



# Hong Kong Budget Summary 2020-2021



# Commentary

The Financial Secretary, the Honourable Paul MP Chan, delivered his fourth budget which focused on providing relief to support enterprises and livelihoods, safeguard jobs and stimulate the economy. The relief measures, which include the HKD 10,000 cash pay-out to all Hong Kong permanent residents aged 18 or above, will substantially contribute to the government's 2020-21 deficit, estimated at HKD 139.1 billion, or 4.8 per cent of GDP. Details on the much-anticipated cash pay-out scheme are yet to be announced. The government could consider consumption vouchers (or a combination of cash and vouchers) to boost domestic consumption demand and provide immediate relief for those sectors that were most affected by recent events and the economic downturn that is expected to continue in the near term.

Similar with previous years, relief measures are generally one-off rebates and waivers. There are no changes to tax rates or bandings, with the usual rebates for Profits Tax and Salaries Tax. The Financial Secretary also reiterated the government's continuing support for various sectors including tourism, shipping and asset management. KPMG welcomes the announced tax measures including those to attract private equity funds and asset managers to Hong Kong. Looking forward, the Financial Secretary suggested that significant changes to the Hong Kong tax system may be required in response to local fiscal needs and, more importantly, international tax developments. The proposed wide community consultation will be important to ensure any changes do not adversely impact Hong Kong's position as Asia's premier business gateway.

The economic downturn and increasing expenditure mean the government is forecasting deficits over the next five years. Nevertheless, the government's strong fiscal reserves mean Hong Kong is well placed to weather these "rainy days". In the medium to long term, the government should focus on economic and social development. This includes supporting the ongoing Smart City, R&D and Technology and Innovation initiatives in Hong Kong. We are pleased to hear that the Financial Secretary acknowledged the need to strengthen our pillar industries, while developing emerging industries to identify new growth engines. We look forward to seeing more policies on this front.



The information contained in the *Hong Kong Budget Summary 2020-2021* is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

Legislative proposals do not generally become law until their enactment and may be modified by the Legislative Council before enactment.

*It should be noted that the information is presented in summary form and readers are advised to seek professional advice before formulating business decisions.*

# Hong Kong economic indicators

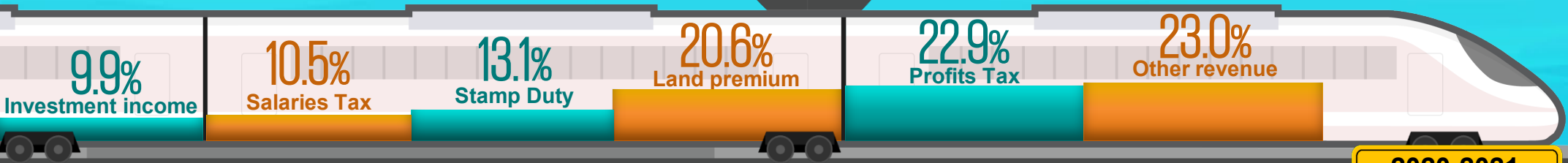
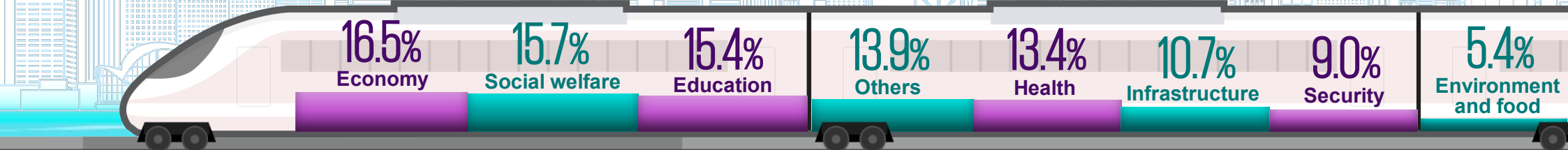




# 2020-21 Government revenue and expenditure (estimated)

Total government revenue for 2020-21 is estimated to be HKD 572.5 billion (2019-20: HKD 626.1 billion), within which tax revenues (i.e., Profits Tax, Stamp Duty, Salaries Tax) account for 46.5% (2019-20: 48%), followed by land premium at 20.6% (2019-20: 22.8%) and investment income at 9.9% (2019-20: 7.7%). Total government expenditure is estimated at HKD 731.1 billion (2019-20: HKD 607.8 billion). Education, social welfare and healthcare account for about 45% (2019-20: 51%) of total government expenditure. The government forecasts an overall consolidated deficit of HKD 139.1 billion for 2020-21. This has taken into account the launch of countercyclical fiscal measures and the continued increase in recurrent expenditure. Hong Kong's fiscal reserve will remain strong at about HKD 994 billion at 31 March 2021. Fiscal reserves are estimated at HKD 937.1 billion by the end of March 2025, which is equal to about 15 months of government expenditure.

**2020-2021  
Government  
expenditure  
(estimated)**



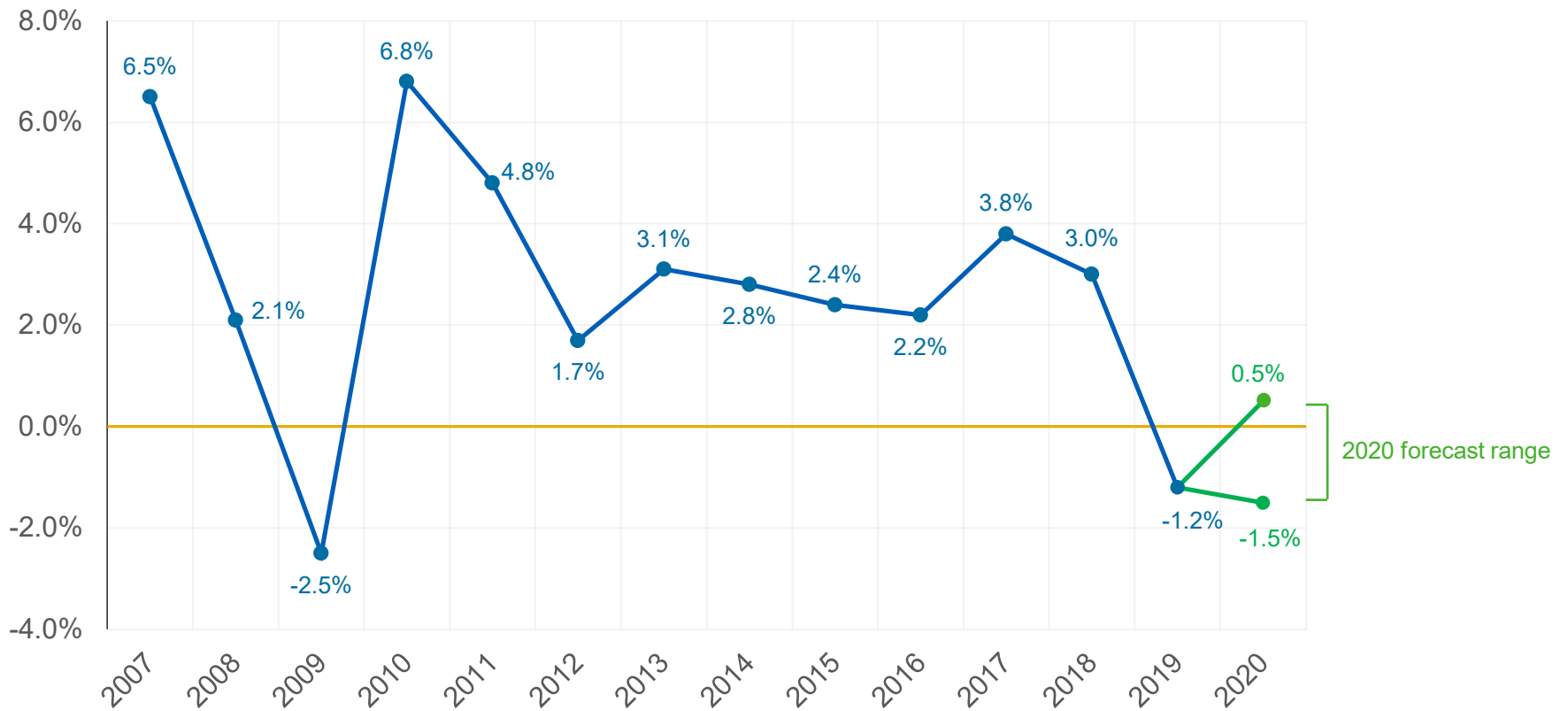
**2020-2021  
Government  
revenue  
(estimated)**

Source: 2020-21 Budget Speech by the financial secretary



# Real gross domestic product growth rate

Overall, the Hong Kong economy contracted 1.2% year-on-year due to weak domestic and external demand amid the social unrest, and the US-China trade tensions. These events took a heavy toll on Hong Kong's consumption and tourism sectors, impacting both domestic private expenditure and inbound tourism. While the economic outlook for 2020 is still subject to significant challenges, notably the coronavirus outbreak. Hong Kong's economy, supported by healthy fiscal reserves, remains resilient and capable of weathering these internal and external economic headwinds.

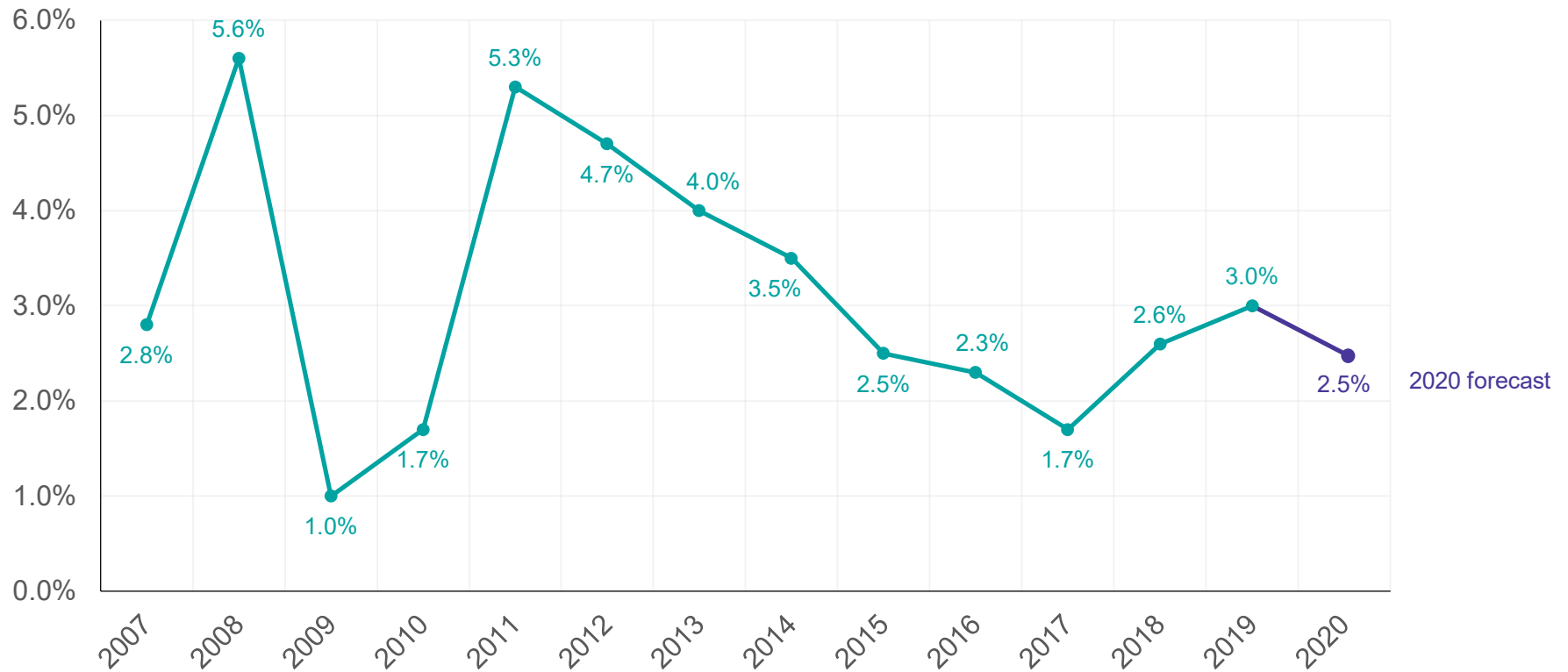


Source: Census and Statistics Department's website



# Underlying inflation rate

The underlying inflation rate in 2019 was estimated to be 3%, partly reflecting the impact of the government's one-off relief measures during the past months. Looking ahead, the 2020 outlook is still subject to uncertainties, including the pace of global economic recovery, US-China trade relations, social incidents, and the effect of the coronavirus outbreak in Hong Kong and elsewhere in Asia. While the impact of the coronavirus is seen as being temporary, domestic consumption and tourism will likely only show signs of recovery during the latter half of 2020.

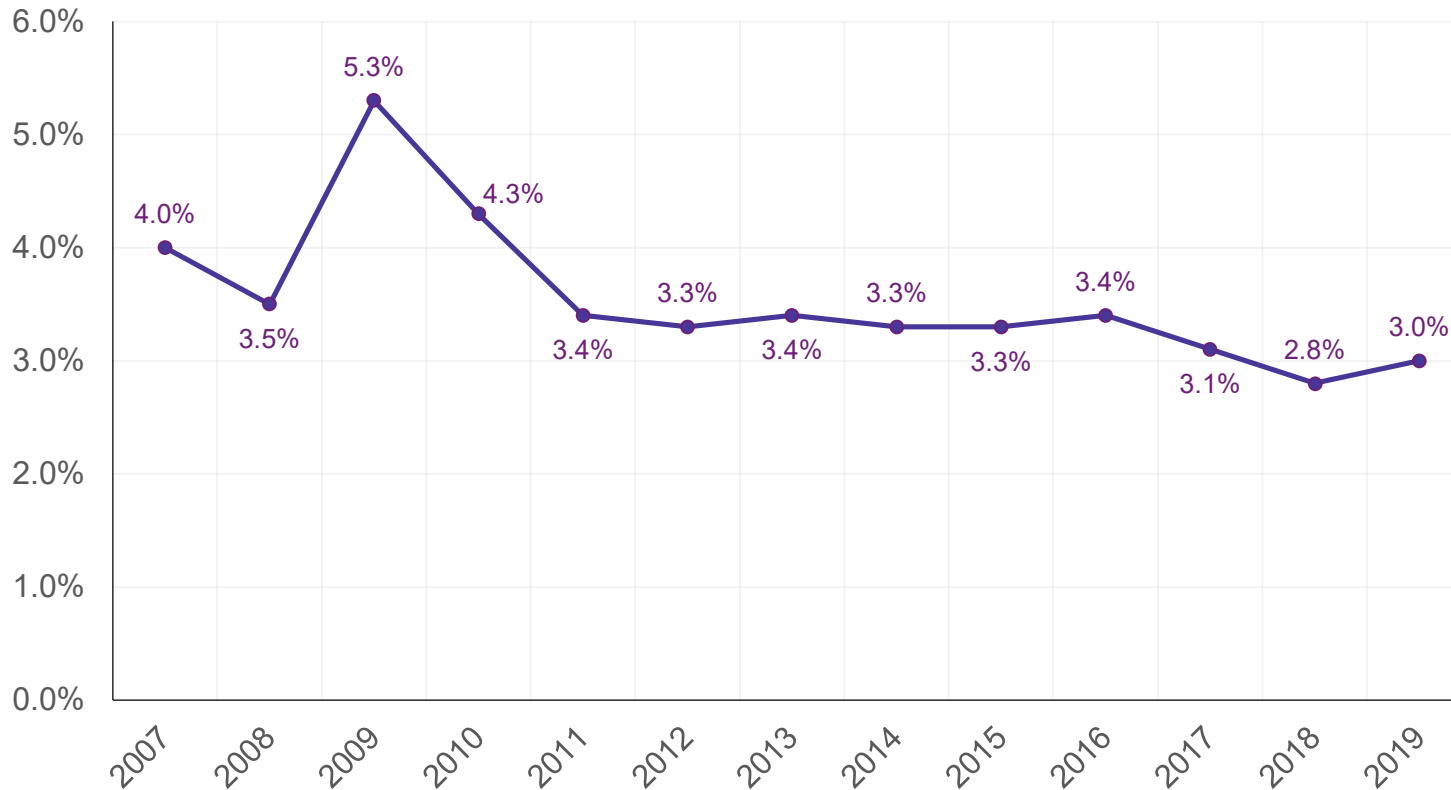


Source: Census and Statistics Department's website



# Unemployment rate

The unemployment rate in Hong Kong was 3% overall in 2019. That said, the consumption and tourism-related sectors have been significantly affected by social events and the unemployment rate can be expected to rise.



Source: Census and Statistics Department's website

# Budget proposals at a glance





# Economy

## Key measures

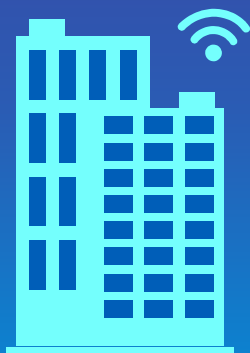
### Diversified economy

- Issue inflation-linked retail bonds and Silver Bonds totalling not less than **HKD 13 billion**
- Issue green bonds totalling **HKD 66 billion** in next 5 years
- Additional funding of over **HKD 700 million** for Hong Kong Tourism Board to step up external promotion
- Additional funding of **HKD 150 million** for the Hong Kong Trade Development Council to assist Hong Kong enterprises in exploring business opportunities
- Inject **HKD 345 million** for a pilot subsidy scheme to encourage the logistics industry to enhance productivity through the application of technology

### Support enterprises

- Introduce a concessionary low-interest loan with 100% government guarantee for enterprises (maximum **HKD 2 million**)
- Waive business registration fees for 2020-21
- Waive 75% of electricity charges for 4 months in 2020-21 with a monthly cap of **HKD 5,000**
- Waive 75% of water and sewage charges for 4 months in 2020-21 with a monthly cap of **HKD 20,000** and **HKD 12,500** respectively
- Provide a new round of rental subsidy for 6 months to local recycling enterprises
- 50% reduction on rental for government properties/properties covered by short-term and temporary waivers for 6 months
- 50% reduction for hire charges for civic centres for 6 months
- Reduction of fees and rent for cruise lines and cruise terminal tenants for 6 months

# Smart city



## Key measures

Allocate **HKD 1 billion** for the Smart Traffic Fund to subsidise research and application on vehicle-related IT

Launch the “iAM Smart”, a one-stop personalised digital service platform



Allocate **HKD 100 million** to develop an integrated digital platform for data integration and information exchange to strengthen project supervision

Launch a territory-wide 3D digital map in phases from this year. Earmark **HKD 60 million** to establish the first Geospatial Lab to promote the application of spatial data



# Community development and infrastructure



## Key measures



### Strengthen healthcare system

- Establish a **HKD 10 billion** public healthcare stabilisation fund and enhance medical services
- Earmark about **HKD 500 billion** for the two 10-year Hospital Development Plans; provide over 15,000 additional hospital beds and more than 90 operating theatres
- Provide sufficient financial support for the Hospital Authority (HA) and the Department of Health for anti-epidemic efforts
- Provide recurrent funding of **HKD 75 billion** to the HA in 2020-21
- Allocate **HKD 180 million** to universities to enhance facilities and strengthen professional healthcare training
- Provide an additional **HKD 3.6 billion** to the HA to retain talent in the 5-year period starting from 2021-22

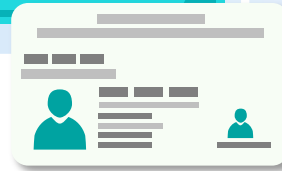


# Caring society



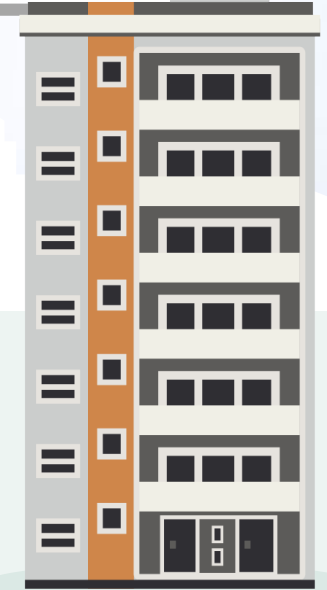
## Key measures

**HKD 10,000** cash payout to Hong Kong permanent residents aged 18 or above



Launch **HKD 1 billion** pilot schemes for fixed rate mortgages to help homebuyers

Allocate **HKD 200 million** for training allowance for workers, and subsidise SME contractors and registered subcontractors with a ceiling of **HKD 20,000** each



Extra 1-month allowance of standard CSSA payment, Old Age Allowance, Old Age Living Allowance or Disability Allowance



Allocate over **HKD 300 million** to provide 3000 home care service quotas and issue 1,000 community care service vouchers



Lower minimum entry age of HKMC annuity plan from 65 to 60



**HKD 75 million** recurrent funding to subsidise elderly service units

# Land and housing

## Key measures

2020-21 land supply is expected to provide **15,700** units

Start receiving applications of Land Sharing Pilot Scheme in the first half of 2020 to increase supply of public and private housing in short and medium term

Public Housing - estimated production from 2019-20 to 2023-24 is about **100,400** units, comprising about **74,400** public rental housing/ Green Form Subsidised Home Ownership Scheme units and **26,000** subsidised sales units

Private Housing - estimated annual production from 2020 to 2024 is about **19,600** units on average

Continue to pursue new development area projects, rezone sites for housing development, develop brownfield clusters and urban squatter areas, etc. to provide land to increase housing supply

Announce the latest land forecast in the second quarter of 2020 to provide a blueprint of future land research and creation for the Government

# Profits Tax





# Profits Tax

## Key highlights

Reduction of 2019-20 Profits Tax payable by 100%, subject to a ceiling of **HKD 20,000**



To provide Profits Tax exemption to qualifying ship lessors and a 50% tax concession to qualifying ship leasing managers and eligible insurance businesses (including marine insurance)



Launch new limited partnership regime for private equity funds

To provide a tax concession for carried interest paid by private equity funds operating in Hong Kong subject to the fulfilment of certain conditions



Tax rates		Corporation	Unincorporated business
<b>Standard tax rate</b>		16.5%	15%
<b>Two-tiered Profits Tax regime</b> Qualifying taxpayers may be taxed at the following rates: <ul style="list-style-type: none"> <li>- First HKD 2 million of assessable profits</li> <li>- Remaining balance</li> </ul> Only one entity within a group can benefit from the two-tiered rates.		8.25%	7.5%
		16.5%	15%

\*Concessionary regimes are available for certain specified industries or business activities.

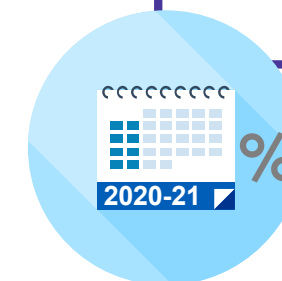
### Royalties paid to non-residents

When payment is derived from an associated company and the relevant intellectual property has once been owned by any Hong Kong taxpayer, the assessable profits are deemed to be 100% of the payment (i.e. effective tax rate is 16.5%). In other cases, the assessable profits are generally deemed to be 30% of the payment (i.e. effective tax rate is 4.95%). The effective tax rate may be reduced under the terms of the applicable double taxation agreement or election of the two-tiered Profits Tax rate.

Capital allowances	
<b>Depreciation allowances for plant and machinery</b> <ul style="list-style-type: none"> <li>- Initial allowance</li> <li>- Annual allowance</li> </ul>	60% 10%, 20% or 30%
<b>Industrial building allowances</b> <ul style="list-style-type: none"> <li>- Initial allowance</li> <li>- Annual allowance</li> </ul>	20% 4%
<b>Commercial building allowance</b>	4%
<b>Building refurbishment</b>	20% deduction for 5 years
<b>Expenditure on computer hardware and software</b>	100% deduction
<b>Expenditure on environmentally friendly machinery and equipment</b>	100% deduction
<b>Enhanced tax deduction for qualifying research and development expenditure</b>	300% (for the first HKD 2 million) 200% (for the remaining balance)

Source: Inland Revenue Ordinance

No changes proposed in tax rates in 2020-21





# Salaries Tax





# Salaries Tax



## Key highlights







- ① No changes proposed to tax rates and allowances for individuals
- ② Reduction of 100% in Salaries Tax payable for 2019-20, subject to a ceiling of **HKD 20,000**

## Tax rates

The tax charge for Salaries Tax is the lower of the:

- (a) Net assessable income less charitable donations and allowable deductions at the standard rate (15%); or
- (b) Net assessable income less charitable donations, allowable deductions and personal allowances, charged at the progressive rates below.

2013-14 to 2016-17	Rate	HKD	2017-18	Rate	HKD	2018-19 to 2020-21	Rate	HKD
First HKD 40,000	2%	800	First HKD 45,000	2%	900	First HKD 50,000	2%	1,000
Next HKD 40,000	7%	2,800	Next HKD 45,000	7%	3,150	Next HKD 50,000	6%	3,000
Next HKD 40,000	12%	4,800	Next HKD 45,000	12%	5,400	Next HKD 50,000	10%	5,000
						Next HKD 50,000	14%	7,000
Remaining balance	17%			17%			17%	

Allowances for individuals		2014-15 HKD	2015-16 HKD	2016-17 HKD	2017-18 HKD	2018-19 HKD	2019-20 HKD	2020-21 HKD
<b>Personal allowances</b> 	Basic	120,000	120,000	132,000	132,000	132,000	132,000	132,000
	Married	240,000	240,000	264,000	264,000	264,000	264,000	264,000
	Single parent	120,000	120,000	132,000	132,000	132,000	132,000	132,000
	Disabled	-	-	-	-	75,000	75,000	75,000
<b>Child allowances</b> 	1st to 9th child (each)							
	- Year of birth	140,000	200,000	200,000	200,000	240,000	240,000	240,000
	- Other years	70,000	100,000	100,000	100,000	120,000	120,000	120,000
<b>Dependent parent and grandparent allowances</b> 	Aged 60 or above, or disabled	40,000	40,000	46,000	46,000	50,000	50,000	50,000
	Aged between 55 and 59	20,000	20,000	23,000	23,000	25,000	25,000	25,000
<b>Additional dependent parent and grandparent allowances</b> 	Aged 60 or above, or disabled	40,000	40,000	46,000	46,000	50,000	50,000	50,000
	Aged between 55 and 59	20,000	20,000	23,000	23,000	25,000	25,000	25,000
<b>Disabled dependent (spouse/child/parent/grandparent/brother/sister) allowances</b> 		66,000	66,000	66,000	75,000	75,000	75,000	75,000
<b>Dependent brother/sister allowances</b> 		33,000	33,000	33,000	37,500	37,500	37,500	37,500

Deductions – maximum limit	2014-15 HKD	2015-16 HKD	2016-17 HKD	2017-18 HKD	2018-19 HKD	2019-20 HKD	2020-21 HKD
<b>Self-education expenses</b>	80,000	80,000	80,000	100,000	100,000	100,000	100,000
<b>Elderly residential care expenses</b>	80,000	80,000	92,000	92,000	100,000	100,000	100,000
<b>Mandatory contributions to recognised retirement schemes</b>	17,500	18,000	18,000	18,000	18,000	18,000	18,000
<b>Home loan interest</b>	100,000						
<b>Approved charitable donations</b>	35% of assessable income						
<b>Qualifying voluntary health insurance scheme policy premiums</b>	-	-	-	-	-	8,000 per insured person	8,000 per insured person
<b>Annuity premiums and MPF voluntary contributions</b>	-	-	-	-	-	60,000	60,000

Source: Inland Revenue Ordinance

# Property Tax, Rates and Stamp Duty





# Property Tax, Rates and Stamp Duty

## Key highlights

**Stamp Duty**  
Exchange Traded Fund market makers exemption proposed

**Property Tax**  
No changes proposed

**Rates**  
Rates waiver for each domestic property for all 4 quarters of 2020-21, subject to a ceiling of HKD 1,500 per quarter

**Rates**  
Rates waiver for each non-domestic property for all 4 quarters of 2020-21, subject to a ceiling of HKD 5,000 per quarter in the first 2 quarters and HKD 1,500 per quarter in the remaining 2 quarters

## Stamp Duty



### Lease of immovable properties

Lease term	Rate
Not defined or is uncertain	0.25% of the yearly or average yearly rent
Does not exceed 1 year	0.25% of the total rent payable over the term of the lease
Exceeds 1 year but not exceeding 3 years	0.5% of the yearly or average yearly rent
Exceeds 3 years	1% of the yearly or average yearly rent

### Sale and purchase of Hong Kong stock

0.2% of the consideration or the value of the stock as at the transfer date – whichever is higher

## Sale on transfer of immovable properties



### Ad valorem stamp duty



Property consideration				
Exceeds	Does not exceed	Flat rate (for residential properties)	Scale 1 rates* (for non-residential properties)	Scale 2 rates* (for Hong Kong permanent residents who do not own other residential properties and in other specified circumstances)
	HKD 2,000,000	15%	1.5%	HKD 100
HKD 2,000,000	HKD 3,000,000		3.0%	1.5%
HKD 3,000,000	HKD 4,000,000		4.5%	2.25%
HKD 4,000,000	HKD 6,000,000		6.0%	3.0%
HKD 6,000,000	HKD 20,000,000		7.5%	3.75%
HKD 20,000,000			8.5%	4.25%

\* Subject to marginal relief



### Special stamp duty on disposal of residential properties



Property holding period	Tax rate
6 months or less	20%#
More than 6 months but not exceeding 12 months	15%#
More than 12 months but not exceeding 36 months	10%#

# On the sales consideration or market value of property at the date of sale (whichever is higher)

## Property Tax

**Tax rate**      **15%**

The tax rate is applied to the “net assessable value” of the property which is calculated at the total rent receivable (net of rates) less 20% statutory allowance for repairs and outgoings.

Sources: Inland Revenue Ordinance  
Stamp Duty Ordinance  
Rating and Valuation Department's website



### Buyer's stamp duty on acquisition of residential properties



	Tax rate
For non-permanent Hong Kong residents	15%#

## Rates

**Tax rate**      **5%**

The tax rate is applied to the “rateable value” which is the estimated annual rental value of the property at a designated valuation reference date.

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