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Hong Kong: Measures in 2018/19 Budget affecting individuals

Overview

On 28 February, 2018, Paul Chan, the financial secretary for the Hong Kong Special Administrative Region (HKSAR), delivered the 2018/19 Budget. Mr. Chan announced HKSAR has a substantial budget surplus, and the government plans to share 40 percent of that surplus with the community. The 2018/19 Budget includes measures aimed at alleviating the burden on taxpayers and offers tax incentives to encourage retirement planning for the aging population.

The following is a summary of the budget proposals that would affect individuals.

Salaries tax relief measures

One-time relief measure for the year of assessment 2017/18: Salaries tax and tax under personal assessment rebate of 75 percent (capped at HKD 30,000).

Recurrent tax measures effective from year of assessment 2018/19:

- Increase the number of tax bands from four to five; broaden the marginal bands for salaries tax from HKD 45,000 to HKD 50,000; and adjust the marginal tax rates to 2 percent, 6 percent, 10 percent, 14 percent, and 17 percent, respectively. These changes will also apply to tax under personal assessment.
- Increase the basic and additional child allowances from HKD 100,000 to HKD 120,000.
- Increase the dependent parent/grandparent allowances from HKD 46,000 to HKD 50,000 (aged 60 or above) and HKD 23,000 to HKD 25,000 (aged between 55 and 59). The same increase will apply to the additional allowance for taxpayers residing with parents/grandparents continuously throughout the year.
- Increase the deduction ceiling for elderly residential care expenses from HKD 92,000 to HKD 100,000.
- Introduce a personal disability allowance of HKD 75,000.
- Relax the personal assessment requirement for married people.
- Provide a tax deduction for premiums for taxpayers who purchase certified health insurance products for themselves or their dependents under the Voluntary Health Insurance Scheme, up to a ceiling of HKD 8,000 per insured person.

Increase the number of tax bands

The Financial Secretary has introduced the following new tax band, as well as proposed adjustments to the existing tax bands and the marginal tax rates.

Year 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
Remainder	17	

Year 2018/19

Net chargeable income (HKD)	Rate (%)	Tax (HKD)
On the first 50,000	2	1,000
On the next 50,000	6	3,000
On the next 50,000	10	5,000
On the next 50,000	14	7,000
Remainder	17	

The measure provides tax relief of up to HKD 4,500 for progressive taxpayers (*i.e.*, most Hong Kong taxpayers, excluding high-income earners).

Preparing for an aging population

To encourage the use of deferred annuity products as a means of financial planning for retirement, a tax concession will be proposed in the near future. This tax concession will be extended to cover voluntary mandatory provident fund (MPF) contributions. Voluntary MPF contributions that have enjoyed tax concessions would be subject to the same withdrawal restrictions as mandatory contributions. Further details will be announced by the Insurance Authority.

Deloitte's view

Deloitte welcomes the budget proposals, especially the refreshed tax bands and rates that will bring the effective tax rate down for the majority of taxpayers.

Deloitte also applauds the proposal for allowing separate election for personal assessment by married persons, which has been a long-standing request from the public and will provide greater flexibility to taxpayers.

The budget measures must still be approved by the Legislative Council.

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People's Republic of China: Updates on individual income tax reform

Overview

The buzz has started in earnest around the impending Individual Income Tax (IIT) reform in the People's Republic of China (PRC), following the 13th National People's Congress held 3 20 March 2018.

On 5 March 2018, Premier Li Keqiang announced the impending IIT reform, which aims to alleviate the tax burden on individuals by raising the amount of pretax standard deductions and allowing certain itemized deductions, in addition to the introduction of a raft of other changes.

On 7 March 2018, Vice Minister of Finance, Mr. Shi Yaobin, commented at a news conference that the current IIT regime will be transformed from a schedular tax system to a more comprehensive system, meaning that certain items of income that are taxed separately will be combined and taxed on a consolidated basis.

As stated in the 2018 Legislative Work Arrangement of the Ministry of Finance, released on 19 March 2018, a draft amendment to the current IIT law is likely to be submitted to the State Council for review later in 2018.

Meanwhile, in another development, an official press release made public on 14 March 2018 indicates that the PRC state tax bureaus and local tax bureaus will be merged, and the new system will be under the dual supervision of the State Administration of Taxation (SAT) and provincial governments and the SAT will play a more important role with respect to IIT collection and administration.

Highlights

Major areas of reform:

- **Increase in standard deduction:** The current tax system provides for a standard pretax deduction for most categories of income. For example, the standard deduction for employment income generally is RMB 3,500 per month. This amount has been applicable since the last amendment to the IIT law back in 2011. Although specific details of the increase in the standard deduction have not yet been released, the plans to revise the rules are an acknowledgement of the increased costs of living in China.
- **Introduction of itemized deductions:** As announced by Premier Li Keqiang on 5 March 2018, in addition to the increase in the standard deduction, itemized pretax deductions will be introduced to allow the deduction of family expenses, such as expenses for children's education and medical expenses for serious illnesses.
- **Combination of income categories:** As noted above, China currently operates a schedular tax system for IIT purposes. Under that system, there are 11 categories of taxable income, each of which is taxed separately and subject to different pretax deductions. Some of these income categories will be consolidated, although no official announcement has been released to the public. The 11 income categories are as follows:
    - Wages and salaries;
    - Income from production or business operations derived by individual industrial and commercial households;
    - Income from contracted or leased operation of enterprises or institutions;
    - Remuneration for personal services;
    - Income from author's remuneration;

- o Income from royalties;
- o Income from dividends and interest;
- o Income from the leasing of property;
- o Income from the transfer of property;
- o Contingent income; and
- o Other income.

Government work plan on next steps: Mr. Wang Jun, the director of the SAT, indicated in his speech on 13 March 2018, that the SAT will be engaging in the following work plans:

- Active support of changes to the IIT law and the tax collection and administration law;
- Preparation for information processing and other infrastructure needed for IIT collection linked to the reform; and
- Preparation of training and services to be arranged for taxpayers.

Deloitte's view

The consolidation of income categories from the current schedular tax system, an increase in the standard deduction, and the introduction of itemized deductions all indicate that the next round of reforms will do much to ease the burden on the ordinary taxpayer, rather than the wealthy. The two deduction items mentioned in China's government work report delivered on 5 March 2018 (*i.e.*, deductions for children's education and medical expenses for serious illnesses) are among the biggest concerns for individual taxpayers in China.

While little detail has been released to date, we expect that the amendment act initiating the reform could probably be submitted to the State Council for endorsement by the end of 2018.

In addition, the merger of the PRC's state and local tax bureaus will benefit taxpayers in terms of improved and more efficient tax administration, as well as added focus on the consistent implementation of rules.

The IIT reform will have an enormous impact and create fundamental changes for all individual taxpayers, including those on secondments into and out of China. Individuals and their employers should monitor developments closely and start planning for changes.

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Global Rewards Updates:
Canada: Proposed additional reporting requirements for non-resident trusts

Overview

In 2014, the Canadian government enacted legislation that requires certain non-resident trusts to file tax returns with the Canada Revenue Agency (CRA) and pay taxes on at least a portion of the trust's taxable income.

In addition, the Canadian employer and certain employees could be required to file additional information returns. In the most recent federal budget, tabled on February 27, 2018, the Minister of Finance announced additional information reporting requirements for non-resident trusts that are required to file an annual tax return in Canada. These trusts will now be required to report the identity of all trustees, beneficiaries, and settlors of the trust, as well as the identity of each person who has the ability (through the trust terms or a related agreement) to exert control over trustee decisions regarding the appointment of income or capital of the trust. The new reporting requirements will apply to returns required to be filed for the 2021 and subsequent taxation years. It was also announced that additional funds would be allocated to improve the CRA's audit and administration of trusts and trust returns.

Deloitte's view

The proposed information requirements will increase the costs and administrative burden for a non-resident trust required to file a tax return in Canada. Further, the trustee may not have access to all the information required to satisfy the new reporting obligations.

Where a non-resident trust is currently filing a tax return in respect of a compensation program for Canadian resident employees and/or non-resident employees of Canadian businesses, the compensation program should be reviewed to determine whether the trust could be eliminated. In the right situation, existing programs could be restructured by replacing equity compensation with cash-settled programs or the issuance of shares from the treasury.