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THE TAX SYSTEM OF HONG KONG

Hong Kong has long been described as offering a prime example of the merits of a market economy. Milton Friedman, Nobel Prize laureate in Economics in 1976, described Hong Kong as the freest market in the world, in which most economic activities are coordinated by the price mechanism and the role of government is limited.[1] As reflected by the 2010 Index of Economic Freedom, jointly published by the Heritage Foundation and the Wall Street Journal, Hong Kong is ranked the freest economy among 183 countries for the 16th consecutive year.[2] This paper presents an overview and analysis of the tax system of Hong Kong. Hong Kong's low and simple tax regime has been an important factor in its economic growth and its amazing increase in standard of living over the past few decades.

Low and Simple Tax Regime

The level of labor employment is an important determinant of the output of an economy. The equilibrium level of labor depends on the supply and demand in the labor market, which reflect the rational and voluntary choices of individuals and firms responding to the level of the after-tax net wage. Individuals have to choose, according to the prevailing net wage, an optimal bundle of leisure and income, and hours of work are then determined. Taxes on labor income reduce the incentive to work as the net wage decreases and leisure becomes relatively less costly. Given an upward-sloping labor supply curve, the equilibrium level of labor drops and less output is produced. A low marginal tax rate on wages and salaries creates less distortion than a high rate, and does less to obstruct economic growth.

Another crucial factor for production is the amount of capital stock available in the economy, which is affected by the level of investment every year. High marginal tax rates on income from saving and investment raise the required pre-tax return that an investment must earn to be profitable. Multiple layers of tax on income from saving and investment have the same adverse effects. Projects

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[1] Milton Friedman, Rose D. Friedman, *Free To Choose: A Personal Statement* (New York: Harcourt Brace Jovanovich, 1980)

[2] Terry Miller and Kim R. Holmes, *2010 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2010), accessed at http://www.heritage.org/index/.

Institute for Research on the Economics of Taxation

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that cannot reach the higher threshold return are not undertaken. This gives rise to a lower level of capital stock. If an economy has low tax rates on labor income and profits, it encourages capital formation and boosts productivity growth in long term.

Renowned for its low and simple tax regime, Hong Kong has great fiscal freedom, scoring 93 out of 100, on the 2010 Index of Economic Freedom.[3] Hong Kong's effective tax rates are among the lowest in the world. The three direct taxes in Hong Kong are the salaries tax, the profits tax and the property income tax. The salaries tax is charged either progressively, from 2% to 17% on income after deductions and allowances, or at a flat standard rate of 15% on net total income, whichever liability is smaller. The profits tax rates for corporations and unincorporated businesses are 16.5% and 15% respectively. The property income tax rate is 15%. The rate of stamp duty on stock transfers is 0.2% per transaction.[4] There are no taxes on dividends, capital gains and interest income (except interest received by a financial institution). Hong Kong also does not have a sales tax or a value-added tax. Only four types of goods, namely, liquor, tobacco, petroleum-based fuels and methyl alcohol, are subject to excise duties. In 2008, excise duties on beer and wine were abolished. All exports and imports of Hong Kong are tax-free, with the exception of the import of motor vehicles for use on the road.[5]

Moreover, the tax system of Hong Kong is exceptionally simple. The Inland Revenue Ordinance, regulating Hong Kong's tax revenue, only consists of about 200 pages whereas the federal tax code of the United States has swollen from 400 pages in 1913 to about 70,000 pages in 2010.[6] The simplicity of Hong Kong's tax system greatly reduces the tax compliance costs, which include the cost of tax planning and paperwork. Resources can be diverted into more productive uses.

Neutral Tax System

Not only does Hong Kong have a low and simple tax system, it also scores extremely well in terms of tax neutrality. A neutral tax system attempts, as much as possible, not to distort economic activity. It imposes taxes evenly to avoid altering the relative costs or benefits of undertaking one activity versus another, or producing or consuming one product versus another. A neutral tax would not alter spending habits, behavior patterns or the natural allocation of resources. A typical "broad-based income tax" is not neutral between income used for saving and income used for

[3] *Ibid.*

[4] Unless specified, all Hong Kong's tax rates are retrieved from the Inland Revenue Department, Hong Kong: http://www.ird.gov.hk.

[5] Inland Revenue Department, Hong Kong: http://www.ird.gov.hk.

[6] "The Joy Of Tax; A Futile Plea For Simplicity," *The Economist*, April 8, 2010, accessed at http://www.economist.com/node/15867984.

consumption. An income tax is imposed on income that is used for consumption only once, and there is no further income tax on the consumption activity (although there may be additional consumption taxes). However, the broad-based income tax is imposed on income used for saving, and imposed again annually on the returns on the saving (both of which may then be subject to consumption taxes when spent). Additional layers of tax on income from saving and investment at the corporate level, and on assets transferred in estates and by gifts, are common.

A saving/consumption-neutral tax system, or "consumed-income tax," is superior to an income-based tax system. It uses either the saving-deferred or returns-exempt approach for the tax treatment of saving and investment. In a neutral saving-deferred income tax system, the tax on income used for saving and on the accumulating returns on the saving is postponed; tax is imposed only later on the principal and earnings when these returns are withdrawn for consumption. In the neutral returns-exempt system, income is taxed before any saving, but any subsequent returns of principal and earnings are tax-exempt. Multiple taxation of income used for saving is avoided since the consumption-based tax system only taxes income that is saved or the returns on the saving, but not both.[7]

The Hong Kong tax system is largely a saving-consumption neutral returns-exempt system. Dividends, capital gains and interest income (except interest received by a financial institution) are not subject to taxes. This tax neutrality reaffirms the economic freedom of Hong Kong, minimizing economic distortions that would reduce output. This contributes to higher levels of investment, productivity and income.

Multiple Taxation

Multiple taxation is a concept of great importance in analyzing the tax system of an economy. It takes place when the same income is being taxed more than once and a number of layers of tax are created in the process. Because the layers of tax on saving are usually more numerous than those on consumption, and the combined tax rate higher, the relative price of consumption in terms of saving drops and people are more inclined to consume than to save. Levels of investment and capital stock in the economy will be lower than under a neutral tax system. In a typical "broad-based" income tax system, there are commonly as many as four layers of tax on income that is saved. The first layer is a tax on the income when it is first earned. The second layer is a personal income tax on the returns on the saving (including interest, dividend, capital gains and non-corporate business profits), which creates a tax bias against saving relative to consumption. The third layer is a corporate income tax that is imposed on income in the corporate sector before it is distributed to shareholders as dividends,

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[7] Stephen J. Entin, "The Economics of Taxation and the Issue of Tax Reform," Presented at the IRET Congressional/Embassy Staff Economics Seminar, New Orleans, LA, April 16-19, 2009, available at http://iret.org/pub/New_Orleans_(2009).pdf.

or reinvested to boost future earnings (leading to capital gains). People investing in corporate shares have to bear tax on the returns twice in addition to the initial tax on the income invested. The fourth layer is the transfer tax (i.e. gift tax and estate tax) that is imposed on already taxed assets being transferred from the deceased to his or her offspring or other beneficiaries.[8]

The first layer and the third layer of tax on saving exist in the tax system of Hong Kong. Wage and salary income earned in Hong Kong is subject to the salaries tax, which forms the first layer. However, the Hong Kong government, practicing the returns-exempt approach, does not charge tax on dividends, interest or capital gains. Moreover, earnings of the self-employed in sole proprietorships or partnerships are subject to the profits tax, but not the salaries tax. These practices help remove the second layer of tax, namely the personal income tax on returns. Under the Inland Revenue Ordinance[9], corporations in Hong Kong are subject to the profits tax, which is imposed on profits before reinvestment or distribution as dividends to shareholders, but the dividends and capital gains from listed companies are not subject to additional tax at the shareholder level. Consequently, saving invested in corporate stock is taxed twice, once when first earned and again on the corporate income. The fourth layer of tax concerns the transfer of assets between two parties or persons. In this respect, Hong Kong performs satisfactorily because it abolished the estate duty in February 2006.[10] On the whole, the problem of multiple taxation in Hong Kong, as compared to other countries in the world, is not significant. In particular, multiple taxation is a much more severe problem in the United States, which has the above-mentioned four layers of tax at the federal level (except where mitigated by pension arrangements, exemptions, accelerated write-offs, or reduced tax rates), and additionally often has the same multiple layers of tax at the state and local levels. Individuals and firms in Hong Kong have relatively higher incentives to save; hence more resources can be devoted to long-term economic development.

Furthermore, in Hong Kong, there is no additional layer of tax on income earned in other jurisdictions, because Hong Kong uses a territorial system of taxation. Only profits arising in or derived from Hong Kong are chargeable under the profits tax. Even if the income is not taxed in those other jurisdictions, it will not be taxable if it is not derived from Hong Kong.[11] In sum, Hong Kong has performed well in reducing the number of tax layers and holding down the combined tax rate on saving and investment.

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[8] IRET, "The Economics of Taxation and the Issue of Tax Reform," *op. cit.*

[9] Refer to Departmental Interpretation and Practice Notes, No. 44, paragraph 86 http://www.ird.gov.hk/eng/ pdf/e_dipn44.pdf.

[10] See http://www.ird.gov.hk/eng/tax/edu.htm for Revenue (Abolition of Estate Duty) Ordinance 2005.

[11] "A Simple Guide On The Territorial Source Principle Of Taxation," Inland Revenue Department: http://www.ird.gov.hk/eng/paf/bus_pft_tsp.htm.

Favorable Treatment of Capital Expenditure

Hong Kong also promotes tax neutrality through its treatment of capital purchases. The Hong Kong tax system employs both depreciation and expensing of capital assets. Depreciation, a method used in accounting to allocate the cost of physical capital over its useful life, is often employed in tax codes to compute the allowable deductions for outlays on capital over time. Expensing is the immediate deduction of the full cost of acquiring physical capital in the period the asset is purchased. A pro-growth tax system should adopt expensing for the following reason. The present value of the allowances computed by using the depreciation method is less than the cost of the physical assets because of the decreasing time value of money. Inflation, which erodes the value of money over time, would further reduce its present value. Therefore, the depreciation method would understate the real cost of physical capital, overstate business income and business taxes, and raise the cost to firms of purchasing assets.[12] Expensing avoids these problems by allowing a write-off equal to the cost of the investment, and is a more economically correct way to treat capital investment.

Although Hong Kong does not fully practice expensing, it adopts some treatments of accelerated depreciation, which is a move in the direction of expensing. Firms are allowed to deduct a significant portion of capital expenditure for most types of fixed assets in the year of expenditure. For instance, 60% of expenditure on plant and machinery, and 20% of expenditure on industrial buildings and structures can be written off immediately in the year of expenditure. If we assume zero inflation, the write-off of a dollar spent on plant and machinery ranges from $0.91 - $0.97 cents in present value (depending on the estimated working life) while a dollar spent on industrial buildings and structures gets a write-off of about $0.81 cents in present value. Firms are even permitted to use expensing on plant and machinery specially related to manufacturing, and computers hardware and software. For fixed assets related to environmental protection, expensing or depreciation over short asset lives can be adopted.[13] These measures effectively raise investment incentives because firms receive a tax deduction higher in present value than that under depreciation over long asset lives. The Hong Kong economy would benefit if the government more fully adopts expensing or implements depreciation schedules with more acceleration, because firms would undertake more new investment, which would boost productivity, wages and output.

Government Tax Revenue

Data from the Inland Revenue Department reflect that Hong Kong has a narrow tax base relying on the profits tax and the salaries tax as the main sources of government revenue. Government tax

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[12] For details, see James R. Kee, "Introductory Discussion Of The Basic Concepts Of Depreciation And Expensing,"*IRET Policy Bulletin*, No.75, March 10, 1999, available at http://iret.org/pub/BLTN-75.PDF.

[13] "A Brief Guide to Taxes Administered by the Inland Revenue Department 2009-2010," Inland Revenue Department.

revenue for the year 2008-2009 amounted to HK$191,479 million (US$24,549 million), accounting for 70.1% of general government revenue. Profits tax and salaries tax accounted for 54.4% and 20.4% of the total tax revenue in 2008-2009 respectively, nearly 75% of total government tax revenue.[14] Reliance on direct taxes (taxes on income) may cause much fluctuation and uncertainty in government revenue since employment, income, and profits are subject to greater variation over the business cycle than consumption (or taxes based on consumption). Moreover, most taxes are borne by a limited number of taxpayers. In the year 2008-2009, only 36.6% of Hong Kong's 3.55 million working population, or 1.3 million people, paid salaries tax. Among the 1.3 million taxpayers, the top 100,000 people paid 64.7% of the total salaries tax whereas the bottom 800,000 taxpayers bore only 4.7%.[15] In addition, the revenue from stamp duty is very volatile since it hinges on the performance of the stock market and property market. In 2007-2008, stamp duty collections surged by 106% or HK$26.5 billion (US$3.40 billion) from the previous year, due to the booming property market and active stock market.[16] However, the stamp duty revenue dropped sharply by 37.6% or HK$19.4 billion (US$2.49 billion) in 2008-2009 because of the global financial crisis.[17]

As with other developed economies, Hong Kong is experiencing an aging problem, which will put a heavy burden on government expenditure in areas of health care and social security and make the limited number of taxpayers even smaller as a share of the population. To make government revenue less volatile, it has been recommended that Hong Kong broaden its revenue sources. The reliance on direct taxes should shift to become more balanced, with both direct taxes and indirect taxes (taxes on consumption). The introduction of a new broad-based consumption tax is one viable option. There has been a heated debate about the introduction of a Goods and Services Tax (GST) in Hong Kong over the past few years. Alternatively, the government may consider broadening the salaries taxpayer base by lowering personal allowances or deductions so that the tax net is expanded. More of the workforce would then pay tax on their earnings.

Conclusion

The taxation system of Hong Kong is a fundamental component of Hong Kong's competitiveness, contributing to its economic prosperity over the past few decades. According to the World Competitiveness Yearbook 2010, published by the International Institute for Management

14 *Annual Report 2008-09*, Inland Revenue Department: http://www.ird.gov.hk/eng/ppr/are08_09.htm.

15 Information packet, Budget 2009-10: http://www.budget.gov.hk/2009/eng/pdf/information_pack_e.pdf.

16 *Annual Report 2007-08*, Inland Revenue Department: http://www.ird.gov.hk/eng/ppr/are07_08.htm.

17 *Annual Report 2008-09*, *op. cit.*

Development (IMD), Hong Kong ranks second among 58 countries on the basis of 327 criteria, with outstanding performance in fiscal policy.[18]

Hong Kong has a simple taxation system with low tax rates. In particular, the fact that dividends, capital gains and interest income are not taxable boosts saving and investment which are key ingredients in fostering economic development. Hong Kong has a largely saving/consumption-neutral tax system based on a returns-exempt approach. There are only two layers of tax on saving in Hong Kong, indicating Hong Kong has performed relatively well in minimizing multiple taxation compared to other countries. The two layers are the tax on income when earned in the first place and the corporate income tax imposed on income before dividends or reinvestment. The latter tax is kept low by means of a generous depreciation system that allows a considerable amount of expensing. Hong Kong provides various tax incentives to sharpen its competitiveness, with accelerated depreciation being the most prominent one. Although there is a concern about the narrow tax base, the overall taxation system in Hong Kong is exemplary.

The following pages provide more details on the types of taxes in Hong Kong.

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[18] *World Competitiveness Yearbook 2010*, Institute for Management Development (IMD), May 2010: http://www.imd.ch/research/publications/wcy/index.cfm.

Appendix*

1. Overview

1.1 Type of tax

Type of tax	Brief description	Tax rate
Profits tax	A tax imposed on profits derived from trade, profession or business in Hong Kong	16.5% for companies, 15% for incorporated businesses
Salaries tax	A tax imposed on income from an office, employment or any pension in Hong Kong	2% on the first HK$40,000 (US$5,128), 7% on the next HK$40,000, 12% on the next HK$40,000 and 17% on the remainder, of the Net Chargeable Income[1] If tax liability exceeds 15% (standard rate) of income minus deductions, the lesser shall be adopted.
Property tax	A tax imposed on earnings of land and/or buildings in Hong Kong	15% (standard rate) on the net assessable value[2] (income) of the property
Rates	A tax charged at a percentage of the rateable value of vacant property[3]	2010/11: 5%
Stamp duty	A tax imposed on certain documents regarding transactions of properties, stocks, bearer instruments, etc	Lump-sum duty on some documents and an ad valorem duty on others[4]
Estate duty	A tax imposed on total value of inheritance situated in Hong Kong. Abolished in 2006	--------------------------
Betting duty	A tax charged on net stake receipts derived from horse racing and football, and proceeds on lotteries[5]	Horse racing: 72.5% - 75%, Football: 50%, Lotteries (Mark Six): 25%
Hotel accommodation tax	A tax imposed on hotel and guest house accommodation	3% for the period up to 30 June 2008[6]
Air passenger departure tax	A tax imposed on passengers flying out of Hong Kong International Airport	HK$120 (US$15.38) per person
Commodity tax	A tax imposed on dutiable commodities including hydrocarbons (petroleum-based fuel), tobacco, liquor and methyl alcohol	Tax rates vary for different dutiable commodities.

* Unless specified, all information of this appendix is retrieved from the Inland Revenue Department, Hong Kong: http://www.ird.gov.hk

Business registration fee	Charges on business registration certificates[7]	1-year certificate: HK$ 450 (US$57.69) 3-year certificate: HK$ 4550 (US$583.33)
Vehicle registration and license fee	Charges on vehicle registration and license	Tax rates vary according to the type and size of vehicles.

Notes:

1. Net Chargeable Income is income reduced by the sum of deductions and allowances.
2. For the definition of Net Assessable Value, see section 4.1 in appendix.
3. Rateable value is the estimated annual rental value of a property at a designated valuation reference date, assuming that the property was then vacant and to let.
4. For tax or tax rates of stamp duty on immovable property, see section 6 in appendix.
5. No betting duty is charged on cash prizes from lucky draws.
6. Effective from 1 July 2008, hotel accommodation tax has been waived until further notice.
7. There is relief for some small businesses on paying business registration fee.

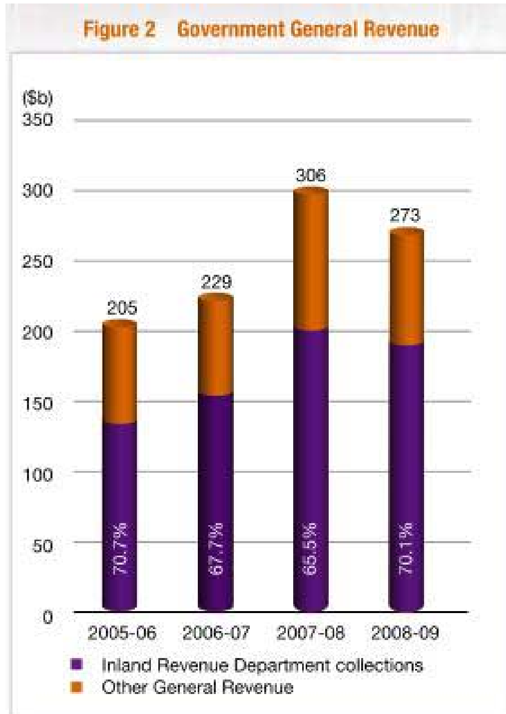
1.2 Government tax revenue statistics

Figure 1

Type of tax	2005-2006		2006-2007		2007-2008		2008-2009	
	HK$m	%	HK$m	%	HK$m	%	HK$m	%
Profit tax								
corporations	65,586.1	45.2	65,499.6	42.2	86,775.6	43.2	99,294.4	51.9
unincorporated businesses	4,210.4	2.9	6,419.4	4.1	4,647.1	2.3	4,857.1	2.5
Total profit tax	69,796.5	48.1	71,919.0	46.4	91,422.7	45.6	104,151.5	54.4
Salaries tax	37,493.9	25.9	38,585.6	24.9	37,479.5	18.7	39,007.9	20.4
Property tax	1,267.1	0.9	1,247.4	0.8	1,240.6	0.6	832.5	0.4
Personal assessment	3,193.9	2.2	3,565.6	2.3	3,586.6	1.8	2,151.1	1.1
Total earnings& profits tax	111,751.4	77.1	115,317.6	74.3	133,729.4	66.6	146,143.0	76.3
Estate duty	1,675.7	1.2	777.7	0.5	353.4	0.2	176.0	0.1
Stamp duty	17,867.2	12.3	25,076.6	16.2	51,549.1	25.7	32,162.1	16.8
Betting duty	11,938.1	8.2	12,047.4	7.8	13,048.4	6.5	12,620.3	6.6
Business registration fees	1,478.8	1.0	1,497.9	1.0	1,565.8	0.8	154.4	0.1
Hotel accommodation tax	310.0	0.2	384.2	0.2	450.4	0.2	222.9	0.1
Total tax revenue collected	145,021.2	100.0	155,101.4	100.0	200,696.5	100.0	191,478.7	100.0
% change over previous year		13.6		7.0		29.4		-4.6

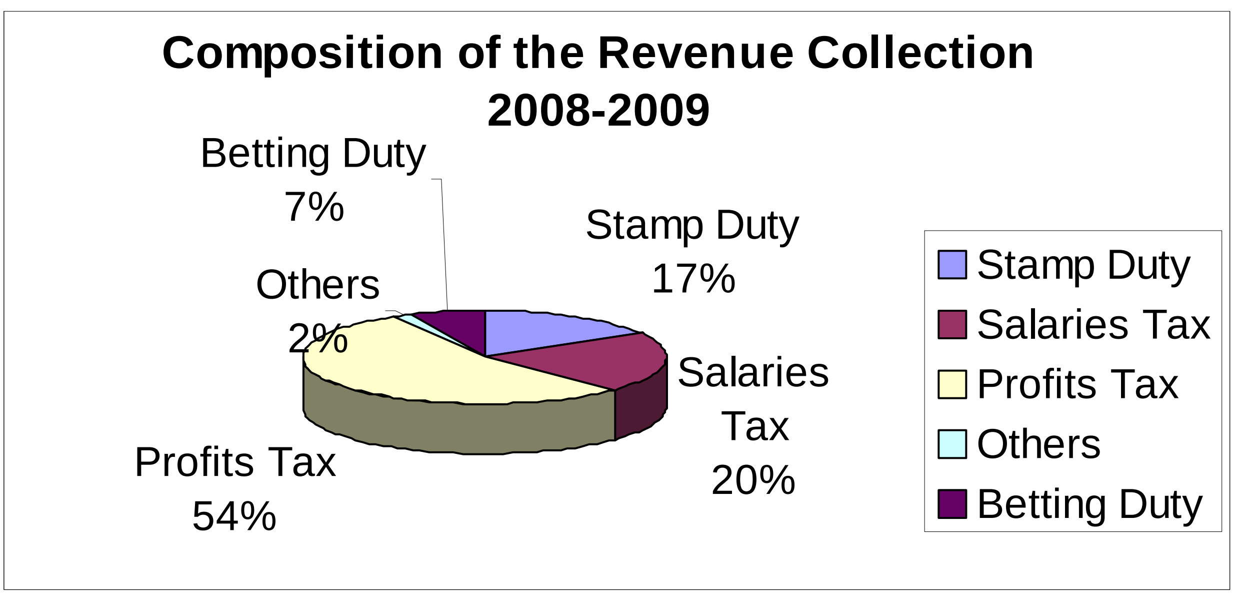
Source: Annual Report 2008-09, Inland Revenue Department

Figure 2



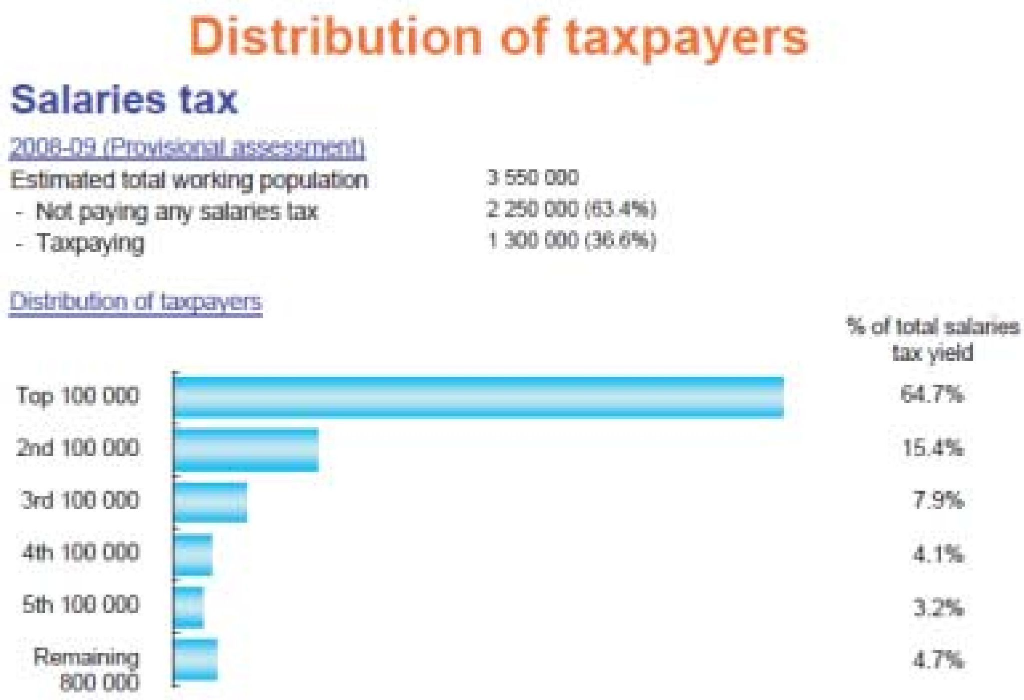
Source: Annual Report 2008-09, Inland Revenue Department

Figure 3



Source: Annual Report 2008-09, Inland Revenue Department

Figure 4



Source: Information packet, Budget 2009-10

2. Profits tax

Profits tax is charged on all profits arising in or derived from Hong Kong from any trade, profession or business, excluding those arising from the sale of capital assets.

2.1 The territorial source principle of taxation

Hong Kong employs a territorial basis for taxing profits. Only profits arising in or derived from Hong Kong are taxable under the profits tax. A person who runs a business in Hong Kong but derives profits from elsewhere is not required to pay Hong Kong profits tax. This principle applies to both residents and non-residents.

2.2 Profits tax rate

	2003/04	2004/05 to 2007/08 *	2008/09 onwards
Corporations	17.5%	17.5%	16.5%
Unincorporated businesses	15.5%	16%	15%

* 75% of the 2007/08 profits tax for corporations or unincorporated businesses was waived subject to a ceiling of HK$25,000 (US$3,205) per case.

2.3 Tax incentives

- Immediate write-off (expensing) for plant and machinery related to manufacturing and computer hardware and software
- Accelerated depreciation for environmental protection facilities
- Writing off refurbishment of business premises over 5 years
- Tax concessions for gains derived from qualified debt instruments
- Concessionary tax rate for offshore business of reinsurance companies
- Tax exemption for offshore funds regarding profits derived from transactions in securities, future contracts, foreign excahnge contacts, etc
- Interest income exemption, except interest received by a financial institution

2.4 Exemptions and deductions

Exemptions

- Dividends received
- Interest on Tax Reserve Certificates
- Interest on bonds
- Interest income* and trading profits from long term debt instruments

* Interest derived from any deposit is exempt from profits tax. This exemption, however, does not apply to interest received by a financial institution.

Deductions

Generally, all expenses incurred in the production of chargeable profits are allowed as deductions.

- Interest on funds borrowed and rent of buildings or land occupied
- Bad debts (any recoveries to be treated as income when received)
- Repairs of premises, plant, machinery or articles, etc
- Registration of a trade mark, design or patent
- Purchase of patent rights, industrial know-how, registered trademarks, copyrights and registered designs*
- Expenditure on research and development
- An employer's annual contribution to a fund for occupational retirement
- Mandatory contributions paid by a sole proprietor or a partner as a self-employed person
- Donations of not less than HK$100 (US$12.82)

Deduction is specifically prohibited in the following:

- Domestic or private expenses not expended for producing profits
- Loss or withdrawal of capital, the cost of improvements and any expenses of a capital nature
- Any sum recoverable under insurance or contract of indemnity
- Rent of or expenses relating to premises not used for producing profits

- Taxes payable, except Salaries Tax paid in respect of employees' remuneration
- Remuneration to unincorporated owners or interest on capital

* To promote wider application of intellectual property by enterprises and the development of creative industries, the existing regime of tax deductible capital expenditure on the purchase of patent rights and industrial know-how is expanded to cover registered trademarks, copyrights and registered designs, according to 2010/11 Budget.

2.5 Depreciation and expensing

2.5.1 Treatment

Type of asset	Treatment
Industrial buildings and structures	Immediate write-off: 20% Annual allowance until fully written off : 4% of initial capital expenditure
Commercial buildings and structures	Annual allowance until fully written off: 4% of initial capital expenditure
Plant and machinery (other than manufacturing , and computer hardware and software)	Immediate write-off :60% Annual allowance until fully written off: 10% or 20% or 30% of declining balance of capital expenditure (depending on the estimated working life)
Plant and machinery (manufacturing , and computer hardware and software)	Expensing

Notes:

1. Capital expenditures on refurbishment of business premises are written off over 5 years (20% per year).
2. For installation of specified environmental protection facilities forming part of a building or structure, the capital expenditure is written off over 5 years (20% per year).
3. For capital expenditure on specified environmental protection facilities and environmental-friendly vehicles, expensing is allowed.

2.5.2 Comparison between the write-offs under expensing and the write-offs under current law

Type of asset	Present value of first-year write off of $1 of investment (expensing)	Present value of current law write-off of $1 (0% inflation rate)	Present value of current law write-off of $1 (3% inflation rate)
Industrial buildings and structures	1.00	0.81	0.69
Commercial buildings and structures	1.00	0.72	0.54
Plant and machinery (10% declining balance)	1.00	0.92	0.87
Plant and machinery (20% declining balance)	1.00	0.96	0.93
Plant and machinery (30% declining balance)	1.00	0.97	0.95
Plant and machinery (manufacturing, computer hardware and software)	1.00	1.00	1.00
Refurbishment of business premises	1.00	0.94	0.89
Specified environmental protection facilities and environmental-friendly vehicles	1.00	1.00	1.00

Assume: 3% real interest rate

3. Salaries tax

Salaries tax is charged on all income arising in or derived from Hong Kong from an office or employment or any pension.

3.1 Taxable income

- Director’s fee
- Payments and benefits received by employees (e.g. salaries, wages, commission, bonus, awards of shares, share option gains and perquisites)
- Payments received from retirement schemes
- Benefits in kind (e.g. rental value of the residence provided by the employer)

3.2 Net chargeable income and net total income

- Net Chargeable Income = Total Income – Deductions – Allowances
- Net Total Income = Total Income – Deductions

3.3 Salaries tax schedule (2010/2011)

Net chargeable income	**Marginal tax rate**
First HK$ 40,000 (US$5,128)	2%
Next HK$ 40,000 (US$5,128)	7%
Next HK$ 40,000 (US$5,128)	12%
Remainder	17%

Net total income	15% (Standard tax rate)

- Tax charged is the smaller of tax computed using the progressive tax schedule on net chargeable income and that using a 15% tax rate on net total income.

3.4 Allowances and deductions

<u>Allowances</u>

- Basic allowance (HK$108,000 or US$13,846)
- Married person's allowance
- Child allowance
- Dependent brother/sister allowance
- Dependent parent or dependent grandparent allowance
- Single parent allowance
- Disabled dependant allowance

<u>Deductions</u>

- Expenses for producing assessable income, excluding private or capital expenses
- Home loan interest for the purchase of property used as the place of residence
- Expenses of self-education subject to a ceiling of HK$60,000 (US$7,692)
- Contributions paid to a recognized occupational retirement scheme
- Mandatory contributions paid to a mandatory provident fund scheme as an employee
- Elderly residential care expenses
- Donations of not less than HK$100 (US$12.82)

4. Property tax

Property tax is levied on the owners of land or buildings in Hong Kong at the standard rate on the net assessable value (earnings) of the property. In spite of its name, this is a tax on the earnings, not the asset value, of the property.

4.1 The basis of assessment

The assessable value is computed by reference to the actual consideration payable to the owner regarding the right of use of the property. Examples:

- Gross rent
- Payment for the right of use of premises under license
- Lump sum premium
- Service charges or management fees paid to the owner
- Owner's expenditure (e.g. repairs) born by tenant

Net assessable value = assessable value (after deduction of rates and irrecoverable rent) – 20% statutory allowances for repairs and outgoings

4.2 Property tax rate

2003/04	2004/05 – 2007/08	2008/09 – 2010/11
15.5%	16%	15%

5. Personal assessment

A Hong Kong resident may elect Personal Assessment, under which income chargeable to salaries tax, profits tax and property tax is aggregated in a single assessment. Personal assessment may enable an individual to reduce his or her tax liability by offsetting a business loss against income subject to salaries tax or property tax and claiming deduction of loan interest on rental properties, which is not available under property tax. Losses brought from previous years may also be used to offset against income in current or subsequent years. Tax is calculated on the balance in the same manner (i.e. progressive rates or standard tax rate) as for salaries tax.

6. Stamp duty on immovable property

Property value	**Tax or tax rates**
Up to HK$ 2,000,000 (US$256,410.26)	HK$ 100 (US$12.82)
HK$ 2,000,001- HK$3,000,000 (US$384,615.38)	1.50%
HK$ 3,000,001- HK$4,000,000 (US$512,820.51)	2.25%
HK$ 4,000,001- HK$6,000,000 (US$769,230.77)	3.00%
HK$ 6,000,001- HK$20,000,000 (US$2,564,102.56)	3.75%
Above HK$20,000,000(US$2,564,102.56)	4.25%