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tricolor

Business, Corporate and Investor Services
商務、企業、投資者服務

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HONG KONG BUDGET SUMMARY 2008/09

Enjoying the prospect of record budget surpluses, Hong Kong's Financial Secretary ("FS"), John Tsang, delivered his maiden budget speech on 27 February. He used it to give away billions not just returning it to corporate and individual tax payers but also giving to just about every strata of society using some very novel schemes to achieve his stated aims of being "Sustainable",

"Pragmatic" as well as demonstrating a "Commitment to Society". The budget included tax breaks, reductions and waivers, one off measures and grants. This TechNews summarizes the highlights of the macro economic environment giving rise to record surpluses, the new principal tax rates and the variety of measures taken to spread the good fortune across society.

Highlights of the Macro Economic Environment

	2008/09	2007/08	2006/07
Consolidated surplus/(deficit) HK\$ billion			
Forecast	(7.5)	25.4	5.6
Actual	-	115.6	55.1
Economic growth (GDP) %			
Forecast	4-5	4.5-5.5	4-5
Actual	-	6.3	6.8
Underlying composite CPI %			
Forecast	4.5	1.5	2.3
Actual	-	2.8	(0.4)

- Forecast GDP over the period 2009 to 2012 is estimated to be 4.5% per annum in real terms
- By 2012/2013 the Government is projecting fiscal reserves of around HK\$723 billion
- Operating expenditure for 2007/08 is forecast to be HK\$206.4 billion. While the Government aims to keep public expenditure at or below 20% of GDP, operating expenditure is projected to increase to HK\$286.5 billion in 2012/2013
- In the past year, Hong Kong's exports grew by 7.9%, while domestic private consumption grew by 7.8%, the highest since 1993



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The budget speech covered many major revenue and expenditure proposals around the themes of “Promoting Long-term Development, Supporting Disadvantaged Groups, and Leaving Wealth with the People”. In fact, there was no effort to raise additional revenue nor to broaden the already narrow tax base which had previously given rise to recommendations (now seemingly abandoned) to introduce a Goods and Services Tax. The budget did however include some comparatively unorthodox measures such as providing HK\$1,800 to each and every household in the form of a subsidy for domestic electricity accounts.

Concrete Proposals

The FS continued the Government theme of investment in infrastructure projects (such as the bridge to link Hong Kong with Macau and Zhuhai as well as a rail link from Hong Kong International Airport to Shenzhen International Airport) but no cost estimates for these vast projects were provided nor time tables set down. Other proposals such as the West Kowloon Cultural District (HK\$21.6 billion) and the Kai Tak Cruise Ship Terminal will undoubtedly create jobs for architects, engineers and manual labourers alike but Hong Kong’s unemployment rate (3.4% with only 29,000 individuals classified as “long-term” unemployed) is already relatively low.

Less to Wine About

Measures were announced to “Strengthen Pillar Industries” identified as “Tourism, Convention and Exhibition Industries” (abolition of Hotel Accommodation Tax, more land to be earmarked for hotels and a welcome cut in the duty on wine and beer to 0%); “Business and Financial Industries” (few significant proposals save for a long overdue overhaul of the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong), references to Islamic Finance and beefing up Hong Kong’s representation abroad to attract more talented staff); and “Air Transport and Logistics” (more flights and a new container terminal on North Lantau, home to some of Hong Kong’s endangered Pink Dolphins).

The Elderly, the Poor and Health Care

Whilst the FS talked much about Hong Kong’s aging population (predicting that by 2033, 1 in 4 of the population will be aged 65 or over), shortage of skilled workers and environmental issues (the latter two topping nearly every poll of the concerns expressed by international businesses operating in Hong Kong), the specific measures taken (a little more to be spent on basic and higher education and retraining, HK\$18 billion grant to establish a Research Endowment Fund, reduction in duties on cleaner diesel fuels and less polluting goods vehicles, and additional allowances for environmentally friendly plant and equipment) were less than some had expected, especially in the areas of tackling pollution.

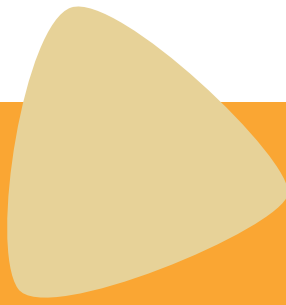
A number of measures and initiatives were announced to help improve the lives of the elderly and the poor (one-off grants of a few thousand dollars) and the working poor (a one-off top up on Mandatory Provident Fund Schemes for those earning less than HK\$10,000 per month).

There was also a huge sum (HK\$50 billion) earmarked for a (as yet unidentified) health scheme and a commitment to embark on a consultation process about the form such a scheme will take.

Tax Breaks and Rebates

Of most interest to the business community will be the announced measures for “Leaving Wealth with the People” including reducing Profits, Salaries and Property Taxes, waiving Business Registration Fees for a year and (up to certain limits) rebating taxes and waiving Government Rates. For details, please refer to our 2008/09 Principal Tax Rates Card and page 3 summarizing the major initiatives and give aways.

For more information or clarification regarding this Technews, please do not hesitate to approach your usual Tricor contact.



MAJOR INITIATIVES AND GIVE AWAYS

Investing in Infrastructure and Promoting Long-term Development

- Waiver of Hotel Accommodation Tax
- Exemption of duties on wine, beer and all other alcoholic beverages (except spirits) with immediate effect
- Granting of a 100% Profits Tax deduction for capital expenditure on environment-friendly machinery equipment and shortening the depreciation period for environment-friendly installations from 25 years to 5 years
- Reduction in the First Registration Tax for environment-friendly commercial vehicles
- One-off grant of HK\$18 billion to establish a Research Endowment Fund
- Expenditure of HK\$21.8 billion on infrastructure projects for 2008-09 and an upfront endowment of HK\$21.6 billion to the West Kowloon Cultural District Authority

Improving People's Livelihood and Supporting Disadvantaged Groups

- Subsidy of HK\$1,800 for each domestic electricity account
- One-off grant of HK\$3,000 for each Old Age Allowance recipient
- Provision of an additional one month of standard rate payments for Comprehensive Social Security and Disability Allowance recipients
- Increase in Charitable Donation Tax deduction limits from 25% to 35% of relevant assessable profits/ income
- Allocation of HK\$1 billion each to:
 - relieving the financial burden on needy patients by way of an injection to the Samaritan Fund;
 - carrying out maintenance or safety improvements works for properties self-occupied by the elderly;

- paying one-month's rent for lower income families living in public housing estates; and
- creating 3,000 three-year jobs for young people in the next three years

Leaving Wealth with the People and Sharing Fruits of Prosperity

- Lowering of tax rates:
 - Salaries Tax/ Personal Assessment standard rates from 16% to 15%;
 - Property Tax from 16% to 15%; and
 - Profits Tax from 17.5% to 16.5%
- Widening of progressive tax bands under Salaries Tax and Personal Assessment from HK\$35,000 to HK\$40,000
- Raising of Personal Allowances:
 - Basic Personal and Single Parent Allowances each from HK\$100,000 to HK\$108,000; and
 - Married Person's Allowance from HK\$200,000 to HK\$216,000
- One-off rebates of 75% for the year of assessment 2007/08 taxes capped at HK\$25,000 under Salaries Tax, Personal Assessment, Property Tax and Profits Tax
- Waiver of Business Registration Fees for 2008/09
- Waiver of rates for 2008/09, subject to a ceiling of HK\$5,000 per quarter for each rateable tenement

Providing for the Future

- One-off injection of HK\$6,000 into the Mandatory Provident Fund accounts of people earning less than HK\$10,000 per month
- Reserve of HK\$50 billion to promote healthcare reform

2008/09 PRINCIPAL TAX RATES CARD

The following tables summarise the principal tax rates, with proposed tax relief measures highlighted in italics.

Tax Rates

	2008/09	2007/08		2008/09	2007/08
Salaries Tax			Profits Tax		
Progressive rates			Companies	16.5%	17.5%
Chargeable income		Chargeable income	Unincorporated businesses	15%	16%
First HK\$40,000	2%	First HK\$35,000			
Next HK\$40,000	7%	Next HK\$35,000	Property Tax		
Next HK\$40,000	12%	Next HK\$35,000	Non-corporate owners	15%	16%
On the remainder	17%	On the remainder	Corporate lessors	16.5%	17.5%
Standard rate	15%	16%			

Personal Allowances and Deductions

	2008/09 HK\$	2007/08 HK\$		2008/09 HK\$	2007/08 HK\$
Personal allowances:			Dependent parent/grandparent (aged between 55-59):		
Basic	108,000	100,000	Not residing with taxpayer	15,000	15,000
Married	216,000	200,000	Residing with taxpayer	30,000	30,000
Single parent	108,000	100,000	Deductions:		
Child:			Maximum deduction for amount paid for:		
1st to 9th child (each year of birth)	100,000	100,000	Self-education expenses	60,000	60,000
other years	50,000	50,000	Home loan interest	100,000	100,000
Dependent brother/sister	30,000	30,000	Elderly residential care expenses	60,000	60,000
Disabled dependent	60,000	60,000	Contributions to recognised retirement schemes	12,000	12,000
Dependent parent/grandparent (aged 60 or above):			Charitable donations	35% of assessable income	25% of assessable income
Not residing with taxpayer	30,000	30,000			
Residing with taxpayer	60,000	60,000			

Stamp Duty

	2008/09	2007/08		2008/09	2007/08
On Sale or Transfer of Immovable Property in Hong Kong			On Hong Kong Stock	0.2%	0.2%
Property consideration			On Hong Kong Bearer Instrument	3%	3%
Up to HK\$1,000,000	HK\$100	HK\$100	Capital Duty on Nominal Share Capital (Capped at HK\$30,000 per transaction)	0.1%	0.1%
HK\$1,000,001 - HK\$2,000,000	HK\$100	HK\$100			
HK\$2,000,001 - HK\$3,000,000	1.50%	1.50%			
HK\$3,000,001 - HK\$4,000,000	2.25%	2.25%			
HK\$4,000,001 - HK\$6,000,000	3.00%	3.00%			
HK\$6,000,001 and above	3.75%	3.75%			

Liquor

	2008/09 Duty rate	2007/08 Duty rate
Liquor with alcoholic content above 30%	100%	100%
Wine	0%	40%
Beer and other types of liquor with alcoholic content not exceeding 30%	0%	20%

Business Registration Fees

	2008/09 HK\$	2007/08 HK\$
1-year certificate fee + levy	450	2,450/2,600
3-year certificate fee + levy	4,550	6,550/7,000

(The higher amounts for 2007/08 represent the fees charged prior to 14 March 2008)
Only the fee pertaining to 2008/09 has been waived and not the levy for the
Protection of Wages on Insolvency Fund.

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

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Business, Corporate and Investor Services

Member of BEA Group

BANGKOK

Tricor Outsourcing (Thailand) Limited
Tricor Executive Recruitment Limited
Tel: (66) 2 343 1200
Fax: (66) 2 286 4130

BARBADOS

Tricor Caribbean Limited
Caribbean Corporate Services Ltd.
Tel: (246) 430 8400
Fax: (246) 429 6446

BEIJING

TRICOR Consultancy (Beijing) Limited
Tel: (86) 10 6533 0628
Fax: (86) 10 6533 0618

BRITISH VIRGIN ISLANDS (BVI)

Tricor Services (BVI) Limited
Tel: (284) 494 6004
Fax: (284) 494 6404

HONG KONG

Tricor Services Limited
Tel: (852) 2980 1888
Fax: (852) 2861 0285

JOHOR BAHRU

Tricor Services (Malaysia) Sdn Bhd
Chua, Woo & Company Sdn Bhd
Tel: (60) 7332 2088
Fax: (60) 7332 8096

KUALA LUMPUR

Tricor Services (Malaysia) Sdn Bhd
Tel: (60) 3 4043 3838
Fax: (60) 3 4043 1233

LABUAN

Tricor Trust (Labuan) Limited
Tel: (60) 87 443 188
Fax: (60) 87 441 288

MACAU

Tricor Services (Macau) Limited
Tel: (853) 28788 022
Fax: (853) 28788 021

PENANG

Tricor Services (Malaysia) Sdn Bhd
Total Corporate Compliance Sdn Bhd
Tel: (60) 4 229 6318
Fax: (60) 4 226 8318

SHANGHAI

TRICOR Consultancy (Beijing) Limited -
Shanghai Branch
Tel: (86) 21 6391 6893
Fax: (86) 21 6391 6896

SHENZHEN

TRICOR Consultancy (Beijing) Limited -
Shenzhen Branch
Tel: (86) 755 8246 0282
Fax: (86) 755 8246 0332

SINGAPORE

Tricor Singapore Pte Limited
Tel: (65) 6236 3333
Fax: (65) 6236 4399



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TRICOR SERVICES LIMITED

GROUP CHIEF EXECUTIVE & GROUP MANAGING DIRECTOR

Johnny Ng
Tel: (852) 2980 1100
johnny.ng@hk.tricorglobal.com

GROUP MANAGING DIRECTOR

Julian Chow
Tel: (852) 2980 1238
julian.chow@hk.tricorglobal.com

EXECUTIVE DIRECTORS, PRACTICE LEADERS BUSINESS SERVICES

Shirley Tsang
Tel: (852) 2980 1298
shirley.tsang@hk.tricorglobal.com

H C Ying
Tel: (852) 2980 1988
h.c.ying@hk.tricorglobal.com

EXECUTIVE DIRECTORS, PRACTICE LEADERS CORPORATE SERVICES

Natalia Seng
Tel: (852) 2980 1688
natalia.seng@hk.tricorglobal.com

Betty Yeung
Tel: (852) 2980 1882
betty.yeung@hk.tricorglobal.com

EXECUTIVE DIRECTOR, PRACTICE LEADER INVESTOR SERVICES

Allan Tong
Tel: (852) 2980 1818
allan.tong@hk.tricorglobal.com

EXECUTIVE DIRECTORS, PRACTICE LEADERS CHINA CONSULTANCY SERVICES

Natalia Seng
Tel: (852) 2980 1688
natalia.seng@hk.tricorglobal.com

Shirley Tsang
Tel: (852) 2980 1298
shirley.tsang@hk.tricorglobal.com

PRACTICE LEADER - EXECUTIVE RESOURCES

Fiona Yung
Tel: (852) 2980 1166
fiona.yung@hk.tricorglobal.com

Please visit our website at www.tricorglobal.com
Email: info@hk.tricorglobal.com