Hong Kong: 2016/17 budget eases salaries tax burdens

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In brief

The Financial Secretary delivered the 2016/17 Hong Kong budget on February 24, 2016. Similar to last year's budget, the 2016/17 budget did not introduce any change to the standard tax rate, progressive tax rates and income bands for progressive tax rates for Hong Kong salaries tax. However, increases in the basic and married person's allowances, single parent allowance and dependent parent/grandparent allowances as well as the deduction ceiling for elderly residential care expenses are proposed in the budget as recurrent measures to ease the burden of salaries taxpayers.

In addition, a salaries tax rebate similar to that for 2014/15 is proposed for 2015/16 as a one-off relief measure. Similar to last year, companies which have settled the 2015/16 salaries tax liabilities for their former assignees/expatriates who have already departed from Hong Kong should ensure the refunds in relation to the tax rebate are made available to the companies instead of the individual employees.

In detail

2016/17 Hong Kong salaries tax rates

The salaries tax rates for year of assessment 2016/17 will be the same as those for 2015/16. The standard tax rate will remain at 15% on employment income less allowable deductions (but without deduction of personal allowances). The progressive tax rates and the corresponding income bands are as follows:

	2016/17	2015/16
First HK$40,000	2%	2%
Next HK$40,000	7%	7%
Next HK$40,000	12%	12%
On the remainder	17%	17%

Increase in various personal allowances

To ease taxpayers' burden in the current financial environment, the 2016/17 budget proposed to raise the following personal allowances:

- basic and married person's allowances
- single parent allowance
- dependent parent/grandparent allowances.

The other types of personal allowance will remain unchanged. The table below shows the amounts of personal allowances available for years of assessment 2015/16 and 2016/17 respectively.

	2016/17 (HK$)	2015/16 (HK$)
basic allowance	132,000	120,000
married person's allowance	264,000	240,000
child allowance [1] - 1st to 9th child (each) **additional child allowance** - 1st to 9th child (each) in the year of birth only	 100,000 100,000	 100,000 100,000
dependent parent/grandparent allowance [2] - aged 60 or above • not residing with taxpayer • residing with taxpayer throughout the year - aged 55 to 59 • not residing with taxpayer • residing with taxpayer throughout the year	 46,000 92,000 23,000 46,000	 40,000 80,000 20,000 40,000
dependent brother/sister allowance (for whom no child allowance is claimed)	33,000	33,000
single parent allowance	132,000	120,000
disabled dependent allowance (in addition to any allowance already granted for the disabled person)	66,000	66,000

Notes:

1. The allowance is available for an unmarried child maintained by the taxpayer provided that he/she is (1) under the age of 18 or (2) of or over the age of 18 but under 25 and receiving full time education.
2. To qualify for the allowance, the dependent parent/grandparent must at any time during the year be ordinarily resident in Hong Kong and either (1) resides with the taxpayer, without paying full cost, for a continuous period of not less than 6 months or (2) has received from the taxpayer not less than HK$12,000 towards his/her maintenance.

Increase in concessionary deductions

To alleviate taxpayers' burden for maintaining dependent parents or grandparents, the 2016/17 budget proposed to raise the deduction ceiling for elderly residential care expenses from HK$80,000 to HK$92,000 from year of assessment 2016/17 onwards.

One-off relief measures

The following one-off relief measures were proposed in the 2016/17 budget:

- Waive 75% of salaries tax and tax under personal assessment for 2015/16, subject to a ceiling of HK$20,000, to be deducted from the taxpayer's final tax payable for the year.

- Waive rates for the four quarters of 2016/17, subject to a ceiling of HK$1,000 per quarter for each rateable property.
- Provide one additional month of Comprehensive Social Security Assistance payment, Old Age Allowance, Old Age Living Allowance and Disability Allowance.

The takeaway

The proposed increases in the basic and married person's allowances should be welcomed by the public as the allowances have not been adjusted since year of assessment 2012/13. For certain taxpayers, it may be marginally more advantageous to apply the standard rate method (by applying the standard rate against net assessable income, that is income before deduction of personal allowances) instead of the progressive rates method (by applying progressive tax rates to various tiers of net chargeable income, that is income after deduction of personal allowances) in previous year. In this situation, the proposed increases in the personal allowances mentioned above may mean that their net chargeable incomes will be reduced to a level at which their tax liabilities under the progressive tax rates method will be lower than those under the standard rate method in year of assessment 2015/16.

The Inland Revenue Department (IRD) will include calculations of the salaries tax payables by applying the standard rate method and the progressive rates method and automatically adopt the more beneficial tax position for taxpayers in the salaries tax assessments issued.

Similar to last year, the tax rebate of up to 75% of the salaries tax payable for 2015/16 or HK$20,000 (whichever is the higher) announced in the budget will be automatically reflected in the final tax assessments for 2015/16 to be issued. For expatriates/assignees who have already departed from Hong Kong and performed the tax clearance for 2015/16, the IRD will revise the 2015/16 tax assessments that have already been issued and refund the tax rebate due to taxpayers where applicable.

Since the IRD's standard practice is to issue a refund check of the tax overpaid payable to the individual taxpayers, companies which have settled the 2015/16 salaries tax payments on behalf of their employees should ensure a process is in place to collect the refunds from the former assignees / expatriates who have already left Hong Kong or to request the IRD to issue the refund checks directly to the companies.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact your regular PwC Global Mobility Services engagement team or one of the following team members:

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