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LCQ12: Tax concessions for small and medium enterprises

Following is a question by the Hon Jeffrey Lam Kin-fung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (December 17):

Question:

In the light of the recent global financial tsunami, certain chambers of commerce and professional bodies have suggested that the Government should provide tax concessions to small and medium enterprises (SMEs) so that they could have more operating capital. In this connection, will the Government inform this Council whether it will:

(a) consider allowing SMEs to hold over the payment of profits tax for the 2009-2010 tax year for one year;

(b) extend to next year the due date for SMEs to pay provisional tax for the current year of assessment, and exempt SMEs from the fine payable for overdue tax payment; and

(c) in view of the current business environment for SMEs, reconsider the arrangements of "group loss relief" and "loss carry-back" for corporate losses under the profits tax regime (such arrangements allow losses of one or more companies to offset profits of other companies of the same group and allow losses to offset profits made in previous years so that the company concerned can get a refund on tax paid)?

Reply:

President,

(a) We have not assessed the provisional tax for the year of assessment 2009-10, and the relevant tax payment will not be due until November 2009 to April 2010. The Inland Revenue Ordinance already has flexible arrangement to cater for reduction in taxpayers' income. If a taxpayer estimates that his/her assessable income or profits for a year would be less than 90% of that of the previous year, he/she may apply for a corresponding holdover of the provisional tax of that year.

Allowing taxpayers to hold over tax payment for a year irrespective of their actual income would have a serious impact on Government's tax revenue, and would significantly increase taxpayers' tax burden in the next year of assessment. We will not consider this proposal at this stage.

(b) Generally speaking, the Commissioner of Inland Revenue has no power to amend the due dates specified on the demand notes unless the Inland Revenue Department has to revise the assessment. As the demand notes for the current year has already been issued, it is not feasible to extend the due dates for paying the provisional tax for the current year.

To ensure that taxpayers pay tax on time, the Inland

Revenue Department will impose a surcharge on overdue tax payments. It would be unfair to other taxpayers if we exempt some taxpayers from the surcharge.

(c) Introducing the arrangements of "group loss relief" and "loss carry-back" may result in significant loss of tax revenue. The revenue implication would be particularly acute during economic downturns. Besides, the two arrangements could be abused easily for tax avoidance. Complicated legislative provisions would be necessary to define clearly the scope of the arrangements so as to guard against abuse. However, this would complicate our simple tax system, and substantial resources would also be required to scrutinise and investigate claims. Therefore, we consider that it is not desirable to introduce these two arrangements.

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