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Hong Kong Tax Analysis

2024-25 Hong Kong Budget

A pragmatic budget with a view to achieving fiscal sustainability

The Financial Secretary of the Hong Kong Special Administrative Region (HKSAR), Paul Chan Mo-po, delivered the 2024-25 Budget Speech today. This is the second budget he prepared for the current-term Government led by HKSAR Chief Executive John Lee Ka-chiu.

The Financial Secretary announced a fiscal deficit of HKD101.6 billion for the 2023-24 financial year (FY2023-24), down slightly from HKD122.3 billion for FY2022-23 but much higher than the original estimated deficit of HKD54.4 billion in the last year's Budget Speech. This was due to a gradual post-pandemic recovery and reduced revenue from stamp duties and land premiums. Fiscal reserves are expected to have declined to HKD733.2 billion as of 31 March 2024.

In preparing the 2024-25 Budget, the Government focused on consolidating public finances and gradually restoring fiscal balance by controlling expenditure and increasing revenue. It also strives for increasing Hong Kong's competitiveness by enhancing the profits tax system and existing tax incentives.

This article analyses the tax-related proposals in the Budget. For a summary of the Budget measures, please see our *Hong Kong Tax Newsflash – Hong Kong 2024-25 Budget Highlights*.

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Key tax-related measures

Individuals

One-off relief measures

The Budget provided a 100% reduction in salaries tax and tax under personal assessment for 2023/24, subject to a ceiling of HKD3,000 (lower than the ceiling of HKD6,000 for the last year). The reduction will be reflected in the final tax payable for the year of assessment 2023/24. The tax rebate ceiling is the lowest in recent years. It is understandable that less sweeteners are provided in view of the fiscal deficit.

Two-tiered standard salaries tax rates regime

With a view to increasing government revenue, the Budget 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 HKD5 million of net income will continue to be subject to the standard rate of 15%, while the portion of net income exceeding HKD5 million will be subject to the standard rate of 16%. Pursuant to the "affordable users pay" principle, this measure will only affect about 12,000 taxpayers with extra high income. This will provide the Government with an additional revenue stream without much affecting people's livelihood.

Stamp duty for residential properties

Shortly after the adjustments announced in the 2023 Policy Address, the Budget proposed to remove all demand-side management measures for residential properties, including Buyer's Stamp Duty (BSD) (which is applicable to non-Hong Kong permanent resident buyers), New Residential Stamp Duty (NRSD) (which is generally applicable to buyers that own other residential property in Hong Kong) and Special Stamp Duty (SSD) (which is applicable to those who dispose of his/her residential property within 2 years after acquisition), with immediate effect. It ends the demand-side management measures for residential properties which have lasted for over 13 years. This means that stamp duty on sale of immovable property in Hong Kong would only be subject to ad valorem stamp duty ranges from HKD100 to 4.25% of the consideration or value of the property, no matter the buyer is a Hong Kong or non-Hong Kong resident, with or without another residential property on hand. The removal of the demand-side management measures may attract more investors to purchase residential properties and hopefully, would help stabilize the downward trend of property price and number of transactions. Nevertheless, the property market would still be largely affected by other factors, such as high mortgage interest rate.

Tobacco duty

To safeguard public health, the Budget proposed to further increase the tobacco duty by 80 cents per stick with immediate effect. Duties on other tobacco products will be increased by the same proportion. This is the second consecutive year that the Government has increased the tobacco duty which shows the Government's determination to reduce smoking rates.

First registration tax concessions for electric vehicles

The Budget proposed to extend the first registration tax concessions for electric vehicles (due to terminate at the end of March 2024) for two years. However, the concessions would be tightened. For example, the concessions will be reduced by 40%. For electric private cars, the maximum concessions granted under the "One-for-One Replacement" Scheme and for general electric private cars will be adjusted to HKD172,500 (previously HKD287,500) and HKD58,500 (previously HKD97,500) respectively. No concessions will be provided to electric private cars valued over HKD500,000 before tax. For other types of electric vehicles, the concessions will continue to be waived in full over the next two years.

Businesses

Tax relief for businesses

The Budget retained a 100% reduction in profits tax for 2023/24, subject to a ceiling of HKD3,000 (lower than the ceiling of HKD6,000 for last year), to ease the burden of profits taxpayers. The reduction will be reflected in the final tax payable for the year of assessment 2023/24. Deloitte welcomes this measure to relieve the financial burden on businesses.

Tax deduction for reinstatement costs

The Budget proposed to allow tax deduction for expenses incurred in reinstating the condition of the leased premises to their original condition. The new deduction will take effect from the year of assessment 2024/25. It is good news for businesses operating in leased properties as they are generally required to reinstate the properties after the lease term and the reinstatement costs could be significant. However, such costs are currently not tax deductible. Deloitte welcomes this new deduction which would enhance the profits tax system in Hong Kong and increase Hong Kong's competitiveness. In particular, our neighboring jurisdictions, e.g. Singapore, also allowed deduction of reinstatement costs.

Commercial/industrial building allowances

The Budget proposed to remove the time limit for claiming commercial building allowance (CBA) and industrial building allowance (IBA), with effect from the year of assessment 2024/25. Currently, there is a 25-year time limit for claiming CBA and IBA. For example, when an old commercial building (pre-1998/99) is sold after in use for 25 years, the buyer would not be entitled to any CBA while the seller would be subject to a balancing charge. In other words, no capital expenditure could be deducted for a commercial/industrial building or structure that had been in use for over 25 years. The industry had previously raised this concern to the Government and requested the removal of the time-limit. We are happy that the suggestion has been heard and adopted.

Assets and wealth management

The Government continued to drive development of the asset and wealth management industry in this Budget. It proposed to extend the Grant Scheme for Open-ended Fund Companies and Real Estate Investment Trusts for three years and set up a task force to discuss the industry measures for further developing the asset and wealth management industry.

From the tax perspective, it proposed to further enhance the preferential tax regimes for 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. We are pleased to see the Government take steps to enhance the current preferential tax regimes for assets and wealth management sector and look forward to a more detailed proposal.

On the other hand, the new Capital Investment Entrant Scheme (CIES) introduced in last year's Budget will invite applications soon.

We believe that all these measures would assist to attract more investments and talents to further develop the asset and wealth management industry in Hong Kong.

Maritime services

The Financial Secretary mentioned in the Budget that the Government will commence studies on further enhancements on the tax concession for the maritime industry. Since 2020, the Government enacted legislations to provide tax concessions for ship leasing, marine insurance, ship agency, ship management, shipbroking, etc. We look forward to the enhancement measures and believe that it would help consolidate Hong Kong's position as an international maritime centre.

Stamp duty for real estate investment trust (REIT) and jobbing business of option market-makers

To further enhance market competitiveness, the Budget proposed to waive stamp duties payable on the transfer of REIT units and the jobbing business of option market-makers. We believe the exemption will foster the development of the Hong Kong REITs market and jobbing businesses.

Hotel accommodation tax

With a view to increasing government revenue, the Budget proposed to resume the collection of the hotel accommodation tax (HAT) at a rate of 3%, with effect from 1 January 2025. The HAT is imposed on hotel and guesthouse accommodation and was waived since 1 July 2008.

Concluding remarks

In the 2024-25 Budget, the Financial Secretary laid out a cautious plan to control Government expenditure and increase revenue with a view to maintaining healthy public finances and achieving a fiscal balance. In face of budget deficit, fewer sweeteners are offered to businesses and individuals as compared to last few years' budgets. At the same time, the Government has formulated measures to boost economic development and attract enterprises and talent, e.g., enhancing the profits tax system and existing tax incentives. Deloitte concurs with the Government's pragmatic strategy and efforts to increase revenue and enhance Hong Kong's competitiveness.

Although Hong Kong is still on the road to post-pandemic economic recovery, we believe its economy will continue to forge ahead steadily under the lead of the Government. We look forward to the Government rebuilding a vibrant economy for Hong Kong and leading Hong Kong to embark on a new journey.

Tax Analysis is published for the clients and professionals of the Hong Kong and Chinese Mainland offices of Deloitte China. The contents are of a general nature only. Readers are advised to consult their tax advisors before acting on any information contained in this newsletter. For more information or advice on the above subject or analysis of other tax issues, please contact:

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