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Hong Kong: 2016/17 financial budget highlights

Overview

The 2016/17 financial budget was delivered on 24 February 2016. A summary of the major proposed changes is outlined below.

2016/17 financial budget highlights

- 75% salaries tax and tax under personal assessment rebate capped at HK$20,000 for the year of assessment 2015/16 final tax payable;
- Increase in certain personal allowances;
- Increase in deduction ceiling for elderly residential care expenses;
- Waiver of government rates for four quarters of year of assessment 2016/17, subject to a cap of HK$1,000 per quarter for each ratable property; and
- Waiver of business registration fees for year of assessment 2016/17.

Salaries tax rates

Salaries tax rates remain unchanged as follows:

	Years 2015/16 and 2016/17
Net chargeable income	Marginal tax rate
First HK$40,000	2%
Next HK$40,000	7%
Next HK$40,000	12%
Remainder	17%
Net assessable income	Standard tax rate
Tax rate	15%

Property tax rates

Property tax rate remain unchanged as follows:

	Years 2015/16 and 2016/17
Tax rate	15%

Allowances and deductions

	Year 2015/16 (HK$)	Year 2016/17 (HK$)
Personal allowances:		
Basic	120,000	132,000
Married	240,000	264,000
Single parent	120,000	132,000
Child		
Year of birth	200,000	200,000
Other years	100,000	100,000
Dependent parent/grandparent (aged 60 or above)		
Basic	40,000	46,000
Additional (for each dependent living with taxpayer)	40,000	46,000
Dependent parent/grandparent (aged between 55-59)		
Basic	20,000	23,000
Additional (for each dependent living with taxpayer)	20,000	23,000
Dependent brother/sister	33,000	33,000
Disabled dependent	66,000	66,000
Deductions:		
Self-education expenses	80,000	80,000
Home loan interest	100,000 (15 years of assessment)	100,000 (15 years of assessment)

	Year 2015/16 (HK$)	Year 2016/17 (HK$)
Elderly residential care expenses	80,000	92,000
Contributions to recognized retirement schemes	18,000	18,000
Approved charitable donations	35% of income	35% of income

Deloitte's view

Please note that the proposed financial budget is subject to approval by the legislative council.

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Hong Kong:
Taxpayer convicted of falsely claiming deductions on tax returns

Overview

On 22 January 2016, the Hong Kong magistrates' court convicted a taxpayer of making false statements in tax returns willfully with intent to evade salaries tax. The defendant pleaded not guilty to all four charges.

Conviction of taxpayer for making false statements

The taxpayer claimed a total amount of HKD 850,000 of deductions for self-education expenses and charitable donations over the years of assessment 2007/08 to 2010/11. The total tax evaded due to the deductions claimed for the relevant years of assessment was HKD 139,400.

An investigation by the Inland Revenue Department (IRD) revealed that the taxpayer failed to provide evidence to support the deduction claims. In particular for self-education expenses, some receipts provided were for private language lessons and they were issued by an institution, which was not an education provider as specified under the provisions of the Inland Revenue Ordinance (IRO).

Points to note

Tax evasion is a criminal offense. Upon conviction, the maximum penalty for each charge is three years' imprisonment and a fine of HKD 50,000, plus a further fine of three times the amount of tax evaded. Hence, it is imperative that correct information is reported in the tax return and any other documents provided to the IRD.

The IRO provides that self-education expenses paid for prescribed courses or examination fees paid to specified education providers or associations to gain or maintain qualifications for use in either current or planned employment are tax deductible. Payments to private tutor are not deductible (whether or not supported by receipts) because a private tutor is not a specified education provider and the payments are not made for a prescribed course of education.

Donations made to approved charitable organizations in Hong Kong are also tax deductible.

Taxpayers are not required to submit documentary evidence with the tax returns to support deduction claims. The IRD reserves the right to review, and if tax returns are selected for random audits, the taxpayers will be asked to produce supporting documents. Taxpayers should therefore ask for receipts and should retain them for six years after the end of the relevant year of assessment.

Deloitte's view

While Hong Kong's tax system and tax rates are relatively simple and low compared to other jurisdictions, the IRD has been investigating the accuracy of individual tax returns in detail and the number of reported cases of prosecution due to incorrect tax returns has been increasing. Individuals filing tax returns should exercise due and reasonable care, and seek professional advice where needed.

In addition, individuals claiming deductions and allowances in their tax returns should retain supporting documentation for six years.

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Indonesia:
Adjusted income cap on mandatory pension contribution and electronic tax payment and return requirements

Overview

The Indonesian Manpower Social Security Agency has recently announced the adjusted income cap for mandatory pension contribution and the new pension benefits limit. In addition, the Indonesian Tax Office has introduced the new tax payment process and enforces the use of electronic tax return reporting for individual taxpayers, focusing on 2015 tax returns for civil servants, Indonesian National Armed Forces, Indonesian National Police, and individual taxpayers covered under the Special Regional Offices, including foreign nationals.

Points to note

Updates on pension contribution: The Manpower Social Security Agency (BPJS Ketenagakerjaan) announced updates on the mandatory pension program for Indonesian nationals on end of February 2016.

The pension benefit amount is adjusted based on last year’s inflation rate, which is 3.35%, while the maximum monthly income cap used to calculate the pension contribution is adjusted based on last year’s growth of Gross Domestic Product, which is 4.79%.

Below is the comparison of the previous and the new amounts.

Details	Previously	Starting March 2016
Monthly income cap	7.000.000	7.335.300
Minimum pension benefit	300.000	310.050
Maximum pension benefit	3.600.000	3.720.600

These new amounts are applicable starting from March 2016.

New tax payment process: e-billing code: To settle tax liabilities, taxpayers should prepare a tax payment slip (Surat Setoran Pajak) for a specific type of tax and period and pay through a designated receiving bank. The bank will generate a specific code from the Tax Office’s database and validate the tax payment slip. This tax payment slip should then be attached to the tax return to confirm that the tax liability has been properly paid.

The Tax Office has recently changed the above process by introducing an e-billing system. Taxpayers will need to generate a specific billing code for each type of tax and period via the e-billing website and present the code when making payment at the bank. The code is valid for seven days and, if it lapses, the taxpayer will need to generate a new billing code.

To use this e-billing system, the taxpayers will need to obtain their e-FIN from the Tax Office and create an account in the Tax Office's website.
URL: https://djponline.pajak.go.id/

To give time for taxpayers to adjust to this new payment process, the Tax Office has permitted several state-owned banks to accept tax payments using the hardcopy tax payment slips until 30 June 2016. From 1 July 2016 onwards, taxpayers should generate the e-billing code and present it to the bank; otherwise, their tax payments cannot be processed.

Electronic tax return reporting for individual taxpayers: The Tax Office introduced electronic tax filing (e-filing) for annual individual tax returns a few years ago; however, it is not being fully utilized by Indonesian taxpayers, who continue to file their hardcopy individual tax returns to the Tax Office.

To increase the number of electronic tax filing users and to reduce hardcopy filing, the Tax Office has decided to require certain individual taxpayers to file their annual tax returns electronically, i.e., individual taxpayers registered with Tax Offices under the Special Regional Office. This includes foreigners registered with the Foreign Entity and Individual Tax Office (KPP Badora) and individual taxpayers registered in the Large Tax Office.

To support the Tax Office's program, the Ministry of Administrative Reform and Bureaucratic Reform (Kementerian Pendayagunaan Aparatur Negara dan Reformasi Birokrasi) has also announced mandatory use of e-filing for public officials/civil servants, the National Armed Forces, and the National Police.

The three steps to file a tax return electronically are as follows:

- Register with the Tax Office to obtain e-FIN;
- Create an account in the Tax Office's website using the e-FIN; and
  URL: https://djponline.pajak.go.id/
- Prepare and submit the tax return via the website.

After the tax return is submitted, taxpayers will receive an electronic receipt. They can keep track of their tax filing records through the website.

Deloitte's view

The new income cap to calculate pension contribution is valid starting March 2016, and as this change will affect the employees' income tax liability and take home pay calculation, we would suggest that companies communicate these changes to their employees as soon as possible.

The new online tax payment process and the electronic tax return filing are meant to give better service to the taxpayers. In general, the main concern for e-filing is the server's capacity during the peak filing period, i.e., in the last week of March. Although the Indonesian Tax Office continues to increase its server capacity, it is suggested that clients endeavor to file the electronic tax returns earlier. Specifically for foreign taxpayers, the challenges would be in the actual filing itself, as the instructions in the website are all in the Indonesian language.

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Ireland:
Reminder: Share Scheme Reporting

Overview

There are several year-end reporting obligations for employers who operate share schemes for their employees.

Share options

In respect of share options and other rights granted to directors and employees, employers are obliged to provide information to Revenue in relation to the grant, assignment or release of rights, allotment of shares on the exercise of a right, or the transfer of any asset under rights granted.

This requirement is applicable regardless of whether the share options are in the form of market value options, discounted options, or nil cost options. Complexities can arise where share options have been granted to cross-border employees and advice should be sought in this regard.

The information is required to be provided on Form RSS1, which must be filed by 31 March each year. The 2015 RSS1 is due to be filed by 31 March 2016.

The information must be delivered in an electronic format approved by the Revenue Commissioners and must be filed on the Revenue Online Service (ROS).

The 2015 electronic Form RSS1 is now available on the Revenue website.

Save As You Earn schemes

In relation to Save As you Earn (SAYE) schemes, an employer must file a Form SRSO1 by 31 March of the year following the grant/exercise of the share options, or within 30 days of request by Revenue. Revenue approval of a SAYE plan may be withdrawn for failure to comply with the reporting obligation.

Approved profit-sharing schemes

In respect of Approved Profit-Sharing Schemes (APSSs), the trust of the scheme must file a Form ESS1 to declare share allocations by 31 March following the end of the year in which the shares are allocated, or within 30 days of request by the Revenue. The trust must also file a Form 1 as a declaration of trust income and capital gains.

Restricted stock units and other awards

Restricted stock units (RSUs) and other share award plans do not have to be reported separately as they are reported through the PAYE system.

The GES team in Deloitte can assist you with all Revenue reporting obligations for share schemes.

Deloitte's view

Although the above are reporting obligations only and no payment of taxes are due on filing the reporting returns, failure to submit accurate and correct share scheme returns in a timely manner can result in a penalty being imposed on the company.

Deloitte can assist clients with the preparation of such returns.

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The Netherlands:
Changes in Dutch immigration policy

Changes to note

Notification end of employment: The recognized sponsor is obliged to inform the Dutch immigration authorities (IND) on all changes that could have an impact on the residence permit of a Highly Skilled Migrant (HSM). Examples of these changes are: end of employment, (temporary) leave from the Netherlands, change in the gross monthly salary, and change of employer. The changes need to be reported in writing within four weeks after the change has occurred.

The IND has recently announced that it is not required anymore to report an end of employment in case the employee leaves the Netherlands and has deregistered from the local municipality register (Basis Registratie Persoonsgegevens). In this case, the recognized sponsor is obliged to administer the proof of deregistration for at least five years after the end date of employment.

Continuous period: Employees who are in possession of a HSM residence permit can easily change employers while their residence permit is still valid and they meet the (salary) conditions. In that case, the former employer must notify the end of employment and the new employer (recognized sponsor) must notify the start of employment. As of the beginning of this year, the IND is closely monitoring whether there is a gap between the end date of the former employment and the start date of the new employment contract. In case the employment of the HSM is not continuous, the new sponsor will need to submit a new application for a HSM residence permit at the IND. In other words, a change of employer notification will not suffice in case there is a gap between the previous and new employment contract.

Deloitte's view

Notification end of employment: Although the notification end of employment obligation has been waivered by the IND under certain conditions, Deloitte still advises to continue the notification of the end of employment of a HSM. By notifying the IND, the recognized sponsor complies with its obligation to secure a proper administration and to inform the IND on time (within four weeks). In case the sponsor relies on the employee's action to deregister from the local municipality register, there may be risks of noncompliance.

Continuous period: Before the sponsor hires a HSM with a valid residence permit, Deloitte advises to verify the end date of the previous employment contract to determine a feasible start date. Once there is an interruption between the end date of the previous contract and the (proposed) start date of the new contract, a new residence permit application needs to be filed instead of a change of employer notification, which could impact the start date.

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Global Rewards Updates:
Vietnam: Proposed changes for Vietnamese nationals participating in overseas employee share schemes

Background

Strict exchange control regulations have made it extremely difficult for Vietnamese nationals to participate in overseas employee share schemes since they were not allowed to remit funds overseas to acquire shares. Instead, the most common incentive arrangements offered by overseas companies were cash (phantom) plans or stock plans with an immediate forced sale.

Impact

Under new guidance that is currently being drafted on offshore indirect investment ("OII"), the Vietnamese government intends to allow Vietnamese nationals to participate in overseas employee share plans under certain conditions. The conditions that must be met in order to allow participation in overseas employee share plans are not yet clear since the guidance is currently being drafted. To date, the only condition on which guidance has been issued is that individuals are not permitted to use loans in order to purchase shares through an employee share purchase plan.

Employers will also be required to meet compliance requirements if their employees are to participate in an employee incentive plan and further information is expected to follow on this point. As the aim of the legislation is to increase the number of Vietnamese nationals participating in employee share schemes, hopefully these requirements will not be too burdensome.

Deloitte's view

This is welcome news for companies as this should provide more possibilities for them to diversify their remuneration packages and offer participation in share schemes to Vietnamese nationals. However, companies should wait until further guidance is issued before making any changes to their current arrangements.

Deloitte Vietnam are in discussions with the Department of Foreign Exchange Control at the State Bank of Vietnam and further updates will be provided once more detailed guidance is issued.

We expect that it will be a few months until this guidance is issued and there is clarity on how share plans can be operated in Vietnam in light of the offshore indirect investment regulations.

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Have a question?
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