 | 3,127,000 |
| 2 | 4,232,000 |

Scenario (b)

| In HK$ | 2024-25 and 2023-24 |
|---|---|
| | **Joint assessment / Single parent** |
| **No. of children** | |
| None | 3,144,000 |
| 1 | 4,249,000 |
| 2 | 5,354,000 |

Income level for break-even points will be increased by $1,105,000 (2024-25 and 2023-24) for each additional Child Allowance entitled.

## Profits tax

The two-tiered profits tax rate remains unchanged:

| | 2024-25 and 2023-24 |
|---|---|
| **Corporations** | |
| 1st $2 million assessable profits | 8.25% |
| Remaining | 16.5% |
| **Unincorporated businesses** | |
| 1st $2 million assessable profits | 7.5% |
| Remaining | 15% |

Concessionary tax rates are available for qualified corporate treasury centre, qualified aircraft/ship leasing business or aircraft/ship leasing management business, qualifying ship agency/management/broking activity, eligible insurance and insurance broker business, reinsurance companies and captive reinsurance companies.

Profits tax for 2023-24 will be reduced by 100%, capped at $3,000.

In addition, Mr Chan proposed the following tax measures be implemented and details of which will be announced later.

- To further enhance the preferential tax regimes for related funds, single family offices and carried interest, including reviewing the scope of the tax concession regimes, increasing the types of qualifying transactions and enhancing flexibility in handling incidental transactions
- To grant tax deduction for expenses incurred in reinstating the condition of the leased premises to their original condition
- To remove the time limit for claiming the allowances for industrial buildings and structures as well as commercial buildings and structures

## Property tax

Property tax rate will remain at 15%.

## Stamp duty

The Government announced on 25 October 2023 the adjustment of demand-side management measures for residential properties, including shortening the applicable period of SSD from three years to two years, reducing the rates of BSD and NRSD, and introducing a stamp duty suspension arrangement for incoming talents' acquisition of residential properties. The Government decided to withdraw all demand-side management measures for residential properties with immediate effect, that is, no SSD, BSD or NRSD needs to be paid for any residential property transactions starting from 28 February 2024.

### Ad valorem stamp duty ("AVD")

Transfer of residential properties was subject to a flat AVD rate of 15% and 7.5% before 25 October 2023 and on or after 25 October 2023 respectively.

For a residential property acquired by a Hong Kong Permanent Resident who does not own any other residential property in Hong Kong at the time of acquisition, lower stamp duty rates (subject to a marginal relief) as below was applied.

As NRSD is proposed to be withdrawn from 28 February 2024 onwards, the following AVD rate is also applicable to the transfer of resident properties by the buyer regardless of whether the buyer owns other residential property or not.

| | Present |
|---|---|
| Stamp duty rates | HK$ Million |
| $100 | 0-3 |
| 1.50% | 3-4.5 |
| 2.25% | 4.5-6 |
| 3.00% | 6-9 |
| 3.75% | 9-20 |
| 4.25% | Over 20 |

The above AVD rate (subject to marginal relief) is also applicable to the transfer of non-residential properties.

## Special stamp duty

Previously, any residential property acquired on or after 27 October 2012 and resold within 36 months was subject to the rates of SSD as follows:

**SSD rates**

| Holding period (month) | Before 25 October 2023 | On or after 25 October 2023 |
|---|---|---|
| 0-6 | 20% | 20% |
| More than 6-12 | 15% | 15% |
| More than 12-24 | 10% | 10% |
| More than 24-36 | 10% | 0% |

SSD is proposed to be withdrawn from 28 February 2024.

## Buyer's stamp duty

BSD was charged at 15% and 7.5% on the stated consideration or the market value (whichever higher) of all residential properties in Hong Kong acquired by non-Hong Kong permanent residents and by corporations before 25 October 2023 and on or after 25 October 2023 respectively.

BSD is proposed to be withdrawn from 28 February 2024.

## Stock transactions

Stamp duty on stock transactions will remain unchanged at 0.2%.

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