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6 July 2005

Dr Hon YEUNG Sum
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Legislative Council Building
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Hong Kong

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Dear Dr Yeung,

Panel on Education
Second Matching Grant Scheme for
University Grants Committee-funded Institutions

The Financial Secretary has asked me to thank you for your letter of 21 June and to reply on his behalf.

Providing matching grants for donations is an effective way of helping higher education institutions diversify their funding sources. Since the successful debut of the First Matching Grant Scheme, we have seen increasing public awareness of the value of community investment in education. We have also witnessed the emergence of a more mature philanthropic culture, whereby private sector resources are raised strategically to support the institutions' long-term development in their specific roles and niche areas. This is a direction we feel we should continue to encourage. We are therefore most pleased to know that Members welcome our proposal to introduce a Second Matching Grant Scheme, thus allowing us to put our savings to good use.

Operating Matching Grant Schemes on a recurrent basis, however, requires additional funding. The First and Second Matching Grant Schemes were provided on top of the recurrent grant to the institutions. The latter seeks to meet the recurrent funding needs of the institutions based on approved student number targets. Turning the Matching Grant Scheme recurrent will be tantamount to an increase in the recurrent grant of the UGC-funded institutions. From the financial management point of view, the Government believes that this matter should best be considered in a comprehensive manner vis-à-vis the overall resource allocation to the education policy area, and more specifically to the UGC sector, possibly in the context of triennium funding. In due course, the results of the First and Second Matching Grant Schemes will also provide a basis for considering whether there are justifications for operating further Matching Grant Schemes.

Taking into account Members' suggestion, we have also explored the possibility of extending the duration of the Second Matching Grant Scheme, and carrying forward unspent funds, if any, beyond the 2005-06 financial year to match donations that may come on stream in due course. Doing so, however, would again require earmarking in advance additional funds in future years. As such will have to be considered in the context of the 2006-07 Budget, the preparation of which has yet to start, the Government would not be able to commit at this early stage.

Given that grants above the "floor" are disbursed on a first-come-first-served basis, we are confident that the institutions would all try their best to solicit donations as soon as practicable. We therefore remain hopeful that our \$1 billion will be fully utilized by the end of the Scheme in February 2006.

As a related issue, the Panel has also suggested raising the ceiling for tax-exempted donations to encourage private donations. FS has increased the deduction ceiling for charitable donations under profits tax and salaries tax substantially (by 150%) from 10% to 25% of assessable income or profits in the 2003-04 Budget. The Secretary for Financial Services and the Treasury has advised me that after the increase, the percentages of taxpayers claiming the maximum rate of deductions dropped from 5% for salaries tax payers and 12.6% for profits tax payers for the year of assessment 2002-03 to only 0.2%

and 5.8% respectively for the year of assessment 2003-04. The Government therefore considers that any further increase in the deduction ceiling may not have a significant impact on private donation, but we will of course monitor the situation closely.

The Secretary for Financial Services and the Treasury has also kindly drawn my attention to other provisions in the Inland Revenue Ordinance (Cap. 112) that permit, in specified circumstances, full deductions for payments made to educational institutions. For example, payments made to an approved research institution for research and development related to the trade, profession or business of a taxpayer would qualify for deduction in full. Expenses incurred by a business in the production of chargeable profits including, for example, sponsorship to a university for advertising and promotional purposes of the business, are also eligible for full deduction.

Let me once again thank Members for their very constructive comments. As explained above, some of the suggestions will have implications on the management of public finance, which the Government would need to carefully consider. Meanwhile, in order not to lose the momentum in attracting private donations, we would like to take forward the Second Matching Grant Scheme in the first instance. We will be submitting the proposal to the Finance Committee on 8 July, and would look to the Panel to lend its full support.

Yours sincerely,

(Arthur K C Li)
Secretary for Education and Manpower

cc SFST
AA/FS