



28 February 2018

### 2018/19 Budget Commentaries

The Financial Secretary delivered the 2018/19 Budget (the “Budget”) today (28 February 2018).

The Taxation Institute of Hong Kong (the “Institute”) is supportive of this Budget as it has covered a broad range of measures which address the short, medium and long term needs of the Hong Kong economy under a highly volatile global economic environment, and responded to the diverse needs of different social classes. The Institute welcomes this pragmatic and forward-looking Budget.

Having considered the huge fiscal surplus this year, the Budget proposes a series of concessionary measures to share the fruits of economic success with the community, including reduction of various taxes, rates concession, extra allowance to social security recipients, and a one-off grant to each student in need. Some of the proposed measures in the Budget have also responded to the Institute’s earlier Budget Submission, including:

- (1) To further extend the profits tax exemption for the fund industry;
- (2) To provide tax deduction for people who purchase eligible health insurance products for themselves or their dependants under the Voluntary Health Insurance Scheme;
- (3) On the premise that Hong Kong’s tax base will not be narrowed, to widen and increase the number of tax bands for salaries tax, and adjust the marginal tax rates;
- (4) To increase the dependent parent/grandparent allowances, and raise the deduction ceiling for elderly residential care expenses; and
- (5) To allow husband and wife the option to decide whether to elect for personal assessment.

The Institute agrees with the Government’s uses of the fiscal surplus for long-term development on specific economic and social aspects, which is in line with the Institute’s philosophy:

- (1) To reserve \$50 billion for supporting Innovation & Technology development, developing new economy, enhancing Research & Development, and ultimately creating quality jobs;
- (2) To increase tax allowance, widen and increase the number of tax bands for salaries tax, which are more effective in helping the middle class in the long run than simply giving away cash;
- (3) To substantially increase the recurrent expenditure by 11.8% for taking care of various sectors of the community, such as enhancing elderly care and rehabilitation services, and strengthening children and young people support; and
- (4) To optimize social welfare so as to benefit different social classes and groups, and to share the fruits of economic success with people from all walks of life.

In general, this Budget shows the Government's commitment to the future as it plans to make good use of the fiscal surplus for long-term investment, building a good foundation for future sustainable development. The Institute agrees with the proposed short-term tax-related measures, and is pleased to see that the Government has tried to use tax policy to induce investment, and formulate forward-looking plans for diversified and long-term development. The Government should, however, address the following issues:

- (1) To study how best to broaden Hong Kong's narrow tax base;
- (2) To stabilize the public income to cope with future needs to increase public expenditure;
- (3) To make corresponding policy change in order to break the barriers and restraints for future development;
- (4) To attract and provide training for foreign and local research and medical talents and to increase the land supply so as to resolve the medical and housing problems in Hong Kong; and
- (5) To ensure that Government resources have been put in the right place for economic development and improving people's livelihood.

The current Government has taken a proactive approach in supporting the development of new economy with a hope to creating new economic drive for Hong Kong; and investing resources to address different social issues. The Institute opines that this Budget could help Hong Kong maintain a fair tax environment which conforms to international standard, and enhance Hong Kong's economic competitiveness.

~END~