

Assessing Functions

The Department raises revenue through taxes, duties and fees in accordance with the relevant legislation. Earnings and profits tax are assessed by reference to the incomes / profits of the taxpayers in the previous year, whereas duties and fees are charged at the time the relevant activities occur. For 2023-24, earnings and profits tax assessed decreased by \$12.6 billion (4.6%) (**Schedule 2**) as compared with the previous year. The total amount of duties and fees collected decreased by \$15.5 billion (16.2%).

Profits Tax

Profits tax is levied on individuals, corporations, bodies of persons and partnerships, in respect of assessable profits arising in or derived from Hong Kong. For the year of assessment 2022-23, the two-tiered profits tax rates remain unchanged. The profits tax rate for the first \$2 million of assessable profits is 8.25% for corporations and 7.5% for unincorporated businesses. Profits above that amount are subject to the tax rate of 16.5% and 15% respectively. For two or more connected entities, only one of them may elect for the two-tiered profits tax rates. The amount of profits tax assessed in 2023-24 was \$161.9 billion, which was \$15.6 billion (8.8%) less than that of the previous year (**Figure 5**).

The amounts of final tax assessed in respect of different business sectors are shown in **Schedules 3** and **4**. Of the total final tax assessed on corporations for the year of assessment 2022-23, the property, financial and banking sectors together contributed 39.5% and the distribution sector generated 29.8% (**Figure 6**).

Figure 5 Profits tax assessed

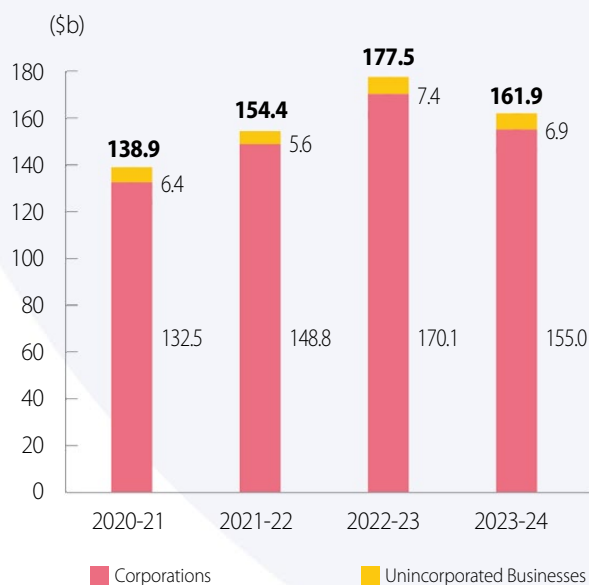
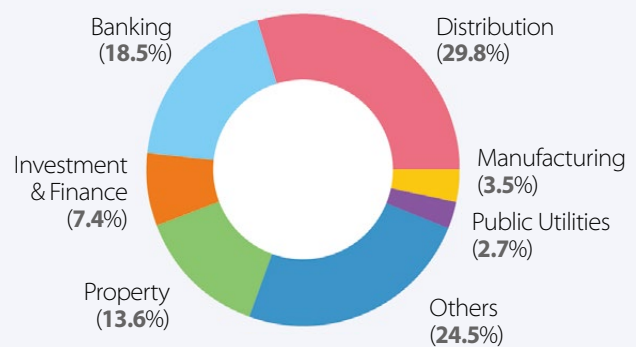


Figure 6 Ratios of corporation profits tax assessed under 2022-23 final assessments by business sectors

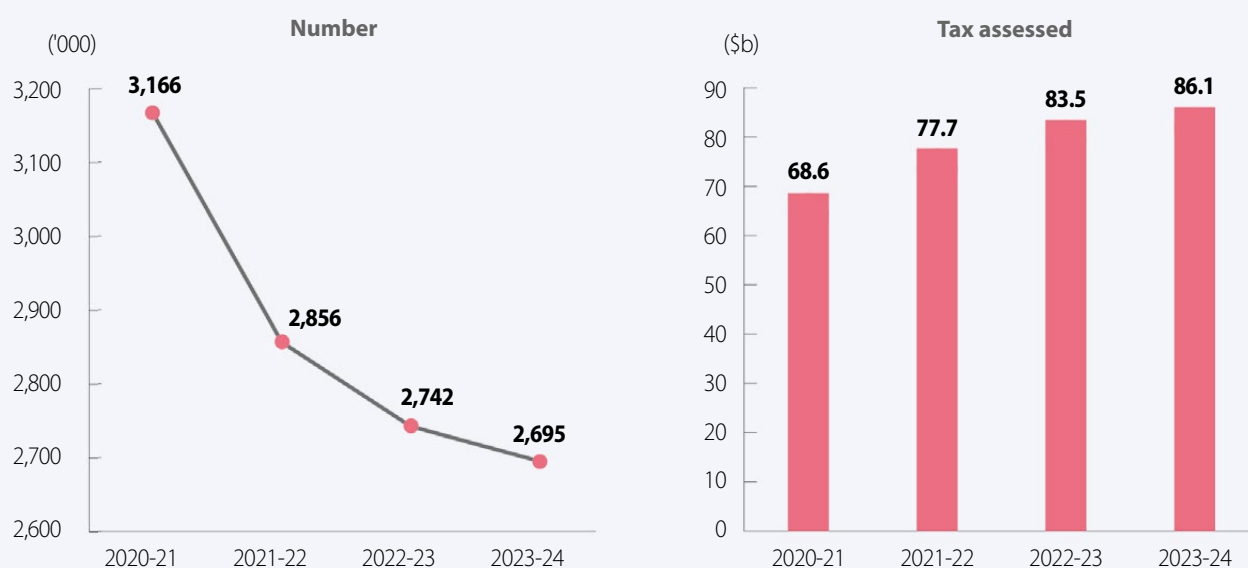


Salaries Tax

Salaries tax is charged on all incomes from any office (e.g. a directorship) or employment and pension arising in or derived from Hong Kong. The total amount of tax payable is restricted to the standard rate (15%) on the net total income (without deduction of allowances) of the individual concerned.

As compared with the previous year, the number of salaries tax assessments made during 2023-24 decreased by 1.7%. However, the rise in wages and earnings, coupled with the lowering of the ceiling of tax reduction for each salaries tax case by 40% to \$6,000, had led to a 3% increase in the amount of tax assessed (**Figure 7**).

Figure 7 Salaries tax assessments



Analyses of salaries tax assessments and allowances granted in respect of taxpayers at various income levels for the year of assessment 2022-23 are provided in **Schedules 5** and **6**.

For the year of assessment 2022-23, the number of standard rate taxpayers decreased by 847 to 26,919. These taxpayers together contributed 30.8% of the final salaries tax assessed, a decrease of 4.8% compared with last year (**Figure 8**).

Figure 8 Salaries Tax - standard rate taxpayers

Percentage of total number of taxpayers

Year of Assessment	2021-22	2022-23
Total number of taxpayers	1,806,645	1,833,827
Standard rate taxpayers	27,766	26,919
Percentage	1.5%	1.5%

Figure 8 Salaries Tax - standard rate taxpayers (continued)

Percentage of total final tax assessed

Year of Assessment	2021-22	2022-23
Total final tax assessed (\$M)	80,257	83,079
Final tax contributed by standard rate taxpayers (\$M)	28,559	25,601
Percentage	35.6%	30.8%

Notification Requirements of Employers

Employers are required to notify the Department of commencements and cessations of employment as well as employees' impending departure from Hong Kong for more than 1 month. Besides, employers are required to prepare annual employer's returns to report the emoluments of each of their employees. During the year, 384,409 employers filed employer's returns with the Department.

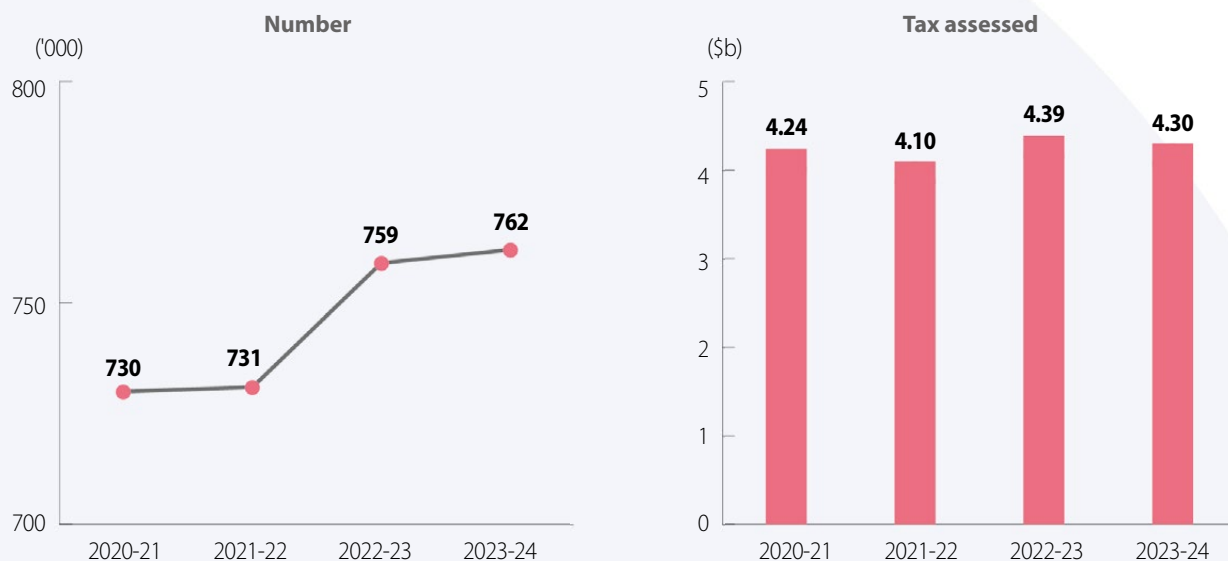
The Department provides e-Seminars and disseminates tax information to employers on the IRD website to help them understand the relevant statutory requirements. The contents cover completion of employer's returns, employer's obligations and answers to frequently asked questions. Employers can also obtain specimens of completed employer's returns and notifications through the Fax-A-Form service.

Property Tax

Property owners (including corporations) are subject to property tax which is charged at the standard rate (15%) in respect of the net assessable value of the property. Rents received from properties solely owned by individuals should be declared in Tax Returns - Individuals (BIR60); whilst rents received from properties jointly owned or co-owned by individuals or properties held by corporations / bodies of persons should be declared in Property Tax Returns (BIR57 / BIR58). Property owners that pay property tax in respect of premises used for their businesses can have such payments set off against their profits tax liabilities. For corporations, income arising from properties owned by them is also subject to profits tax at the corporation rate. To obviate the need for yearly set-off of property tax against profits tax, a corporation can apply for exemption of property tax on the property concerned.

Statistics on the classification of properties and classification by number of owners, based on the records of the Department, are provided in **Schedule 7**. The number of assessments made in 2023-24 was slightly more than that in the previous year by 0.4%. The amount of property tax assessed decreased by 2% (**Figure 9**).

Figure 9 Property tax assessments

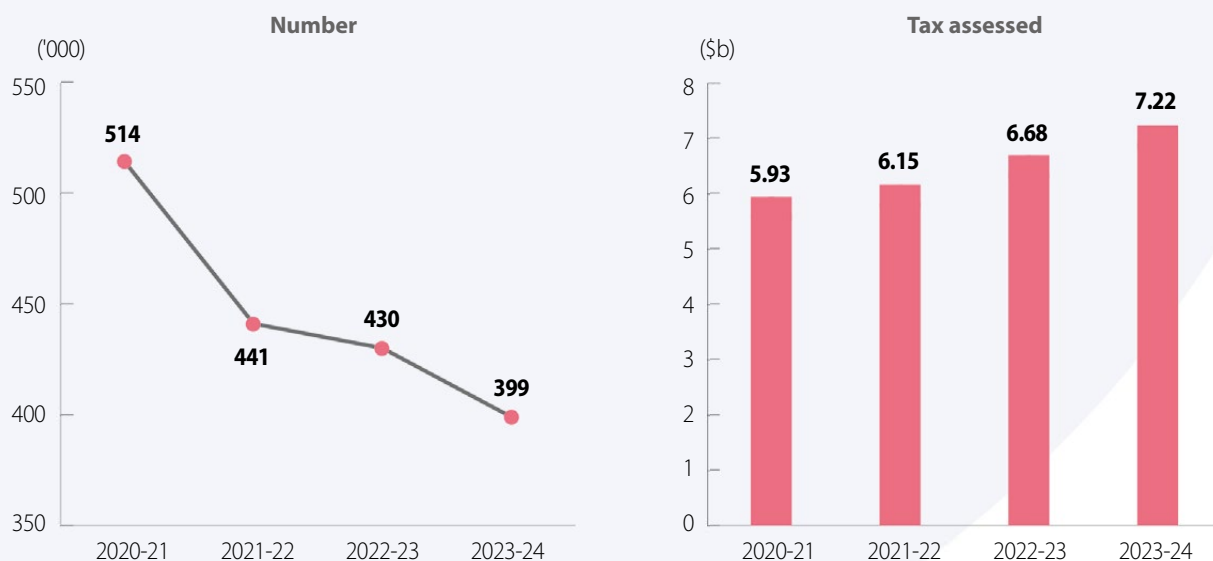


Personal Assessment

If an individual has income chargeable to profits tax and/or property tax, the individual may elect for personal assessment. Under personal assessment, all the incomes of the taxpayer are aggregated and, after deduction of allowances, are assessed at the progressive tax rates applicable to salaries tax. From the year of assessment 2018-19 onwards, a married person may elect for personal assessment separately from or jointly with the person's spouse. In appropriate circumstances, this would reduce the tax liability of the taxpayer or the total tax liability of the taxpayer and the taxpayer's spouse.

As compared with the previous year, the number of personal assessments made in 2023-24 decreased by 7.2% but the amount of tax assessed was 8.1% higher (Figure 10).

Figure 10 Assessments made under personal assessment



Advance Rulings

Taxpayers may apply for an advance ruling on how a provision of the Inland Revenue Ordinance applies in relation to a particular arrangement. A fee is charged for the service on a “cost recovery” basis. The applicant is required to pay an initial application fee of \$45,000 for a ruling concerning the application of the “Territorial Source Principle” in a profits tax case, or \$15,000 for a ruling on any other matter. An additional fee is payable if the processing time exceeds the specified limit. The Department endeavours to respond within 6 weeks of the date of application, provided that all relevant information is supplied with the application and further information from the applicant is not required.

During 2023-24, the Department completed the processing of 228 advance ruling applications (**Figure 11**). Most of the applications were for rulings on profits tax matters.

Figure 11 Advance rulings

	2022-23 Number	2023-24 Number
Awaiting decision at the beginning of the year	8	14
Add: Applications received during the year	<u>21</u>	<u>286</u>
	29	300
Less: Disposed of -		
Rulings made	10	222
Applications withdrawn	5	6
Rulings declined	<u>0</u>	<u>0</u>
	15	228
Awaiting decision at the end of the year	<u>14</u>	<u>72</u>

Objections

A taxpayer who is aggrieved by an assessment may lodge a notice of objection to the Commissioner within the prescribed time limit. If the objection is against an estimated assessment raised in the absence of a tax return, a properly completed return, together with the supporting accounts where applicable, must also be accompanied with the notice of objection. A significant proportion of the objections received each year arise from estimated assessments. Most of these objections are settled promptly by reference to the returns subsequently received. Many of the other types of objections are also settled by agreement between the taxpayers and the assessors concerned. Only relatively few objections are ultimately referred to the Commissioner for determination. During 2023-24, the Department completed the processing of 112,634 objections (**Figure 12**).

Figure 12 Objections

	2022-23 Number		2023-24 Number	
Being processed at the beginning of the year	41,704		40,622	
Add: Received during the year	89,330		115,361	
	<u>131,034</u>		155,983	
Less: Disposed of -				
Settled without determination	90,001		112,251	
Determinations:				
Assessments confirmed	209		191	
Assessments reduced	113		93	
Assessments increased	89		92	
Assessments annulled	0	411	7	383
	<u>0</u>	<u>411</u>	<u>7</u>	<u>383</u>
Being processed at the end of the year	<u>40,622</u>		43,349	

Appeals to the Board of Review

A taxpayer who is dissatisfied with the Commissioner's determination of his objection may appeal to the Board of Review (Inland Revenue Ordinance) (the Board). The Board is an independent statutory body. As at 31 March 2024, the Board consisted of a chairman and 8 deputy chairmen, who have legal training and experience, as well as 71 members. During 2023-24, the Board settled 34 appeal cases (**Figure 13**).

Figure 13 Appeals to the Board of Review

	Number	
Awaiting hearing or decision as at 1 April 2023	35	
Add: Received during the year	<u>25</u>	
	60	
Less: Disposed of -		
Withdrawn	6	
Decided:		
Assessments confirmed	5	
Assessments reduced in full	0	
Assessments reduced in part	13	
Assessments increased	10	28
	<u>10</u>	<u>28</u>
Awaiting hearing or decision as at 31 March 2024	<u>26</u>	

Appeals to the Courts

A decision of the Board is final, provided that either the taxpayer or the Commissioner may, pursuant to section 69 of the Inland Revenue Ordinance, appeal to the Court of First Instance against the Board's decision on a question of law. Before 1 April 2016, taxpayers or the Commissioner could only appeal to the court by way of case stated from the Board. With effect from that date, the case stated procedure was abolished and no appeal may be made unless leave to appeal has been granted by the court, on the application of the taxpayer or the Commissioner.

During 2023-24, the Court of First Instance handed down 2 judgements to dismiss two taxpayers' appeals, of which one related to salaries tax and the other concerned profits tax. For the salaries tax case, the Court ruled that the taxpayer's income from employment was derived from Hong Kong and chargeable to salaries tax. In the profits tax case, the Court confirmed that the royalties from trademark granted by the taxpayer's ultimate holding company were arisen in Hong Kong. In both cases, the taxpayers filed appeals to the Court of Appeal against the Court's judgements.

During the year, the Court of Appeal did not hand down any judgement for any tax appeal case.

The Hong Kong Court of Final Appeal Ordinance provides that, a taxpayer or the Commissioner may, with the leave of the Court of Appeal or the Court of Final Appeal, appeal against the judgment of the Court of Appeal. During 2023-24, the Court of Final Appeal allowed the Commissioner's appeal in a salaries tax case, and held that the income for stand-by or services rendered on the taxpayer's holidays and rest days was taxable income and chargeable to salaries tax.

Figure 14 sets out the statistics concerning appeals to the Courts during 2023-24.

Figure 14 Appeals to the Courts

	Court of First Instance	Court of Appeal	Court of Final Appeal	Total
Awaiting hearing or decision as at 1 April 2023	3	0	1	4
Add: Lodged during the year	5	2	0	7
	8	2	1	11
Less: Disposed of	2	0	1	3
Awaiting hearing or decision as at 31 March 2024	6	2	0	8

Business Registration

The Department aims to maintain an efficient business registration system. A person carrying on a business in Hong Kong must register the business and pay the required fee and levy. The number of business registrations as at 31 March 2024 stood at 1,577,907. It was 5,389 less than that as at 31 March 2023 (**Figure 15**).

Business registration certificates are generally valid for one year, but businesses may elect for 3-year certificates. As at 31 March 2024, 29,344 businesses held 3-year certificates.

As the waiver of business registration fees expired on 31 March 2023, the amount of business registration fees and penalties collected in 2023-24 increased significantly to \$2,816 million. It represents an increase of 2,083% compared with last year (**Figure 16**). Business registration statistics are set out in **Schedule 8**.

Under the Business Registration Ordinance, a small business with average monthly sales or receipts below a specified limit (\$10,000 for businesses deriving profits mainly from the sale of services, and \$30,000 for other businesses) can apply for exemption from payment of the business registration fee and levy. Where an application for exemption is not allowed, the business operator may appeal to the Administrative Appeals Board. The number of exemptions granted during 2023-24 was 16,706, representing an increase of 76.8% from the previous year. No appeal case was received by the Board during 2023-24.

Figure 15 Number of business registrations

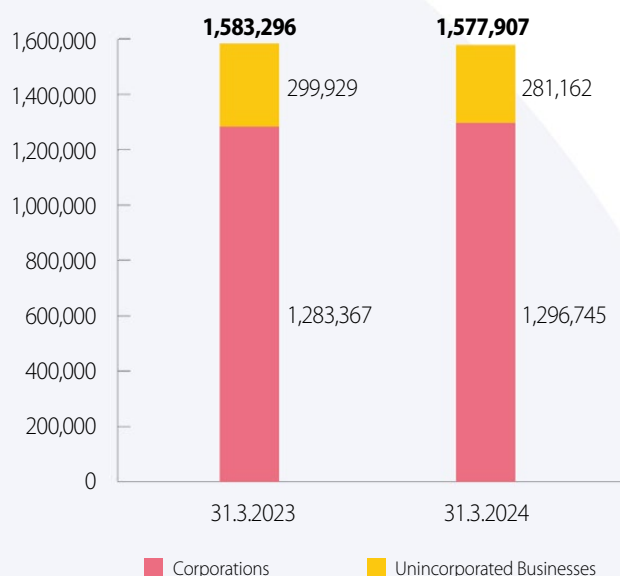


Figure 16 Business registration statistics

	2022-23	2023-24	Increase / Decrease
Number of certificates paid (Main and Branch)	1,658,152	1,552,839	-6.4%
Fees (inclusive of penalties) collected (\$m)	129	2,816	+2,083%

Stamp Duty

Stamp duty is charged on instruments effecting property transactions, stock transactions and leasing of property in Hong Kong (**Figure 17**).

Overall, there was a decrease of 29.8% (\$20.9 billion) in the total stamp duty collection for the year 2023-24 (**Figure 18** and **Schedule 9**). The decrease in the total stamp duty collection is attributable to the decrease in stamp duty collected from share transactions and property transactions.

Figure 17 Composition of stamp duty collections

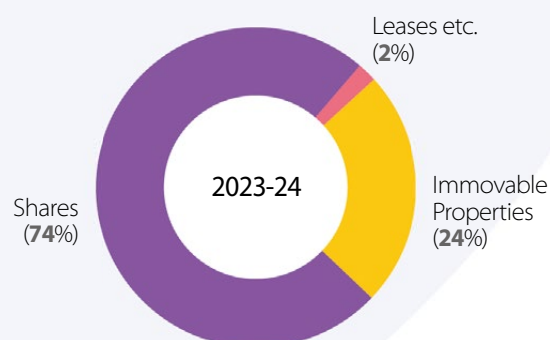


Figure 18 Stamp duty collections

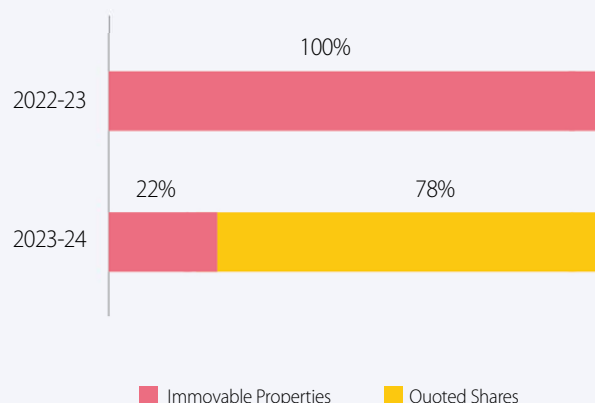
	2022-23 (\$m)	2023-24 (\$m)	Decrease
Immovable Properties	15,881	11,631	-26.8%
Shares	53,124	36,588	-31.1%
Leases and other documents	972	893	-8.1%
Total	69,977	49,112	-29.8%

Estate Duty

Estate duty is charged on a deceased person's estate situated in Hong Kong. The threshold for levying duty is \$7.5 million and the duty rates range from 5% to 15%, depending on the value of the estate.

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 abolishing estate duty in respect of persons who passed away on or after that date. The estate duty chargeable in respect of estates of persons died between the period 15 July 2005 to 10 February 2006, with the principal value exceeding \$7.5 million, is reduced to a nominal amount of \$100. The number of new cases stood at 357 in 2023-24, same as last year (**Figure 20**).

Figure 19 Composition of estates for dutiable cases



Figures 19 and **20** show the composition of estates for dutiable cases and cases processed for the past two years.

Figure 20 Estate duty cases

	2022-23 Number	2023-24 Number
New cases	357	357
Cases finalised		
- Dutiable	2	3
- Exempt	375	334
	377	337

Estate duty of \$10.18 million was collected during the year (**Schedule 10**), an increase of \$1.39 million (15.8%) compared with the previous year.

Estate duty is payable on delivery of an estate duty affidavit or account (or within 6 months from the date of the deceased's death, whichever is the earlier). \$9.01 million was received during the year in advance of the issue of formal assessments (**Schedule 10**).

Betting Duty

Betting duty is charged on the net stake receipts from betting on horse races and football matches and on the proceeds of Mark Six lotteries, all administered by the Hong Kong Jockey Club (HKJC). In 2023-24, the rates of betting duty on these betting activities remained unchanged (**Figure 21**). Furthermore, special football betting duty of \$2.4 billion is imposed on the HKJC annually for five years starting from 2023-24.

Figure 21 Rates of betting duty in 2023-24

		Rate
Horse racing		
Local bets on local horse races	Net stake receipts	
	the first \$11 billion	72.5%
	the next \$1 billion	73%
	the next \$1 billion	73.5%
	the next \$1 billion	74%
	the next \$1 billion	74.5%
the remainder	75%	
Local bets on non-local horse races	Net stake receipts	72.5%
Mark Six lotteries	Proceeds	25%
Football betting	Net stake receipts	50%

Due to the imposition of special football betting duty and the increase in betting duty collected from Mark Six lotteries, the total betting duty collected in 2023-24 was 10.2% higher than that of the previous year (**Figure 22** and **Schedule 11**).

Figure 22 Betting duty collections

	2022-23 (\$m)	2023-24 (\$m)	Increase / Decrease
Horse racing	14,181.9	13,515.8	-4.7%
Mark Six lotteries	1,692.3	2,097.9	+24.0%
Football betting	9,949.7	12,853.3	+29.2%
Total	25,823.9	28,467.0	+10.2%

Tax Reserve Certificates

Taxpayers may purchase Tax Reserve Certificates (TRCs) under two situations.

The first situation applies to taxpayers who wish to save for the payment of their future tax liabilities. The Department has set up two schemes, namely the “Electronic Tax Reserve Certificates Scheme” for all taxpayers and the “Save-As-You-Earn” (SAYE) Scheme for civil servants and civil service pensioners. With a Tax Reserve Certificate account, taxpayers may purchase TRCs by various channels, including bank auto-pay, telephone, the Internet and bank ATM. Under the “SAYE Scheme”, civil servants and civil service pensioners can purchase TRCs through monthly deductions from their salaries / pensions. Interest is payable on the TRCs when they are redeemed for settlement of tax liabilities, based on the interest rate prevailing at the time of purchase, for a maximum period of 36 months from the date of purchase.

In 2023-24, the number and amount of TRCs sold under the “Electronic Tax Reserve Certificates Scheme” decreased by 1.6% and 4.2% respectively. For the “SAYE Scheme”, there was a decrease of 1.5% in the number but an increase of 0.8% in the amount of TRCs sold (**Schedule 12**). Overall, the total amount of TRCs sold under the “Electronic Tax Reserve Certificates Scheme” and “SAYE Scheme” decreased by 3.2% (**Figure 23**).

The second situation applies to taxpayers who object to tax assessments and are required to purchase TRCs in respect of the tax in dispute. Such TRCs are used to settle any tax found payable upon the finalisation of the objection or appeal. Interest is only payable on the amount of the TRC, if any, subsequently required to be repaid to the taxpayer, and is computed at floating rates over the tenure of the TRC.

In 2023-24, the number and amount of TRCs sold under tax in dispute increased by 11.8% and 24.7% respectively (**Schedule 12**).

Figure 23 Certificates sold

