

LEGISLATIVE COUNCIL BRIEF

REVENUE BILL 2007 REVENUE (No. 2) BILL 2007

PURPOSE

At the meeting of the Executive Council on 17 April 2007, the Council ADVISED and the Chief Executive ORDERED that the Revenue Bill 2007 and the Revenue (No. 2) Bill 2007, at **Annexes A and B** respectively, be introduced into the Legislative Council to implement revenue proposals in the 2007-08 Budget.

A & B

JUSTIFICATIONS

2. In the 2007-08 Budget, the Financial Secretary proposed a number of concessionary revenue measures, including:

(a) Reduce Duty on Alcoholic Beverages

To promote the development of our catering industry, tourism and wholesale and retail alcoholic beverage trade, thereby benefiting the community at large, we propose to reduce the duty on wine from the existing ad valorem rate of 80% to 40% and that on alcoholic beverages with an alcoholic strength not more than 30% (other than wine) from 40% to 20%.

(b) Reduce Stamp Duty on Property Transactions

To help more lower-to-middle-income families to own their

residences, we propose to reduce the stamp duty rate on transactions of properties valued between \$1m and \$2m from 0.75% to a fixed amount of \$100.

(c) Widen Marginal Bands and Reduce Marginal Rates of Salaries Tax

To address the strong calls from the community for a more generous relief for taxpayers, we propose to revert the marginal tax bands and tax rates to their 2002-03 levels. In other words, each marginal tax band will be widened from \$30,000 to \$35,000 and the highest two marginal tax rates will be reduced from 13% and 19% to 12% and 17%, respectively. The basic allowance and standard rate remain unchanged.

(d) Increase Child Allowance for Salaries Tax

To alleviate taxpayers' burden in supporting children's maintenance, we propose to increase the child allowance from \$40,000 to \$50,000 for each child and introduce an additional child allowance of \$50,000 in the year of assessment in which the child was born.

(e) Increase Maximum Amount of Salaries Tax Deduction for Self- Education Expenses

To encourage lifelong learning and facilitate the development of a knowledge-based economy, we propose to increase the maximum amount of deduction for self-education expenses from \$40,000 to \$60,000.

(f) One-off Tax Reduction for 2006-07

With an improving economy and a higher than expected budget surplus, we propose to reduce the salaries tax and tax under personal assessment for 2006-07 by 50%, subject to a ceiling of \$15,000. The reduction will be reflected in the taxpayer's final tax payable for 2006-07.

3. To give effect to the above concessionary measures, we propose to introduce two separate bills into the Legislative Council, namely the Revenue Bill 2007 for the two proposals set out at paragraph 2(a) and (b) above and the Revenue (No. 2) Bill 2007 for the four proposals set out at paragraph 2(c) to (f) above.

Revenue Bill 2007

4. The Revenue Bill 2007 comprises legislative amendments to the Stamp Duty Ordinance (Cap. 117) and Dutiable Commodities Ordinance (Cap. 109). The Chief Executive made the Public Revenue Protection (Revenue) Order 2007 on 28 February 2007 to enable this Bill to take effect from 11:00 a.m. on that day. The Order only gives a four-month temporary legal effect to the Bill. We therefore need to formally introduce the Revenue Bill 2007 into the Legislative Council.

Revenue (No. 2) Bill 2007

5. The Revenue (No. 2) Bill 2007 seeks to amend the Inland Revenue Ordinance (Cap. 112) to implement the proposed measures in respect of salaries tax and tax under personal assessment. The Bill, when enacted, will come into effect on the day of its publication in the Gazette. Except the one-off tax reduction measure applying to the year of assessment 2006-07, other measures affecting salaries tax and tax under personal assessment will take effect from the year of assessment 2007-08.

OTHER OPTIONS

6. We must amend the existing legislation in order to bring the relevant revenue proposals into effect. There is no other option.

THE BILLS

Revenue Bill 2007

7. The Revenue Bill 2007 amends the Dutiable Commodities

Ordinance (Cap. 109) and the Stamp Duty Ordinance (Cap. 117) as follows –

- (a) **Clause 1** provides that the Bill, when enacted, shall be deemed to have come into operation at 11:00 a.m. on 28 February 2007.
- (b) **Clause 2** amends Schedule 1 to the Dutiable Commodities Ordinance to reduce the duty on wine from the existing ad valorem rate of 80% to 40% and that on alcoholic beverages with an alcoholic strength not more than 30% (other than wine) from 40% to 20%.
- (c) **Clause 3** amends the Stamp Duty Ordinance to extend the fixed stamp duty of \$100 to properties valued between \$1 million and \$2 million in respect of conveyances on sale and agreements for sale of immovable property.

Revenue Bill (No. 2) 2007

8. The Revenue (No. 2) Bill 2007 is to amend the Inland Revenue Ordinance (Cap. 112) to give effect to the proposals relating to salaries tax and personal assessment in the 2007-08 Budget. The major provisions are as follows –

- (a) **Clause 2** provides that the provisions reducing salaries tax and tax under personal assessment apply in relation to the year of assessment 2006-07, and that the other provisions apply in relation to subsequent years of assessment.
- (b) **Clauses 3 and 5** reduce the salaries tax and tax under personal assessment payable for the year of assessment 2006-07.
- (c) **Clauses 4 and 8** increase the amount of child allowance and also provide for an increase in the amount of the allowance in the year of assessment in which a child is born.
- (d) **Clause 6** widens marginal tax bands and reduces certain

marginal tax rates for salaries tax and tax under personal assessment.

- (e) **Clause 7** increases the maximum amount of deduction for self-education expenses.
- (f) **Clause 9** is a transitional provision.

LEGISLATIVE TIMETABLE

9. The legislative timetable will be -

Publication in the Gazette	20 April 2007
First Reading and commencement of Second Reading debate	2 May 2007
Resumption of Second Reading debate, committee stage and Third Reading	To be notified

IMPLICATIONS OF THE PROPOSAL

C 10. The proposal has financial and economical implications as set out in **Annex C**. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. The proposal will not affect the binding effect of the existing provisions of the Ordinances and their subsidiary legislation. It has no productivity, environmental, civil service or sustainability implications.

PUBLIC CONSULTATION

11. The Financial Secretary conducted consultations with Legislative Council Members, various business and professional bodies, as well as the general public during the formulation of the 2007-08 Budget. Their views have been taken into account in formulating these proposals.

PUBLICITY

12. A press release will be issued. A spokesman will be available to answer media and public enquiries.

ENQUIRY

13. In case of enquiries about this brief, please contact Mr Kenneth Cheng, Principal Assistant Secretary for Financial Services and the Treasury (Treasury), at 2810 2370.

Financial Services and the Treasury Bureau
April 2007

A BILL

To

Amend certain Ordinances to give effect to two proposals in the Budget introduced by the Government for the 2007-2008 financial year.

Enacted by the Legislative Council.

1. Short title and commencement

(1) This Ordinance may be cited as the Revenue Ordinance 2007.

(2) This Ordinance shall be deemed to have come into operation at 11 a.m. on 28 February 2007.

Dutiable Commodities Ordinance

2. Schedule 1 amended

Schedule 1 to the Dutiable Commodities Ordinance (Cap. 109) is amended in paragraph 1 of Part I, under the column headed "Rate" -

(a) by repealing "40%" and substituting "20%";

(b) by repealing "80%" and substituting "40%".

Stamp Duty Ordinance

3. First Schedule amended

The First Schedule to the Stamp Duty Ordinance (Cap. 117) is amended -

(a) in head 1(1) -

(i) by repealing paragraphs (a) to (e) and substituting -

"(a) where the amount or value of the consideration does not exceed \$2,000,000 and the instrument is certified in accordance with section 29 at \$2,000,000

(A)(a) \$100

(b) where the amount or value of the consideration exceeds \$2,000,000 but does not exceed \$2,351,760 and the instrument is certified in

(b) \$100 plus 10% of the amount by which the amount or value of the consideration exceeds \$2,000,000

accordance
with section
29 at
\$2,351,760

(c) where the
amount or
value of the
consideration
exceeds
\$2,351,760
but does not
exceed
\$3,000,000
and the
instrument is
certified in
accordance
with section
29 at
\$3,000,000

(c) 1.5% of the
amount or value
of the
consideration";

(ii) in paragraph (f), by repealing "(f)"
where it twice appears and substituting
"(d)";

(iii) in paragraph (g), by repealing "(g)"
where it twice appears and substituting
"(e)";

(iv) in paragraph (h), by repealing "(h)"
where it twice appears and substituting
"(f)";

- (v) in paragraph (i), by repealing "(i)" where it twice appears and substituting "(g)";
- (vi) in paragraph (j), by repealing "(j)" where it twice appears and substituting "(h)";
- (vii) in paragraph (k), by repealing "(k)" where it twice appears and substituting "(i)";
- (viii) in Note 1 -
 - (A) by repealing "(j)" and substituting "(h)";
 - (B) by repealing "(k)" and substituting "(i)";
- (b) in head 1(1A) -
 - (i) by repealing paragraphs (a) to (e) and substituting -

"(a) where the amount or value of the consideration does not exceed \$2,000,000 and the instrument is certified in accordance with section 29G at	(A)(a) \$100
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\$2,000,000

(b) where the amount or value of the consideration exceeds \$2,000,000 but does not exceed \$2,351,760 and the instrument is certified in accordance with section 29G at \$2,351,760

(c) where the amount or value of the consideration exceeds \$2,351,760 but does not exceed \$3,000,000 and the instrument is

(b) \$100 plus 10% of the amount by which the amount or value of the consideration exceeds \$2,000,000

(c) 1.5% of the amount or value of the consideration";

certified in
accordance
with section
29G at
\$3,000,000

- (ii) in paragraph (f), by repealing "(f)" where it twice appears and substituting "(d)";
- (iii) in paragraph (g), by repealing "(g)" where it twice appears and substituting "(e)";
- (iv) in paragraph (h), by repealing "(h)" where it twice appears and substituting "(f)";
- (v) in paragraph (i), by repealing "(i)" where it twice appears and substituting "(g)";
- (vi) in paragraph (j), by repealing "(j)" where it twice appears and substituting "(h)";
- (vii) in paragraph (k), by repealing "(k)" where it twice appears and substituting "(i)".

Explanatory Memorandum

The purpose of this Bill is to amend certain Ordinances to give effect to two proposals in the 2007-2008 budget.

2. Clause 2 amends the Dutiable Commodities Ordinance (Cap. 109) to decrease the duty payable on wine and liquor with an alcoholic strength of not more than 30% by volume.

3. Clause 3 amends the Stamp Duty Ordinance (Cap. 117) to decrease the stamp duty payable in respect of conveyances on sale and agreements for sale of immovable property.

A BILL

To

Amend the Inland Revenue Ordinance and make provisions to give effect to some of the proposals in the Budget introduced by the Government for the 2007-2008 financial year.

Enacted by the Legislative Council.

1. Short title

This Ordinance may be cited as the Revenue (No. 2) Ordinance 2007.

2. Application

(1) Subject to subsection (2), this Ordinance applies in relation to the year of assessment commencing on 1 April 2007 and to all subsequent years of assessment.

(2) Sections 3 and 5 apply in relation to the year of assessment commencing on 1 April 2006.

Inland Revenue Ordinance

3. Calculation of salaries tax

Section 13 of the Inland Revenue Ordinance (Cap. 112) is amended by adding -

"(3) Notwithstanding subsections (1) and (2), the amount of salaries tax charged under this section for the year of assessment commencing on 1 April 2006 shall be reduced by an amount equivalent to -

(a) 50% of the amount of the tax as computed under

subsection (1) read together with subsection
(2); or
(b) \$15,000,
whichever is the less."

4. Child allowance

Section 31 is amended by adding -

"(1A) A child allowance granted in respect of a child under subsection (1) shall be increased in the year of assessment in which the child is born by the prescribed amount."

5. Rates of charge

(1) Section 43 is amended by adding -

"(1B) Notwithstanding subsections (1) and (1A), for the year of assessment commencing on 1 April 2006, the amount of tax charged under subsection (1) read together with subsection (1A) shall be reduced by an amount equivalent to -

(a) 50% of the amount of the tax as computed under subsection (1) read together with subsection (1A); or

(b) \$15,000,

whichever is the less."

(2) Section 43(2B) is amended by adding "(as reduced, for the year of assessment commencing on 1 April 2006, under subsection (1B))" after "year of assessment".

6. Rates

(1) Schedule 2 is amended in the subheading "For the year of

assessment 2006/07 and for each year after that year" by repealing "and for each year after that year".

(2) Schedule 2 is amended by adding at the end -

"For the year of assessment 2007/08
and for each year after that year

SECOND COLUMN	THIRD COLUMN
(a) Upon the first \$35,000	2%
(b) Upon the next \$35,000	7%
(c) Upon the next \$35,000	12%
(d) Upon the remainder	17%".

7. Deduction for expenses of self-education

Schedule 3A is amended by repealing item 4 and substituting -

"4. For the years of assessment \$40,000
2001/02 to 2006/07 inclusive

5. For the year of assessment \$60,000".
2007/08 and for each year
after that year

8. Allowances

(1) Schedule 4 is amended by repealing "For the year of assessment 2005/06 and for each year after that year" and substituting "For the years of assessment 2005/06 and 2006/07".

(2) Schedule 4 is amended by adding at the end -

"For the year of assessment 2007/08 and
for each year after that year

FIRST COLUMN	SECOND COLUMN
(section)	(the prescribed amount)

1.	Section 28 (basic allowance)	\$100,000
2.	Section 29 (married person's allowance)	\$200,000
3.	Section 30 (dependent parent allowance) -	
	(a) subsection (3)(a)	\$ 30,000
	(b) subsection (3)(b)	\$ 30,000
	(c) subsection (3A)(a)	\$ 15,000
	(d) subsection (3A)(b)	\$ 15,000
	(e) subsection (4)(a)	\$ 12,000
4.	Section 30A (dependent grandparent allowance) -	
	(a) subsection (3)(a)	\$ 30,000
	(b) subsection (3)(b)	\$ 30,000
	(c) subsection (3A)(a)	\$ 15,000
	(d) subsection (3A)(b)	\$ 15,000
	(e) subsection (4)(a)	\$ 12,000
5.	Section 30B(1) (dependent brother or dependent sister allowance)	\$ 30,000
6.	Section 31 (child allowance) -	
	(a) subsection (1)	\$50,000 for each child
	(b) subsection (1A)	\$50,000 for each child
	(c) subsection (5) (in relation	

- | | |
|---------------------------------|-------------|
| to subsection (1)) | \$450,000 |
| (d) subsection (5) (in relation | |
| to subsection (1A)) | \$450,000 |
| | |
| 7. Section 31A(1) (disabled | |
| dependant allowance) | \$ 60,000 |
| | |
| 8. Section 32(1) (single parent | |
| allowance) | \$100,000". |

9. Transitional

(1) For the purposes of section 63C(1) of the Inland Revenue Ordinance (Cap. 112), in calculating the net chargeable income of a person for the preceding year of assessment to ascertain the provisional salaries tax in respect of the year of assessment commencing on 1 April 2007 -

- (a) the reference to "such allowances as are under Part V permitted for that person" in section 12B(1)(b) of that Ordinance; and
- (b) the reference to "such allowances as are under Part V permitted in their case" in section 12B(2)(b) of that Ordinance,

shall be construed to mean such allowances that may be granted to that person for the year of assessment commencing on 1 April 2007 under Part V of that Ordinance as amended by this Ordinance.

(2) For the purposes of an application under section 63E(1) of the Inland Revenue Ordinance (Cap. 112) to hold over the payment of provisional salaries tax in respect of the year of assessment commencing on 1 April 2007, the reference to "net chargeable income for the year preceding the year of assessment"

in section 63E(2)(a) or (b) of that Ordinance shall be construed to mean the net chargeable income for the preceding year of assessment as calculated in accordance with subsection (1).

Explanatory Memorandum

The purpose of this Bill is to amend the Inland Revenue Ordinance (Cap. 112) to give effect to some of the proposals in the 2007-2008 Budget.

2. Clause 2 provides that the provisions reducing salaries tax and tax under personal assessment apply in relation to the year of assessment 2006-2007, and that the other provisions apply in relation to subsequent years of assessment.

3. Clauses 3 and 5 reduce the salaries tax and tax under personal assessment payable for the year of assessment 2006-2007.

4. Clauses 4 and 8 increase the amount of child allowance and also provide for an increase in the amount of the allowance in the year of assessment in which a child is born.

5. Clause 6 widens marginal tax bands and reduces certain marginal tax rates for salaries tax and tax under personal assessment.

6. Clause 7 increases the amount of deduction for self-education expenses.

7. Clause 9 is a transitional provision.

Financial Implications

Reducing the duty on alcoholic beverages will cost the Government about \$350 million a year. Reducing the stamp duty on property transaction will cost the Government about \$250 million a year. Reducing 50% of salaries tax and tax under personal assessment assessed for 2006-07 final tax will cost the Government about \$8.1 billion in 2007-08. Other measures in respect of salaries tax and personal assessment will cost the Government about \$4.9 billion in a full year.

Economic Implications

The proposed reduction of duty on alcoholic beverages will promote the development of the catering industry, tourism and wholesale and retail alcoholic beverage trade, thereby benefiting the community at large. The proposed reduction of stamp duty on transactions of properties valued between \$1 million and \$2 million will enable home buyers, particularly the lower-to-middle-income families, to acquire their residences at lower cost. It may also help increase trading activity in that segment of the property market. The various reductions for salaries tax and personal assessment will help to relieve the tax burden of individual taxpayers. Also, the savings from tax payments can be expected to provide some mild stimulus to private consumption spending, with the impact spreading over the coming two years or so.