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Hong Kong: Measures affecting individuals in 2017/18 Budget

Overview

The financial secretary for the Hong Kong Special Administrative Region (HKSAR) delivered the 2017/18 Budget on 22 February 2017. The budget measures must still be approved by the Hong Kong Legislative Council.

The proposed budget was prepared against the backdrop of an increasingly volatile global macro economy prompted by Brexit, a changing political landscape in Europe, and a potential global trend toward trade protectionism.

Similar to last year, the proposed 2017/18 Budget includes measures aimed at alleviating the burden on taxpayers, particularly the middle class.

The budget proposals that will affect individuals are as follows:

Salaries tax relief measures

One-time tax relief measure for year of assessment 2016/17:

- Salaries tax and tax under personal assessment rebate of 75% (capped at HKD 20,000).

Recurrent tax relief measures effective from year of assessment 2017/18:

- Broaden all salaries tax rate bands by HKD 5,000. For example, the first tier tax rate band will broaden from HKD 40,000 to HKD 45,000. The broadened tax rate bands are also likely to apply to tax under personal assessment.
- Increase the disabled dependent allowance from HKD 66,000 to HKD 75,000.
- Increase the dependent brother/sister allowance from HKD 33,000 to HKD 37,500.
- Extend the entitlement period for a home loan interest tax deduction from 15 years to 20 years (with the annual deduction ceiling of HKD 100,000 maintained).
- Increase the deduction ceiling for self-education expenses from HKD 80,000 to HKD 100,000.

Broadening salaries tax rate bands

In the midst of concerns over a narrowing tax base and volatile tax revenue, the 2017/18 Budget responds to calls to adjust the salaries tax rate bands, while maintaining the current progressive tax rates.

The measure provides tax relief of up to HKD 1,500 for progressive taxpayers (i.e., most Hong Kong taxpayers, except high-income earners), without further narrowing the tax base.

Salaries tax rates in effective for 2016/17		
Net chargeable income (HKD)	**Rate (%)**	**Tax (HKD)**
On the first 40,000	2	800
On the next 40,000	7	2,800
On the next 40,000	12	4,800
Above 120,000	17	

Salaries tax rates in effect for 2017/18		
Net chargeable income (HKD)	**Rate (%)**	**Tax (HKD)**
On the first 45,000	2	900
On the next 45,000	7	3,150
On the next 45,000	12	5,400
Above 135,000	17	

Deloitte's view

Deloitte welcomes the budget proposals, especially the broadening of salaries tax rate bands and the extension of the entitlement period for a home loan interest tax deduction, both of which specifically address the onerous burden on the middle class who suffer most from the volatile economy and high housing costs.

We suggest that, in future, the government explore a wider range of relief measures that could further help taxpayers. Deloitte previously proposed a working couple allowance and a deduction for expenses on salary paid to domestic help. Such measures could further alleviate the financial burden on the middle class and encourage individuals with family commitments to re-join the Hong Kong work force.

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Singapore:
Immigration update

Increase in processing time for work pass and related pass applications

The Ministry of Manpower (MoM) has indicated that – effective 11 March 2017 – the processing time for new and renewal applications for employment passes (EP), S passes, dependent passes, long-term visit passes, and training employment passes may take up to three weeks for most cases; in the past, the processing time was generally within one to two weeks.

The MoM has clarified that the security landscape in recent years would require the MoM to put in place more measures to check and verify work pass applications. These measures include the verification of documents, qualifications, and data with other government agencies and overseas organizations.

In addition, the MoM will also have to review and ensure that the hiring firms are adopting fair employment practices.

Deloitte's view

Based on our observation of the recent submissions, we note that the MoM has been scrutinizing organizations with a high proportion of foreign employees on work passes. Letters have also been issued to organizations that are on the watch list of the MoM and, accordingly, unless such organizations can substantiate that they have adopted fair employment practices, the outcome of the new or renewal applications may not be assessed favorably.

Deloitte's recommendation:

- Take into account the longer processing time when determining the commencement date in Singapore.
- Ensure renewal applications are submitted as soon as possible. Currently, it is acceptable to submit renewal applications at least six months before the pass expires.
- Maintain records of the Singapore citizen and/or the Singapore permanent residents who have responded to the job advertisement; record the reasons as to why they were not considered suitable for the position.
- Be prepared to substantiate that the skills set or the experience of the foreign hires are not readily available in the Singapore market, or to demonstrate that the job requires specialized skills that not many Singaporeans possess.
- Contact the Tripartite Alliance for Fair & Progressive Employment Practices (TAFEP), where necessary, to further understand the hiring process requirement and be part of the Human Capital Partnership Programme.

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Global Reward Updates:
Canada: Increased deduction for qualifying stock options of large publicly traded companies

Key points to know

In its 2017 budget, the Belgian parliament extended the scope of the Belgian stock exchange tax to cover transactions executed by Belgian residents through non-Belgian financial intermediaries. The 2017 budget has been adopted and all steps in the legislative process have been concluded, so that this change has been in force since January 1, 2017.

Background

Since March 13, 2008, employees of a small or medium-sized business engaged in innovative activities and meeting certain criteria have been eligible for a deduction of 50% of the benefit realized. Employees of other businesses have, until now, only been able to claim a 25% deduction. The deduction for qualifying option grants from large public companies will now increase to 50% to align with the federal tax system and that of the other provinces and territories.

In order to benefit from the increased stock option deduction, the following criteria must be met:

1. The options must be in respect of shares of a qualified corporation that are listed on a recognized stock exchange (a stock exchange designated by the Minister of Finance of Canada, or a stock exchange located in Canada or in a country that is a member of the OECD and that entered into a tax treaty with Canada).
2. The options must be granted to an employee of a qualified corporation at the time the agreement is entered into or the shares are acquired.

In order for a large corporation to be a qualified corporation, it must have paid cumulative payroll wages of at least $10 million in the year in which the options were granted. Wages in this context can be an aggregate of the following:

1. Wages paid directly to or in respect of employees who report for work at the establishment of their employer in Quebec, and;
2. For employees who are not required to report for work at an establishment of their employer, the wages paid by the Quebec establishment directly to or in respect of such employees.

Increased stock option deduction criteria

In order to benefit from the increased deduction, stock options must initially comply with the requirements of paragraph 110(1) (d) of the federal Income Tax Act and its Quebec equivalent (the shares are often referred to as prescribed shares). In general, most standard options over common/ordinary shares should qualify; however, the detailed regulations should be considered, notably:

1. The option must be granted at the fair market value of the shares in question at the time of grant, and;
2. The employee should not be able to force the company to reacquire his or her shares (e.g., via surrendering shares to pay the exercise price), and;
3. The company cannot be reasonably expected to reacquire the shares within two years of issue.

Deloitte's view

The increased deduction will be welcome news to employees, due to the beneficial tax consequences, and to employers who can attract and retain talent now that option grants can compete with companies based in other parts of Canada. This move should also simplify payroll reporting by allowing for a consistent percentage of exempt option income to be reported on the Quebec Relevé 1 (RL-1) form and the federal T4 slip. As the legislation is not yet available, certain details remain unclear in terms of their application to particular situations and group of companies. It must be noted that if the employer does not have an establishment in Quebec, the employees working in Quebec will not be eligible for the Quebec enhanced stock option deduction.

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