

**立法會**  
**Legislative Council**

LC Paper No. CB(1)1735/07-08  
(These minutes have been seen  
seen by the Administration)

Ref : CB1/BC/8/07/02

**Bills Committee on Revenue Bill 2008**

**Minutes of the second meeting  
held on Tuesday, 20 May 2008, at 10:45 am  
in the Chamber of the Legislative Council Building**

**Members present** : Hon Andrew LEUNG Kwan-yuen, SBS, JP (Chairman)  
Hon Albert HO Chun-yan  
Hon LEE Cheuk-yan  
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP  
Hon CHAN Kam-lam, SBS, JP  
Hon SIN Chung-kai, SBS, JP  
Hon Emily LAU Wai-hing, JP  
Hon Tommy CHEUNG Yu-yan, SBS, JP  
Hon Frederick FUNG Kin-kee, SBS, JP  
Hon WONG Ting-kwong, BBS

**Members absent** : Hon CHAN Yuen-han, SBS, JP  
Hon Howard YOUNG, SBS, JP  
Hon LEUNG Kwok-hung  
Hon TAM Heung-man

**Public officers attending** : Financial Services and the Treasury Bureau  
  
Mr Clement LEUNG  
Deputy Secretary for Financial Services and the  
Treasury (Treasury)  
  
Mr Kenneth CHENG  
Principal Assistant Secretary for Financial Services and  
the Treasury (Treasury)

Inland Revenue Department

Mr CHU Yam-yuen  
Deputy Commissioner (Technical)

Mr CHIU Kwok-kit  
Assistant Commissioner (Unit One)

Mr YIM Kwok-cheong  
Senior Assessor (Research) 1

Mr TAM Tai-pang  
Senior Assessor (Special Duty)

Environmental Protection Department

Mr TANG Kin-fai  
Assistant Director  
(Environmental Compliance)

Electrical and Mechanical Services Department

Mr MAK Ka-chun  
Acting Chief Engineer

Department of Justice

Mr Michael LAM  
Senior Assistant Law Draftsman

**Clerk in attendance :** Miss Polly YEUNG  
Chief Council Secretary (1)5

**Staff in attendance :** Ms Connie FUNG  
Assistant Legal Adviser 3

Ms Rosalind MA  
Senior Council Secretary (1)8

Mr Justin TAM  
Council Secretary (1)3

**I Meeting with the Administration**

- (LC Paper No. CB(1)1578/07-08(01) —Letter dated 2 May 2008 from Assistant Legal Adviser (ALA) to the Administration
- LC Paper No. CB(1)1578/07-08(02) —Administration's response to ALA's letter dated 2 May 2008
- LC Paper No. CB(3)563/07-08 —The Bill
- LC Paper No. CB(1)1578/07-08(03) —Marked-up copy of the Bill prepared by the Legal Service Division
- FIN CR 2/7/2201/07 —The Legislative Council Brief issued by the Financial Services and the Treasury Bureau
- LC Paper No. LS82/07-08 —The Legal Service Division Report on the Bill)

The Bills Committee deliberated (Index of proceedings attached at **Appendix**).

Follow-up actions to be taken by the Administration

2. In relation to some members' query about the propriety or otherwise of the proposals to lower the standard rate of salaries tax and tax under personal assessment from 16% to 15%, and the corporate profits tax rate from 17.5% to 16.5%, the Administration was requested to take the following actions:

- (a) To provide the financial implications in terms of the revenue foregone resulting from the two proposals over a longer period of say, the next 10 years.
- (b) To provide information on the views collected on the two proposals during the Budget consultation exercise, with a breakdown and/or detailed information on the number and types of organizations/individuals/sectors in favour of or against the reduction in standard rate for salaries tax and the corporate profits tax rate, and their reasons.
- (c) To provide a comparison table showing the corporate profits tax rate and/or other tax incentives in Hong Kong and neighbouring

jurisdictions (including but not limited to Singapore, Taiwan and South Korea), and to explain how and to what extent the proposal to lower the corporate profits tax rate by one percentage point would have the effect of enhancing the competitiveness of Hong Kong and attracting more foreign investments.

- (d) To provide information on the number of unincorporated businesses, notably small and medium sized businesses under sole proprietorship, which would benefit from the proposed lowering of the standard rate.
- (e) To shed light on the need or otherwise to lower the corporate profits tax rate for attracting investments in Hong Kong, members requested the Administration to provide information on:
  - (i) the number of taxpaying corporations in the past five years, with a breakdown by the annual profits made and the number of staff employed;
  - (ii) the number of overseas corporations which had set up offices in Hong Kong in the past five years or so; and
  - (iii) the estimated number of overseas corporations which would be attracted to Hong Kong after implementation of the proposal.

3. In relation to some members' concern about the proposal to raise the deduction ceiling for approved charitable donations under profits tax, salaries tax and tax under personal assessment from 25 % to 35% of assessable profits/income, the Administration was requested to:

- (a) Provide information on the amount of tax deductible donations under profits tax and salaries tax (including tax under personal assessment) in the past few years, an assessment on how and to what extent the proposal would encourage charitable donations by corporations/individuals, as well as and the estimated amount of additional donations that would be made after implementation of the proposal.
- (b) Provide in writing the Administration's view on strengthening the regulatory oversight of charitable organizations in their use of donations.

4. To facilitate members' consideration of the effect of the proposed 100% profits tax deduction for capital expenditure on environmental-friendly machinery and equipment in the first year of purchase, the Administration was requested to

provide information on the number of business corporations claiming the existing 60% profits tax deduction and the estimated increase in the number of deduction claims after implementation of the proposal.

5. The Administration was requested to note for consideration a member's suggestion of introducing progressive tax rates for corporate profits tax so that business corporations making more profits would be subject to higher tax rates.

*(Post-meeting note: The Administration's response to paragraphs 2 to 5 were issued to members vide LC Paper No. CB(1)1627/07-08(02) on 27 May 2008.)*

## **II Any other business**

### Meeting arrangements

6. Members noted that the next meeting was scheduled for Thursday, 29 May 2008 at 2:30 pm for the Bills Committee to receive views from deputations, if any, and to follow up issues raised at this meeting. Members agreed that the Bills Committee would continue clause-by-clause examination of the Bill at the next meeting, if time allowed.

7. There being no other business, the meeting ended at 12:40 pm.

Council Business Division 1  
Legislative Council Secretariat  
3 June 2008

**Proceedings of the  
Bills Committee on Revenue Bill 2008  
Second meeting on Tuesday, 20 May 2008, at 10:45 am  
in the Chamber of the Legislative Council Building**

Time Marker	Speaker	Subject(s)	Action Required
000000 – 000433	Chairman Administration	<p>(a) The Chairman's welcoming and introductory remarks</p> <p>(b) Briefing by the Administration on the Bill (the Legislative Council (LegCo) Brief issued by the Financial Services and the Treasury Bureau FIN CR 2/7/2201/07).</p> <p>(c) The Administration's advice that the hotel accommodation tax was collected on a quarterly basis. For the proposed waiver of the hotel accommodation tax to take effect from the next quarter, i.e. on 1 July 2008, the Bill would have to be enacted before that date.</p>	
000434 – 001656	Mr LEE Cheuk-yan Administration Ms Emily LAU	<p>(a) Mr LEE Cheuk-yan stated that Hong Kong Confederation of Trade Unions objected to the proposals to lower the standard rate of salaries tax and tax under personal assessment and the corporate profits tax rate. Mr LEE's concern that these long-term, rather than one-off, proposals would have significant financial implications in terms of revenue foregone over a longer period of time.</p> <p>(b) Ms Emily LAU shared similar view and said that the Frontier opposed the proposals.</p> <p>(c) The Administration's reference to the 2008-2009 Budget consultation exercise during which the Financial Secretary (FS) had received views from a wide spectrum of the community. The proposals to lower the standard rate and the corporate profits tax rate were intended to leave wealth with the people after provisions were made to invest in Hong Kong's future and to support disadvantaged groups. Lower tax rates would also</p>	The Administration to take action as required in paragraph 2(a) of the minutes.

		<p>enhance the competitiveness of Hong Kong in the face of competition from neighbouring jurisdictions. The prevailing tax rates were subject to examination when FS prepared each year's Budget and might be revised in the light of the latest economic and fiscal conditions.</p> <p>(d) Ms Emily LAU's concern that notwithstanding the strong demand for expenditure on areas such as education, health and welfare, the Administration was putting forward tax reduction proposals which would result in substantial revenue losses in the long run. She queried how and to what extent the proposed reduction in corporate profits tax rate could enhance the competitiveness of Hong Kong. She also expressed concern about the transparency of the Budget consultation exercise.</p> <p>(e) The Administration's response that proposals on other policy initiatives were set out in the 2008-2009 Budget while the scope of this Bill covered only the revenue proposals. Many organizations/individuals/sectors gave views to FS during the Budget consultation and there was considerable public support for the proposals to lower the tax rates.</p>	
001657 – 002225	Mr LEE Cheuk-yan Administration	<p>(a) Mr LEE Cheuk-yan's view that the waiver of the hotel accommodation tax would unlikely benefit the hotel guests as hotel operators might choose to raise the room tariffs.</p> <p>(b) The Administration's advice that at present, the 3% hotel accommodation tax was levied on top of the room tariffs as a separate charge in the bill. Its view that room tariffs were subject to market forces and operators would not pocket the benefit of the waiver.</p>	
002226 – 002737	Mr Albert HO Chairman Administration	<p>(a) Mr Albert HO's query on the justification for the proposals to lower the standard rate and the corporate profits tax rate; and his</p>	

		<p>concern about the revenue foregone as a result. His view that the Administration should make reference to the corporate profits tax rates in neighbouring jurisdictions such as Singapore, Taiwan and South Korea and critically examine the need for the proposal to lower the corporate profits tax rate.</p> <p>(b) The Administration's advice that to attract investment, some neighbouring jurisdictions had substantially reduced their corporate profits tax rates and provided other tax incentives. Following enactment of the Bill, the tax rates and most of the personal allowances for salaries tax and tax under personal assessment would revert to their 2002-2003 levels. The Administration had adopted a prudent approach in proposing to lower the corporate profits tax rate by one percentage point, which would result in a rate still higher than the 2002-2003 level.</p> <p>(c) Responding to Mr Albert HO's concern about the impact of the proposed tax rates reduction on the wealth gap and the Gini Coefficient, the Administration's advice that the proposals to raise the personal allowances and widen the tax bands would benefit lower-income workers more than the high-income groups. While the effect on the Gini Coefficient was hard to quantify, the Administration referred members to the information contained in the "Supplement and Appendices" to the Budget.</p>	<p>The Administration to take action as required in paragraph 2(c) of the minutes.</p>
<p>002738 – 003330</p>	<p>Mrs Selina CHOW Administration</p>	<p>(a) Mrs Selina CHOW said that Members of the Liberal Party supported a low and simple taxation system in Hong Kong and tax reduction when revenue far exceeded the level required to meet operating requirements. Her view that tax reduction proposals would not necessarily affect expenditure on other policy areas. Reduction in profits tax rate might in the longer run boost investment in Hong Kong and increase taxable profits. Mrs CHOW</p>	



		<p>was concerned about the impact, if any, of the proposal to raise the personal allowances on the further narrowing of the tax base.</p> <p>(b) The Administration's advice that the proposal to raise the personal allowances would result in about 7% of the taxpayers falling outside the tax net in 2008-2009. The impact of the proposal would likely be short-term as the number of taxpayers would increase as a result of wage rise when the economy grew.</p>	
003331 – 003840	Ms Emily LAU Administration	Ms Emily LAU's query about the views expressed in favour of or against the reduction in standard rate of salaries tax and the corporate profits tax rate. Her view that the Administration should compare the corporate profits tax rate in Hong Kong and those in neighbouring jurisdictions, highlighting how and to what extent the proposal to lower the corporate profits tax rate would have the effect of enhancing the competitiveness of Hong Kong.	The Administration to take action as required in paragraph 2(b) of the minutes.
003841 – 010534	Mr CHAN Kam-lam Mr Albert HO Mr Frederick FUNG Administration Ms Emily LAU	<p>(a) Mr CHAN Kam-lam's view that Members of the Democratic Alliance for the Betterment and Progress of Hong Kong supported the tax proposals in the 2008-2009 Budget. At times of a substantial surplus, it was reasonable for the Government to return wealth to the people and there should not be any conflict between tax reduction proposals and initiatives to help the needy.</p> <p>(b) Concern shared by Mr Frederick FUNG, Mr Albert HO and Ms Emily LAU about the need to lower the corporate profits tax rate. Mr FUNG's view that the corporate profits tax rate in Hong Kong was already low enough to compete with neighbouring jurisdictions. Mr HO's suggestion that the Administration should consider introducing progressive tax rates for corporate profits tax.</p> <p>(c) According to the Administration, findings of a survey on overseas/Mainland corporations revealed that the low and</p>	The Administration to take action



		<p>(i) the reasons and effect of raising the deduction ceiling for approved charitable donations under profits tax, salaries tax and tax under personal assessment from 25% to 35%; and</p> <p>(ii) details and effect of the proposal to provide more concessionary profits tax deduction for capital expenditure on environment-friendly facilities.</p> <p>(b) On item (i) above, the Administration's advice that while only a small number of taxpaying corporations/taxpayers were claiming deduction up to the 25% ceiling, the proposal aimed to encourage charitable donations by corporations/individuals. As to the concern of Mr HO and Ms LAU about the regulatory oversight of charitable organizations, the Administration's advice that the subject was being examined by the Law Reform Commission. The Chairman's advice that, if necessary, the subject should be considered by the relevant Panel(s) in due course.</p> <p>(c) On item (ii) above, the Administration's explanation that the proposal would increase the percentage of profits tax deduction for capital expenditure on environment-friendly machinery and equipment in the first year of purchase from the existing 60% to 100%. For environment-friendly installations mainly ancillary to buildings, the Administration proposed to shorten the depreciation period from the usual 25 years to five years. The proposal aimed at encouraging corporations to purchase/install environment-friendly facilities by providing more tax concessions to offset the high capital cost for obtaining such facilities.</p>	<p>The Administration to take action as required in paragraph 3 of the minutes.</p> <p>The Administration to take action as required in paragraph 4 of the minutes.</p>
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<p>012628 – 012822</p>	<p>Chairman Administration Department of Justice</p>	<p><b>Clause-by-clause examination of the Bill</b></p> <p><i>Long title</i></p> <p><i>Part 1 – Preliminary</i></p> <p><u>Clause 1 – Short title</u></p> <p><u>Clause 2 – Commencement</u></p> <p><i>Part 2 – Amendments to Inland Revenue Ordinance</i></p> <p><u>Clause 3 – Approved charitable donations</u></p> <p>Responding to Mr Albert HO's enquiry, the Department of Justice's advice that paragraph (d) added to section 16D(2) was a new provision proposed under the Bill for implementing the Budget proposal to increase the deduction ceiling for approved charitable donations to 35%.</p>	
<p>012823 – 015427</p>	<p>Administration Ms Emily LAU ALA3 Chairman Mr Albert HO</p>	<p><u>Clause 4 – Sections added</u></p> <p><b>16H.</b> Definitions and general provisions applicable to this section and sections 16I, 16J and 16K</p> <p>(a) Members noted that the Administration was examining the drafting aspect of section 2 of Part 2 of the proposed Schedule 17 in response to ALA3's comment.</p> <p>(b) Responding to Ms Emily LAU's enquiry, the Administration's advice that the definition of "relevant proceeds of sale" in the proposed section 16H would make it clear that if a corporation sold the environmental protection facility, it could only claim deduction of capital expenditure for the sold facility in tax assessment after deducting the relevant proceeds of sale.</p> <p>(c) On the proposed section 16H(3), Ms Emily LAU's concern about the consultation and legislative procedures involved for the Secretary for Financial</p>	

		<p>Services and the Treasury to amend the proposed Schedule 17.</p> <p>(d) The Administration's advice that in addition to consulting the Director of Environmental Protection, the relevant industry/ industries would also be consulted.</p> <p>(e) ALA3's advice that the notice published in the Gazette under the proposed section 16H(3) was subsidiary legislation subject to negative vetting by LegCo.</p>	
015428 – 015513	Chairman Ms Emily LAU	Date of next meeting.	

Council Business Division 1  
Legislative Council Secretariat  
3 June 2008