

## **LegCo Panel on Financial Affairs**

### **Supplementary Provision for Payment of Interest on Tax Reserve Certificates**

#### **PURPOSE**

The approved provision for Head 76 Subhead 189 for the payment of interest on Tax Reserve Certificates (TRCs) is insufficient to meet the increased expenditure in 2001-02. We will submit an application to the Finance Committee for discussion on 21 December 2001 seeking its approval of supplementary provision of \$36 million for the Subhead. This paper is to inform Members of our proposal to the Finance Committee.

#### **BACKGROUND**

2. The Tax Reserve Certificates Ordinance (Cap. 289) provides for the payment of interest on TRCs by the Commissioner of Inland Revenue (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).

3. In respect of paragraph 2(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 2(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.

4. The provision under Subhead 189 Interest on Tax Reserve Certificates is non-cash limited in the sense that it may have to be increased in the course of the year to meet statutory obligations in respect of interest payment on the TRCs.

## PROPOSAL

5. We have recently reviewed the expenditure on payment of interest on TRCs. 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 -

	<b>\$ million</b>
(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

6. We therefore propose a supplementary provision of \$36 million 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. The supplementary provision will be offset by the deletion of an equivalent amount under Head 106 Miscellaneous Services Subhead 251 Additional Commitments in the 2001-02 Estimates.

## ADVICE SOUGHT

7. Members are requested to note the above proposal.