Hong Kong: 2017/18 budget proposes changes to salaries tax

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In brief

The newly appointed Financial Secretary delivered his maiden budget, the 2017/18 Hong Kong budget, on February 22, 2017. It is the last budget delivered by the current Administration, whose term will expire by the end of June 2017.

The 2017/18 budget proposes a number of changes relating to salaries tax, the most significant one being the widening of the marginal tax bands from HK$40,000 to HK$45,000. The tax bands were last widened in the year of assessment 2008/09, from HK$35,000 to HK$40,000. Other changes include an extension of the entitlement period for home loan interest deduction and an increase in the dependent brother/sister allowance, disabled dependant allowance, and the deduction ceiling for self-education expenses. The standard tax rate and progressive tax rates remain unchanged.

Similar to last year, a salaries tax rebate for 2016/17 is proposed as a one-off relief measure amid a higher-than-expected revised estimated surplus of HK$92.8 billion for 2016/17. Companies that have settled the 2016/17 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

2017/18 Hong Kong salaries tax rates

The salaries tax rates for year of assessment 2017/18 will be the same as those for 2016/17. The standard tax rate will remain at 15% on employment income less allowable deductions (but without deduction of personal allowances). The marginal tax bands will be widened from HK$40,000 to HK$45,000. The progressive tax rates and the corresponding tax bands are as follows:

	2017/18		2016/17
First HK$45,000	2%	First HK$40,000	2%
Next HK$45,000	7%	Next HK$40,000	7%
Next HK$45,000	12%	Next HK$40,000	12%
On the remainder	17%	On the remainder	17%

Increase in various personal allowances

There will be an increase in the dependent brother/sister allowance and disabled dependant allowance in 2017/18. The amounts of the other types of personal allowance will remain unchanged. The table below shows the amounts of personal allowances available for years of assessment 2016/17 and 2017/18 respectively.

	2017/18 (HK$)	2016/17 (HK$)
Basic allowance	132,000	132,000
Married person's allowance	264,000	264,000
Child allowance [1]		
- 1st to 9th child (each)	100,000	100,000
Additional child allowance		
- 1st to 9th child (each) in the year of birth only	100,000	100,000
Dependent parent/grandparent allowance [2]		
- Aged 60 or above		
• Not residing with taxpayer	46,000	46,000
• Residing with taxpayer throughout the year	92,000	92,000
- Aged 55 to 59		
• Not residing with taxpayer	23,000	23,000
• Residing with taxpayer throughout the year	46,000	46,000
Dependent brother/sister allowance (for whom no child allowance is claimed)	37,500	33,000
Single parent allowance	132,000	132,000
Disabled dependent allowance (in addition to any allowance already granted for the disabled person)	75,000	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) at 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.

Changes to concessionary deductions

In addition to the proposed increases in personal allowances, the following changes in respect of concessionary deductions for salaries tax are also proposed in the 2017/18 budget:

- Extend the entitlement period for the tax deduction for home loan interest from 15 to 20 years of assessment. The deduction ceiling of HK$100,000 a year remains unchanged.
- Increase the deduction ceiling for self-education expenses from HK$80,000 to HK$100,000.

The 2017/18 budget also proposes to examine the provision of tax deduction for the purchase of regulated health insurance products.

One-off relief measures

The following one-off relief measures are proposed in the 2017/18 budget:

- Waive 75% of salaries tax and tax under personal assessment for 2016/17, 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 2017/18, subject to a ceiling of HK$1,000 per quarter for each rateable property.
- Provide one additional month of Comprehensive Social Security Assistance payments, Old Age Allowance, Old Age Living Allowance and Disability Allowance. Similar arrangements will apply to Low-income Working Family Allowance and the Work Incentive Transport Subsidy.

The takeaway

An amendment bill on the above salaries tax proposals was gazetted on March 3, 2017. The bill will need to be scrutinised and approved by the Legislative Council before it can be enacted into law.

The widening of the marginal tax bands is a welcome proposal as the tax bands have not been adjusted since year of assessment 2008/09. The salaries tax burden of employees in Hong Kong who are taxed at the progressive tax rates will be reduced as a result of the widening of the tax bands. Any salaries tax taxpayer whose tax liability is computed according to the progressive tax rates and whose marginal tax rate is 17% will have an annual tax savings of HK$1,500 (three HK$5,000 amounts each subject to lower tax rates of 2%, 7%, and 12% respectively instead of 17%).

For example, for a married couple with a qualifying child, assuming the husband's annual employment income is HK$1.2 million and the wife is not working, the salaries tax liability (after the deduction of the applicable personal allowances and concessionary deduction but before the one-off tax rebate) will be reduced from HK$127,060 for 2016/17 to HK$125,560 for 2017/18. This represents an annual tax saving of HK$1,500.

Similar to last year, the tax rebate of up to 75% of the salaries tax payable for 2016/17 or HK$20,000 (whichever is the lower) announced in the budget will be automatically reflected in the final tax assessments for 2016/17 to be issued. For expatriates/assignees who have already departed from Hong Kong and performed the tax clearance for 2016/17, the Inland Revenue Department (IRD) will revise the 2016/17 tax assessments that have already been issued and refund the tax rebate due to taxpayers where applicable.

The IRD's standard practice is to issue a refund check of the tax overpaid payable to the individual taxpayers. Companies that have settled the 2016/17 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 Global Mobility Services engagement team or one of the following team members:

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