

ITEM FOR FINANCE COMMITTEE

HEAD 76 - INLAND REVENUE DEPARTMENT Subhead 189 Interest on tax reserve certificates

Members are invited to approve supplementary provision of \$36 million for payment of interest on Tax Reserve Certificates.

PROBLEM

The approved provision of \$99.7 million for the payment of interest on Tax Reserve Certificates (TRCs) is insufficient to meet the increased expenditure in 2001-02.

PROPOSAL

2. The Commissioner of Inland Revenue (CIR) proposes a supplementary provision of \$36 million to meet the increased expenditure on payment of interest on TRCs.

JUSTIFICATION

3. On the basis of the actual expenditure for the period from 1 April 2001 to 7 December 2001, CIR estimates that expenditure in the current financial year on payment of interest on TRCs will exceed the approved provision by \$36 million, calculated as follows -

/(a)

		\$ million
	(a) Expenditure from 1 April 2001 to 7 December 2001	80.5
	(b) Estimated expenditure from 8 December 2001 to 31 March 2002	55.2
	(c) Estimated total expenditure for 2001-02 [(a) + (b)]	135.7
<i>Less</i>	(d) Approved provision	99.7
	(e) Shortfall [(c) – (d)]	36.0

4. Supplementary provision of \$36 million is therefore required to enable Government to settle the interest payment in full. The higher than anticipated requirement is due to a number of exceptionally large redemption cases which result in an increase in the aggregate value of, and the amount of interest payable on, TRCs redeemed by taxpayers in 2001-02.

FINANCIAL IMPLICATIONS

5. If Members approve the proposal, we shall offset the supplementary provision of \$36 million by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 251 Additional Commitments.

BACKGROUND INFORMATION

6. The Tax Reserve Certificates Ordinance (Cap. 289) provides for the payment of interest on TRCs by the CIR. A taxpayer may buy TRCs in the following circumstances -

- (a) to meet future payment of tax; and
- (b) as security for the payment of tax held over in dispute, where a taxpayer has objected to an assessment and has been required to buy certificates by the CIR under section 71(2) of the Inland Revenue Ordinance (Cap. 112).

7. In respect of paragraph 6(a) above, interest is payable when the taxpayer redeems the TRCs to pay tax, subject to a maximum interest earning period of 36 months. For paragraph 6(b) above, according to section 71(7) of the Inland Revenue Ordinance, where the final decision in respect of the objection or appeal case is made, or partially made, in favour of the taxpayer, interest will be payable on the TRCs refunded to the taxpayer without any limit on the interest earning period. On the other hand, where the decision is against the taxpayer or where the taxpayer withdraws the objection or appeal, no interest will be payable.

8. We circulated an information paper on this proposal to the Legislative Council Panel on Financial Affairs on 13 December 2001.

Finance Bureau
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