

Media Workshop

10 January 2006

- I. Budgeting Framework
- II. Structure of Government Accounts
- III. Annual Estimates
- IV. Budget Updates

I. Budgeting Framework

The Basic Law

Article 107

The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.

The Basic Law

Article 108

- The Hong Kong Special Administrative Region shall practise an independent taxation system.
- The Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation.

Public Finance Ordinance

Provides the statutory framework for the control and management of Hong Kong's public finance.

Public Finance Ordinance (cont'd)

Key provisions -

- The Financial Secretary shall lay before the legislature the Government's annual estimates of revenue and expenditure.
- Only upon enactment of the Appropriation Ordinance shall the estimates of expenditure be deemed approved.

Public Finance Ordinance (cont'd)

- All moneys received by the Government except otherwise specified, shall form part of the general revenue.
- All changes to the estimates of expenditure, including supplementary provision, must be approved by the Finance Committee of the Legislative Council.
- The Legislative Council may establish funds for specific purposes.

II. Structure of Government Accounts

Government Accounts

Main Account

General
Revenue
Account

+

Funds

Disaster Relief Fund

+

Civil Service Pension Reserve Fund

+

Innovation and Technology Fund

+

Loan Fund

+

Capital Investment Fund

+

Capital Works Reserve Fund

+

Land Fund

+

Lotteries Fund

Fiscal Reserves

\$283.5 billion
as of 30.11.2005

III. Annual Estimates

Annual Estimates

The image displays four document covers. On the left, three 'Estimates' covers for the year ending 31 March 2006 are shown overlapping. The top cover is for 'Volume II - Fund Accounts', the middle for 'Volume I - General Revenue Account', and the bottom for 'Volume I - General Revenue Account'. Each cover features the Government of the Hong Kong Special Administration Region logo and the text 'Government Special Administration Region'. On the right is a 'A BILL' document cover, which includes the title 'A BILL To', a reference to the Finance (Miscellaneous Provisions) Bill, and a table of contents.

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Annual Estimates

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 - Summary Tables
 - Expenditure Analysis by Head
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 - Index of Heads of Expenditure
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 - General Revenue Account
 - Expenditure Analysis by Head (continued)
 - Revenue Analysis by Head
 - Index of Policy Area
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- Volume II
 - Funds
 - Memorandum Note and Expenditure and Revenue Estimates of Each Fund

IV. Budget Updates

Chart 15

Revised forecasts for 2005

GDP real growth 7% (vs 4.5%-5.5% forecast in March 2005)

CCPI 1.2% (vs 1.5% forecast in March 2005)

Chart 16

Government Revenue and Expenditure

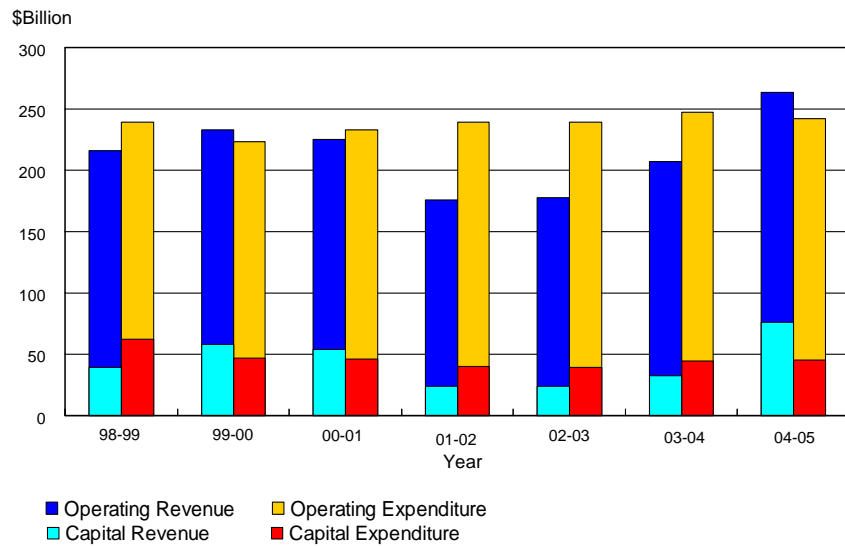


Chart 17

Fiscal Health

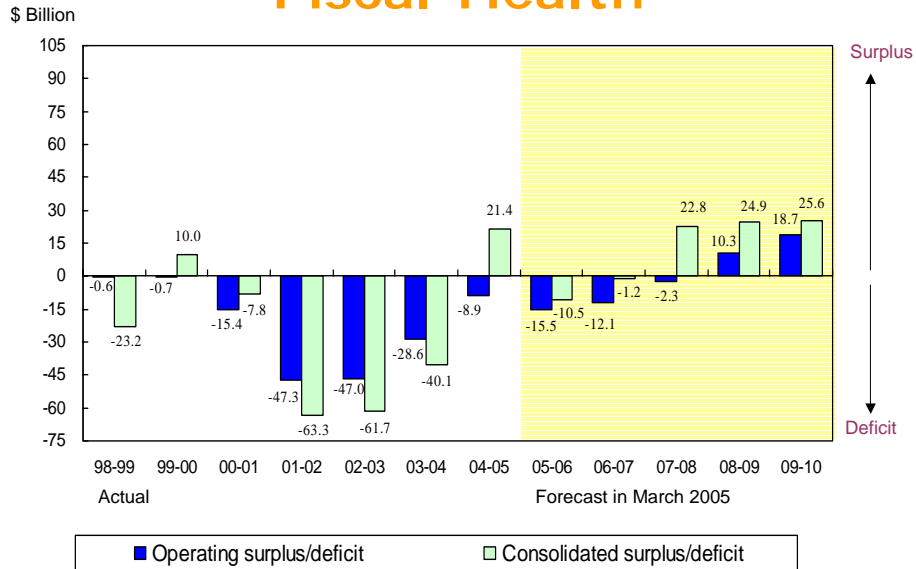
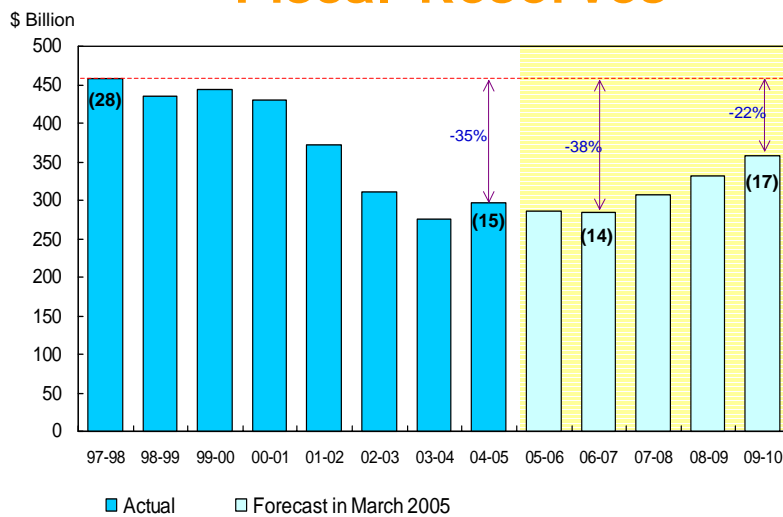


Chart 18

Fiscal Reserves



Figures in () represent the equivalent months of government expenditure.

Chart 19

Expenditure Profile in 2005-06

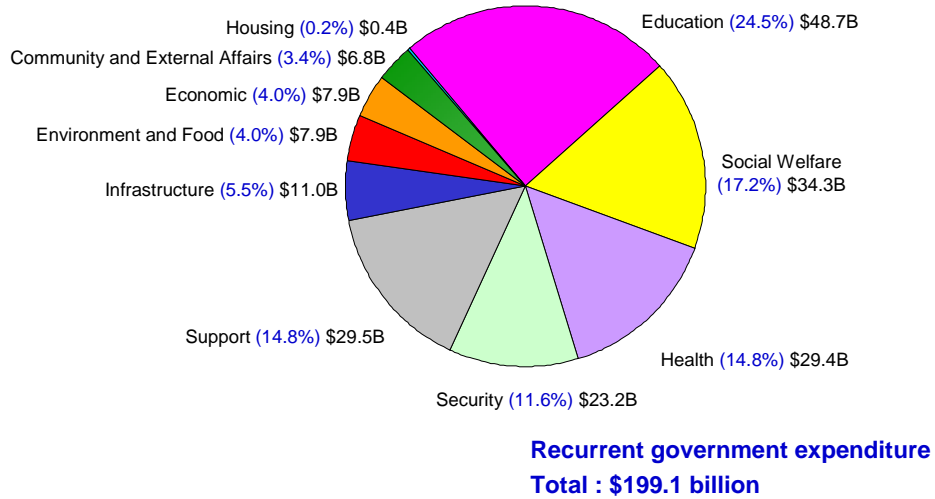


Chart 20

Expenditure Profile in Past Ten Years

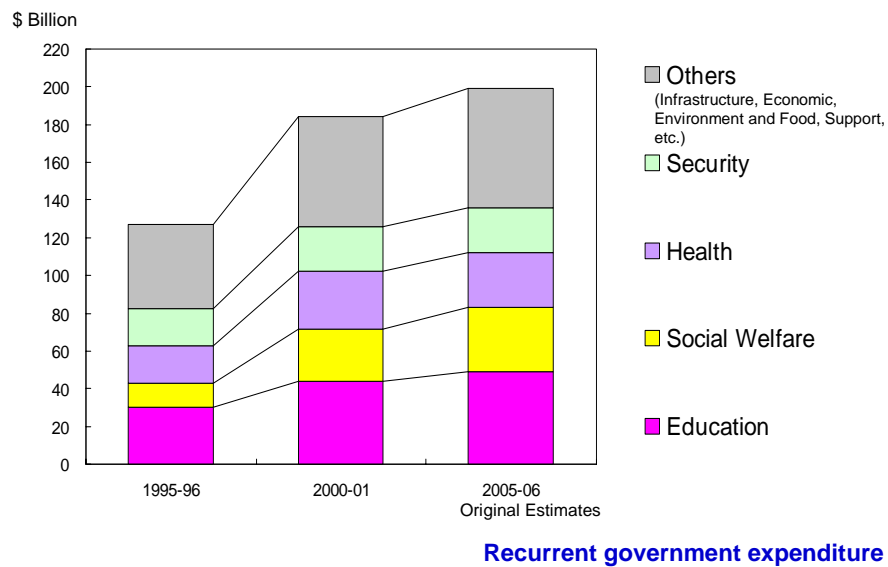


Chart 21

Essential Infrastructure

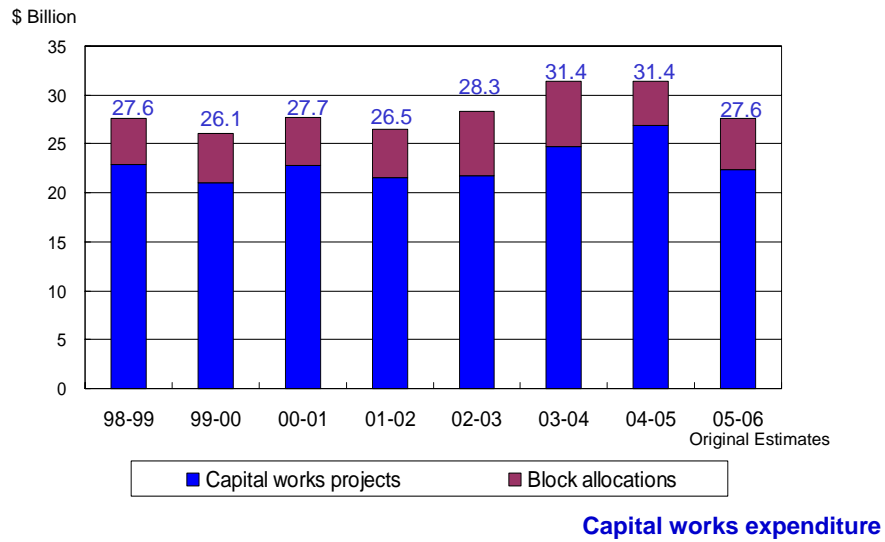


Chart 22

Revenue Profile in 2005-06

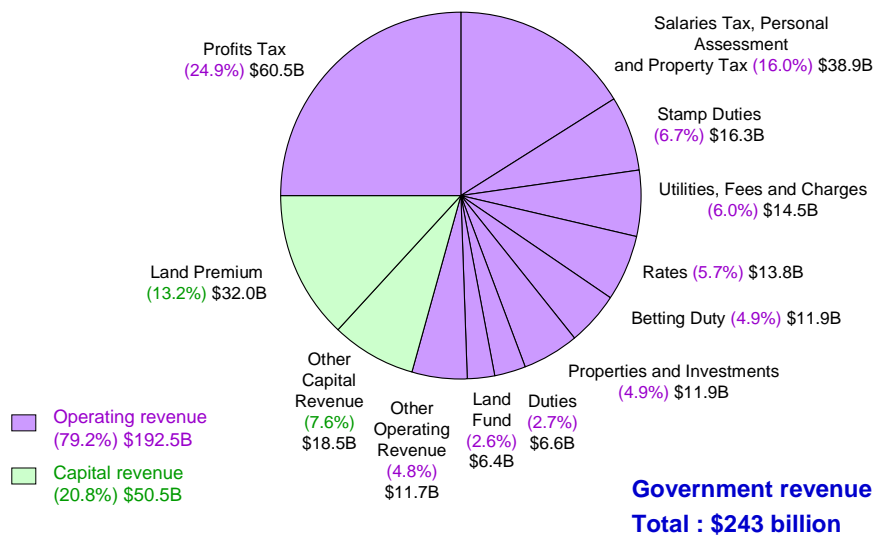


Chart 23

Revenue Profile in Past Ten Years

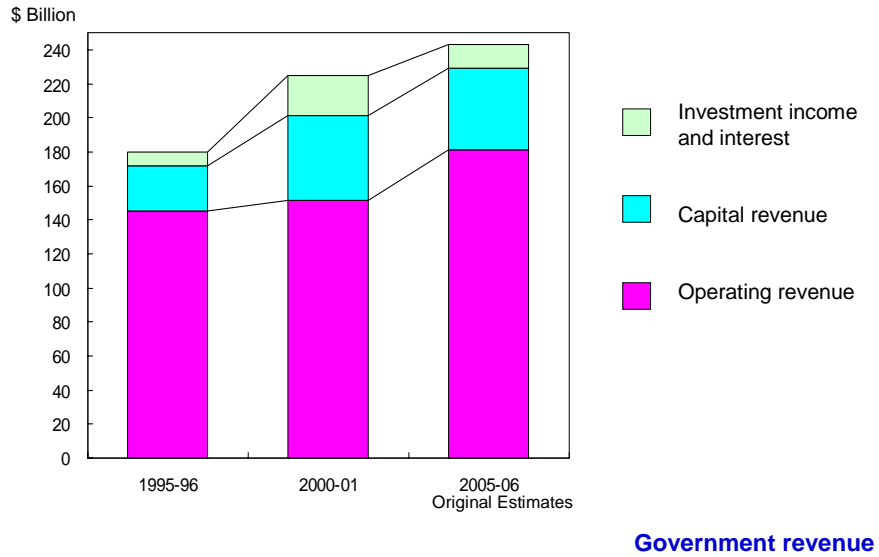


Chart 24

Living within our means

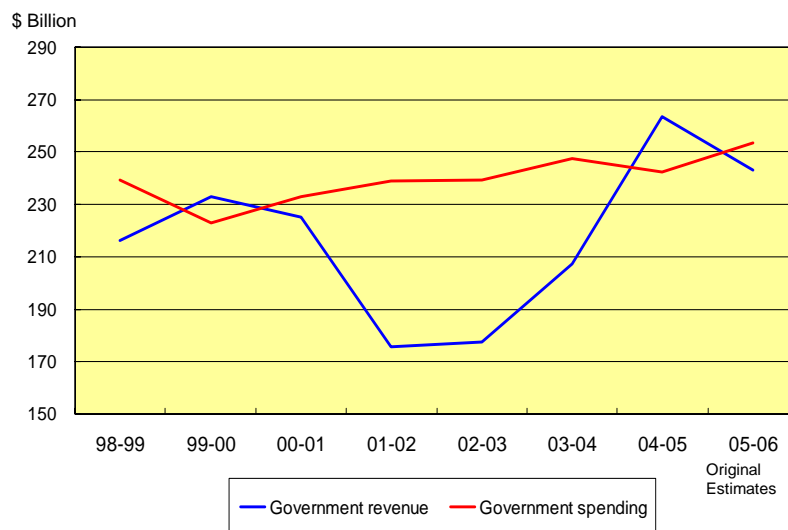


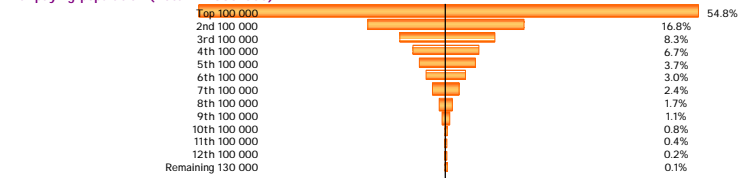
Chart 25

Increasing reliance on a small group of tax payers

Salaries tax

1997-98 (Actual revenue)

Taxpaying population (Total: 1 330 000)

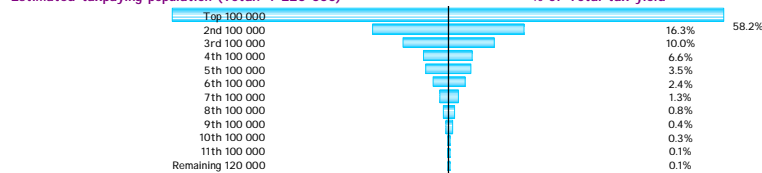


Working population which does not pay any salaries tax (Total : 1 830 000) 0%

* 2% of the working population pay at the standard tax rate of 15% and contribute about 43.9% of total salaries tax receipts

2005-06 (Provisional assessment)

Estimated taxpaying population (Total: 1 220 000)



Estimated working population which does not pay any salaries tax (Total : 2 150 000) 0%

* 1.4% of the estimated working population pay at the standard tax rate of 16% and contribute 38.3% of total salaries tax receipts

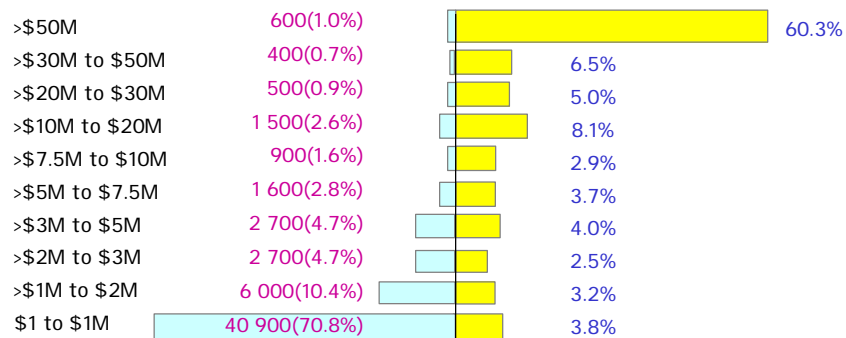
Chart 26

Increasing reliance on a small group of tax payers (cont'd)

Profits tax

2003-04 (Actual revenue)

Assessable profits No. of corporations % of Total tax yield



Thank you