

Management of Public Finance: The principles underlying the Government's management of public finances are enshrined in the Basic Law, which stipulates that –

- The Hong Kong Special Administrative Region (HKSAR) shall have independent finances, and shall use its revenues exclusively for its own purposes.
- HKSAR shall practise an independent taxation system, taking the low tax policy previously pursued in Hong Kong as reference.
- HKSAR shall follow the principle of keeping expenditure within the limits of revenues in drawing up the budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of the Gross Domestic Product.
- The Legislative Council of HKSAR shall exercise the power to approve taxation and public expenditure.

The Government implements these constitutional provisions by striving to maintain a low and simple tax regime, and exercising fiscal prudence.

Consistent with these constitutional provisions, Hong Kong's local legislation, the Public Finance Ordinance (PFO), stipulates a system for the control and management of Hong Kong's public finances and defines the respective powers and functions of the legislature and the executive. Pursuant to the PFO, the Financial Secretary submits to the Legislative Council an annual set of estimates of revenue and expenditure. The estimates are developed against the background of a medium-range forecast to ensure that full regard is given to the longer-term trends in the economy. The financial year starts from April 1 and ends on March 31.

A government department can only incur expenditure up to the amounts stated in the expenditure estimates and for the purposes approved by the Legislative Council. If during the financial year a department needs to change the expenditure estimates and spend more money, it must obtain authorisation from the Legislative Council or authorities with delegated powers.

The Government controls its finances through the General Revenue Account (GRA) and various funds established under the PFO. The GRA is the main account for day-to-day departmental expenditure and revenue collection. Funds are established by resolutions of the Legislative Council for specific purposes. They include the Capital Works Reserve Fund, Capital Investment Fund, Civil Service Pension Reserve Fund, Disaster Relief Fund, Innovation and Technology Fund, Land Fund, Loan Fund, Lotteries Fund and Bond Fund. The total revenue and expenditure of the GRA and eight of the above Funds (excluding the Bond Fund) represent government revenue and government expenditure, and the total balance of the GRA and the eight Funds constitutes Government's fiscal reserves.

Budgetary Process: The first step in the preparation of the Budget is the Resource Allocation Exercise (RAE). After the RAE, draft estimates of government expenditure and revenue for the ensuing financial year are prepared. They are usually laid before the Legislative Council in February. Expenditure is authorised upon the enactment of an Appropriation Ordinance to the extent that they are provided for in that ordinance.

On the introduction of the Appropriation Bill into the Legislative Council, the Financial Secretary may announce new revenue proposals although he may also do so at any other time.

Medium Range Forecast: The Government prepares a Medium Range Forecast in the context of its annual budget. This is a five-year forecast of expenditure and revenue which focuses on the consolidated financial position of the Government. Revenue projections reflect fiscal policies, the general economic outlook and forecast patterns of collection. Expenditure projections take account of expected increases in the demand for and supply of government services.

The forecast constitutes not a plan but a baseline against which progress can be measured and the need for further action assessed.

Financial Results: For 2024-25, Government recorded a deficit of \$80.3 billion. Fiscal reserves at the end of March 2025 stood at \$654.3 billion. Government revenue in 2024-25 amounted to \$564.9 billion, expenditure \$753.2 billion and net proceeds of \$108 billion from issuance and repayment of Government Bonds.

Public expenditure includes government expenditure and expenditure by the Trading Funds and the Housing Authority. In 2024-25, public expenditure totalled \$801.2 billion, an increase of 5.1 per cent over the previous year, within which some \$583.5 billion (or 72.8 per cent) was of a recurrent nature.

Revenue Sources: Hong Kong is a free port and does not levy any tariffs on imports. However, excise duties are collected on a few items of commodities consumed locally irrespective of whether they are imported or manufactured locally. The dutiable commodities are tobacco, liquor with an alcoholic strength of more than 30 per cent, methyl alcohol, aircraft spirit, motor spirit and light diesel oil. All companies engaged in the import, export, manufacture or storage of the aforesaid commodities must be licensed.

Rates are levied on landed properties at specified percentage(s) of their rateable values which are the estimated annual market rental values of the properties at a designated valuation reference date. Rateable values are reviewed annually in general revaluation to reflect changes in market rental values.

The current rates percentage charge for all non-domestic tenements and domestic tenements with rateable value of \$550,000 or below is 5 per cent. For domestic tenements with rateable value over \$550,000, rates are currently charged at 5 per cent of the rateable value on the first \$550,000, at 8 per cent of the rateable value on the next \$250,000 and at 12 per cent on the portion of rateable value exceeding \$800,000.

Government rent is payable during the term of new Government leases or the extended term of non-renewable Government leases. This annual rent is levied at 3 per cent of the rateable value of the property and is adjusted in step with any subsequent changes in rateable value.

Betting duty is imposed on the gross profits from horse racing, the proceeds of Mark Six Lottery and the gross profits from the conduct of authorised betting on football and basketball matches. The duty is charged at a set of progressive rates from 72.5 per cent to 75 per cent on the gross profits from local horse races, a flat rate of 72.5 per cent on the gross profits from simulcast overseas horse races, 25 per cent on the proceeds from Mark Six Lottery and 50 per cent on the gross profits from football and basketball betting. Besides, an annual special football betting duty of \$2.4 billion is imposed for 5 years ending on 31 March 2028.

Hotel accommodation tax is imposed at a rate of 3 per cent on the accommodation charges of hotels or guesthouses with effect from 1 January 2025.

Estate duty is imposed on that part of a deceased's estate situated in Hong Kong. Following the abolition of the duty on February 11, 2006, no estate duty will be charged on the estates of persons deceased on or after that date.

Stamp duty is imposed on different classes of documents relating to transactions of immovable property, leases and share transfers.

Direct taxes on earnings and profits are levied under the Inland Revenue Ordinance (IRO). Hong Kong has a schedular system of taxation whereby taxpayers are assessed and required to pay tax on three separate and distinct sources of income, namely, business profits, salaries and property rental income. However, individuals may have their total income from all sources aggregated under personal assessment.

Profits tax is charged on profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong. Starting from the year of assessment 2018/19, the first \$2 million of profits of unincorporated businesses are taxed at 7.5 per cent and those above at 15 per cent whereas profits of corporations are correspondingly taxed at 8.25 per cent and 16.5 per cent. Assessable profits are determined from the profits made in the relevant accounting year for each year of assessment. There is no withholding tax on dividends paid by corporations, and dividends received from corporations are exempt from tax.

From 2025 onwards, the global minimum tax and Hong Kong minimum top-up tax apply to multinational enterprise groups with annual consolidated revenue of EUR 750 million or above in at least two of the four fiscal years immediately preceding the current fiscal year in accordance with the Base

Erosion and Profit Shifting (BEPS) 2.0 package promulgated by the Organisation for Economic Co-operation and Development for tackling tax evasion risks arising from the digitalisation of the economy. This is to ensure that those groups pay a minimum tax of 15% in respect of every jurisdiction in which they operate.

Salaries tax is charged on emoluments arising in or derived from Hong Kong. Tax payable is calculated on a sliding scale which varies from 2 to 17 per cent on every \$50,000 of tax band (starting from the year of assessment 2018/19) for income after deductions and allowances. The total tax is restricted to a maximum amount calculated at the standard rate of the income before allowances (net income). Up to the year of assessment 2023/24, the standard rate is 15 per cent. Starting from the year of assessment 2024/25, the first \$5 million of net income continues to be charged at 15 per cent while the portion of net income exceeding \$5 million is charged at 16 per cent in calculating the amount of tax at standard rates.

Property tax is charged on the owner of land or buildings in Hong Kong at the standard rate of 15 per cent on the rent received after deduction of an allowance of 20 per cent for repairs and maintenance. A property owned by a corporation carrying on business in Hong Kong is exempt from property tax but the profits derived from the property are chargeable to profits tax.

Other revenue arises from taxes on the first registration of motor vehicles, the Air Passenger Departure Tax, fines, forfeitures and penalties, royalties and concessions, yields from properties and investments, land transactions, government utilities, and from fees and charges for the provision of a wide range of goods and services.

Audit of Public Accounts: The audit of all of the Government's accounts is carried out by the Director of Audit and his staff. He also audits the accounts of the Hong Kong Housing Authority, the Exchange Fund, five Trading Funds and more than 60 other funds. The work of the Audit Commission includes value for money audits, which are examinations of the economy, efficiency and effectiveness of government departments and certain subvented organisations. The Director's duties and powers are set out in the Audit Ordinance which provides that the Director shall not be subject to the direction or control of any other person or authority in the performance of his duties and the exercise of his powers under the Ordinance.

The Director submits in October each year a report on his audit of the financial statements of the Government for the previous financial year. He also submits two reports on the results of value for money audits in April and October each year, which will be considered by the Public Accounts Committee of the Legislative Council after submission to the President of the Legislative Council.