

HONG KONG BUDGET 2022/23

Proposed Budget and Summary of Hong Kong Taxes 2022/2023

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HIGHLIGHTS

1. Issue HK\$10,000 electronic consumption vouchers in instalments to each eligible Hong Kong permanent resident and new immigrants aged 18 or above to stimulate local consumption.
2. Propose tax deduction for domestic rental expenses of maximum HK\$100,000 for a year of assessment from 2022/23 on taxpayers who are not owners of domestic properties.
3. Waive salaries tax and tax under personal assessment for 2021/22, subject to a ceiling of HK\$10,000.
4. Reduce profits tax for the year of assessment 2021/22 by 100%, subject to a ceiling of HK\$10,000.
5. Legislate "Rental Enforcement Moratorium" for tenants of specific sectors which prohibit landlord from terminating the tenancy agreement for three months after law enforcement.
6. Extend the application period of the concessionary low-interest loan with 100% government guarantee for enterprises to June 2023. Maximum loan ceiling is raised from HK\$6m to HK\$9m with extended repayment period of 10 years and offer the option of making partial repayment of principal over a longer period of time.
7. Waive rates for non-domestic properties for 2022/23, subject to a ceiling of HK\$5,000 per quarter in first two quarters and HK\$2,000 per quarter for remaining two quarters for each rateable non-domestic property.
8. Waive the business registration fees for 2022/23.
9. Waive 75% of water and sewage charges payable by non-domestic households for eight months, subject to a monthly cap of HK\$20,000 and HK\$12,500 respectively per household.
10. Extend waivers/ concessions of 34 groups of government fees and charges for 12 months.
11. Reduce rental by 75% for six months for eligible tenants of government properties and short-term tenancies.

CONTACT US

For more details and support,
please contact:

[Helen Wong](#)

Tax Advisory Manager
hwong@fiducia-china.com
(+852) 2258 6658

[Pierre Gargatte](#)

**Senior Engagement
Manager**
pgargatte@fiducia-china.com
(+852) 2258 6635

COMMENTARY

Further Relief Measures

Hong Kong's Finance Secretary Mr Paul Chan has delivered the final budget in the current administration on 23 February 2022 and continues to focus on rolling out various anti-epidemic funds totalling more than HK\$54 billion to tackle the ongoing COVID-19 crisis in Hong Kong.

The most welcomed measures have included a more generous electronic consumption voucher for eligible individuals. Additionally, several new measures have been introduced including 1.) Tax deductions for domestic rental expenses (capped at HK\$100,000); and 2.) New legislation that supports the rental enforcement moratorium for eligible SME's. These measures have been critical

in supporting the financial relief effort towards rescuing businesses that have significantly struggled in the midst of one of the world's strictest anti-epidemic strategies.

To balance the significant expenditure incurred for relief initiatives, Mr Chan has sought to implement measures to increase revenue without compromising Hong Kong's low tax regime status. Rates on Stamp Duty and Stock Transfer have not been increased, compared to 2021. However, an "affordable users pay" principle has been implemented that targets taxpayers with domestic properties on a progressive rating system.

Furthermore, the government has also allocated an additional budget towards various initiatives to strengthen Hong Kong's economic recovery in the mid to long term. Highlighted measures include increased funding on 1.) Greater Bay Area (GBA) investments; 2.) issuance of inflation-linked retail and silver bonds; 3.) Smart ports for trading and logistics; and 4) the development of health innovations among other initiatives.

The Finance Secretary also highlighted one key tax factor concerning recent developments regarding BEPS2.0, whereby a 15% global minimum tax applies to MNEs that operate with at least €750m group revenue. This tax reform is expected to increase Hong Kong's revenue from profits tax in the mid-term. We see this as an implication where the IRD would start to tax companies that qualify with the minimum rate before topping up to the next appropriate tax jurisdiction starting from the year of assessment 2024-25. However, we only expect solid implementation guidelines and further clarification on criteria in the second half of 2022.

We welcome the government's introduction of several short-term relief measures to ease the immediate financial impacts of the epidemic. However, a long-term outlook must be considered.

Hong Kong still faces a long journey to full market recovery, which will likely be longer should a strategy that employs a sustainable epidemic approach not be adopted. Considering mid and long-term perspectives, we anticipate the increased measures to stimulate financial activity flows, GBA investment and enhance scientific and technological innovation. These factors will likely play a significant role in upholding Hong Kong's economic development and international position moving forward.

SUMMARIES OF HONG KONG BUDGET 2022/23

Finance

1. Set up a HK\$5b GBA Investment Fund to focus on investment opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area ("GBA").
2. Issue no less than HK\$35b of Silver Bonds, HK\$15b of iBond and HK\$10b of Green Bonds in the next financial year with the effort to make retail investors easier to participate in bond market.
3. Examine the revision of the listing requirements to meet the fundraising needs of technology enterprises.
4. Make preparation to allow stocks traded via the Southbound Trading of Stock Connect to be denominated in RMB.
5. Propose to provide tax concessions for the eligible family investment management entities managed by single-family offices.

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Innovation and Technology

1. Increase the funding allocated to the Future Fund to set up a HK\$5b Strategic Tech Fund to invest in technology enterprises and projects which are of strategic value to Hong Kong.
2. Earmark HK\$10b to promote the development of life and health technology.
3. Double the subsidy amount to HK\$440m to strengthen support to the R&D activities of 16 State Key Laboratories and six Hong Kong Branches of Chinese National Engineering Research Centres in Hong Kong.
4. Double the subsidy amount under the Technology Start-up Support Scheme for Universities to HK\$16m.
5. Set up a Digital Economy Development Committee to accelerate the progress of digital economy.
6. Earmark HK\$600m to conduct a comprehensive e-government audit.

Other Industries

1. Earmark HK\$1.26b to support and develop the tourism industry.
2. Continue to develop sea-air cargo transshipment between the Hong Kong International Airport and the rest of the GBA.
3. Explore concrete proposals to promote the development of "Smart Port" and propose to provide half-tax concession to attract more maritime enterprises to establish a presence in Hong Kong.
4. Inject HK\$1b to launch pilot schemes to support the development of the industry by adopting new technologies.
5. Provide recurrent provision of around HK\$90m to InvestHK to strengthen its work on investment promotion.

Liveable City

1. Provide 13 residential sites and 4 commercial sites under the 2022/23 Land Sale Programme to provide 18,000 units and 300,000 square metres of commercial floor area.
2. Make approximately 103 hectares of land available in the coming five years for the production of over 57,000 units.
3. Inject HK\$1.2b to the Construction Innovation and Technology Fund.
4. Make amendments to the Mortgage Insurance Programme to increase the cap on property value for high percentage loans.
5. Inject HK\$1.5b to the EV-charging at Home Subsidy Scheme to support the installation of EV charging-enabling infrastructure in more carparks of the existing private residential buildings.
6. Seek funding approval of about HK\$8.4b for carrying out drainage improvement works to enhance the flood control capability and cope with climate change.

One-Off Social and Individual Relief Measures

1. Waive salaries tax and tax under personal assessment for 2021/22, subject to a ceiling of HK\$10,000.
2. Propose tax deduction for domestic rental expenses of maximum HK\$100,000 for a year of assessment from 2022/23 on taxpayers who are not owners of domestic properties.
3. Extend the application period of 100% Loan Guarantee Scheme for Individuals to end of April 2023. Loan ceiling raised to HK\$100,000 and maximum payment period extended from 5 years to 10 years. Principal moratorium of the scheme is also extended to the first 18 months.
4. Issue HK\$10,000 electronic consumption vouchers in instalments to each eligible Hong Kong permanent resident and new immigrants aged 18 or above to stimulate local consumption.
5. Provide rates concession for domestic properties for four quarters of 2022/23, subject to a ceiling of HK\$1,500 per quarter in the first two quarters and HK\$1,000 per quarter in remaining two quarters for each rateable property.
6. Grant a subsidy of HK\$1,000 to each residential electricity account.

Note: Legislative proposals do not generally become law until their enactment and may be modified by the Legislative Council before enactment.

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TAX RATE TABLES

1. Profits Tax

	2022/2023	2021/2022*
Corporations		
- First HK\$2m profits	8.25%	8.25%
- On the remainder	16.5%	16.5%
Unincorporated business	15%	15%
Capital gains	Nil	Nil
Dividend	Nil	Nil

*For 2021/22, the profits tax is proposed to be reduced by 100%, subject to a ceiling of **HK\$10,000**. (2020/21: HK\$10,000)

2. Salaries Tax

- ▶ Salaries tax is charged at the lower of net chargeable income (Total Income - Deductions - Allowances) at progressive rates or net total income (Assessable Income - Deductions) at standard rate.
- ▶ Standard rate remains the same at 15%.
- ▶ Progressive rates are as follows:

2022/2023 (remain the same)		2021/2022*	
First HK\$50,000 chargeable income	2%	First HK\$50,000 chargeable income	2%
Next HK\$50,000	6%	Next HK\$50,000	6%
Next HK\$50,000	10%	Next HK\$50,000	10%
Next HK\$50,000	14%	Next HK\$50,000	14%
Remainder	17%	Remainder	17%

*For 2021/22, the salaries tax and tax under personal assessment are proposed to be reduced by 100%, subject to a ceiling of **HK\$10,000**. (2020/21: HK\$10,000)

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3. Allowances & Deductions

	Proposed 2022/23	2021/22
Personal allowance		
Basic	HK\$132,000	HK\$132,000
Married	HK\$264,000	HK\$264,000
Single Parent	HK\$132,000	HK\$132,000
Disabled	HK\$75,000	HK\$75,000
Child allowances (1st to 9th child)		
Year of Birth	HK\$240,000	HK\$240,000
Other years	HK\$120,000	HK\$120,000
Dependent parent / grandparent allowances		
Basic (Age 60+)	HK\$50,000	HK\$50,000
Additional allowance (for dependant living with taxpayer) (Age 60+)	HK\$50,000	HK\$50,000
Basic (Age 55-59)	HK\$25,000	HK\$25,000
Additional allowance (for dependant living with taxpayer) (Age 55-59)	HK\$25,000	HK\$25,000
Dependent brother / sister allowance		
	HK\$37,500	HK\$37,500
Disabled dependant allowance		
	HK\$75,000	HK\$75,000
Deductions		
Self-education expenses	HK\$100,000	HK\$100,000
Home loan interest	HK\$100,000 (entitlement period – 20 years)	HK\$100,000 (entitlement period – 20 years)
Approved charitable donations	35% of income	35% of income
Elderly residential care expenses	HK\$100,000	HK\$100,000
Contributions to recognised retirement schemes	HK\$18,000	HK\$18,000
Qualifying premiums paid under the voluntary health insurance scheme policy	HK\$8,000	HK\$8,000
Qualifying annuity premiums and mandatory voluntary contributions to recognised retirement schemes	HK\$60,000	HK\$60,000
Domestic rental expenses (New)	HK\$100,000	-

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4. Property Tax & Stamp Duty

The standard rate (for non-corporate owners) remains at 15% for 2022/2023. Property stamp duty remains unchanged, as detailed here:

Property consideration	2022/23 (remain the same with 2021/22)		
	Flat rate	Scale 1	Scale 2
Up to HK\$2,000,000	15%	1.5%	HK\$100
HK\$2,000,001 to HK\$3,000,000		3.0%	1.50%
HK\$3,000,001 to HK\$4,000,000		4.5%	2.25%
HK\$4,000,001 to HK\$6,000,000		6.0%	3.00%
HK\$ 6,000,001 to HK\$20,000,000		7.5%	3.75%
HK\$20,000,001 and above		8.5%	4.25%
<i>Duty rates are subject to marginal relief under Scales 1 & 2.</i>			

Notes:

1. The 15% flat rate applies to transfer of resident of resident property executed on or after 5 November 2016 except for the circumstances that Scale 2 rates are applicable.
2. The Scale 1 rates apply to transfer of non-residential property.
3. The Scale 2 rates apply to residential property acquired by a Hong Kong Permanent Resident who does not own any other residential property in Hong Kong at the time of acquisition.

Special Stamp Duty (SSD) remains to impose on transactions of residential properties for all values if the property is acquired by the vendor on or after November 20, 2010 and resold within:-

- 24 months from the date of acquisition (if the property was acquired between 20 November 2010 and 26 October 2012); or
- 36 months from the date of acquisition (if the property was acquired on or after 27 October 2012).

The SSD rates are as follows:

- ▶ 20% if the vendor has held the property for 6 months or less;
- ▶ 15% if the vendor has held the property for more than 6 months but for 12 months or less;
- ▶ 10% if the vendor has held the property for more than 12 months but for 36 months or less.

The budget proposed a raise to the rate of Stamp Duty on Stock Transfers from the current 0.1% to 0.13% of the consideration or value of each transaction payable by buyers and sellers respectively.

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