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Another Perspective on the Hong Kong Budget Proposal 2007/08

With a consolidated surplus of over \$55B for the year 2006/07, the Financial Secretary proposed in his budget on 28th February 2007 to return over \$20B to the Hong Kong people by, amongst other things, reduction of taxes and spending moneys on the less privileged.

As we have known, the Financial Secretary has, in his budget proposal, various measures to return moneys to the Hong Kong people, including increase of the maximum deduction level of self-education expenses to \$60,000 from \$40,000, widening of the marginal bands and marginal rates in salaries tax to the level of the year 2002/03, increase of child allowance by \$10,000 to \$50,000, granting of a “new born baby” allowance of \$50,000, rebate of 50% of salaries tax payable for one year limited to \$15,000 for each taxpayer, exemption of rates for 2 quarters, reduction of stamp duty on property transactions for sales value between \$1,000,000 and \$2,000,000, granting of “double pay” to the Compressive Social Security Assistance (“CSSA”) recipients and transport support scheme, etc.

Of all these measures, what are the principles to be followed in the reduction of taxes and the return of moneys to the people?

As I see it, three principles are followed in the budget proposal.

First, one must examine the sources of the surplus. The unexpected surplus mainly comes from the Investment Income from the Exchange Fund, the sale of government’s land and stamp duty from stock transactions, all of which has come to an unexpected high level this year. In the main, the surplus has come from the volatile sources of the property and stock markets. There is no guarantee from economic analysis that these two markets will continue to achieve the same good performance next year. Therefore, the first principle is obvious. The return of the moneys should be of a one-off nature and will not burden the government with recurrent expenditure in future years. This explains the measures, in just one year, of the 50% rebate of salaries tax, exemption of rates and payment of double pay of CSSA.

Secondly, the government is facing a narrow tax base which, for the purpose of tax collection at

the present moment, means that the number of people paying taxes in Hong Kong is small. For instance, with a working population of about 3,600,000, approximately only one third of them are paying salaries tax. In formulating the tax reduction measures, the government should not reduce, in the long run, the number of salaries tax taxpayers substantially. Otherwise, the government's administration is running against its long-term policy. To return the surplus to the people without reduction or, by maintaining a minimum reduction, of the number of taxpayers is the second principle. To achieve this objective, reduction of salaries tax is by the measure of widening the marginal bands and reducing the marginal rates in salaries tax so as to maintain the salaries tax taxpayers' population. With the exception of the increase of child allowance and the introduction of the new born baby allowance, other personal allowances will remain unchanged. (Increasing personal allowances will reduce the number of salaries tax taxpayers.)

Thirdly, the government must take care of the expectation of the people. The coverage of the people to be benefited must be wide enough, in particular, in this year of election. The granting of double pay of CSSA, the 50% rebate and reduction of salaries tax and exemption of rates obviously achieve this objective. All the measures of the budget proposal benefits, in total, a wide population of over 2 million people of the middle class and the less privileged.

Certainly, these three principles are the main guidelines followed by the budget proposal. Other tax reduction measures have their own reasons and effects. For instance, reduction of the duty on alcoholic beverage will promote the business of the catering and tourist industries. Increase of the child allowance and the introduction of the new born baby allowance will assist to reduce, to a certain extent, the growth of the aging population.

All in all, the budget proposal 2007/08 is an appropriate and proper proposal in the light of the size of the consolidated surplus, expectation of the Hong Kong people and the present economic environment. There are rooms, however, for consideration of the wishes and needs of the business sectors in the budget proposal next year.

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This article represents the personal views of the writer only.

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