

**立法會**  
**Legislative Council**

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**Bills Committee on Inland Revenue (Amendment) Bill 2010**

**Meeting on 25 May 2010**

**Background brief**

**Purpose**

This paper provides background information on Inland Revenue (Amendment) Bill 2010 and summarizes previous discussions on concessionary revenue measures in the past three years.

**One-off tax reduction**

2. The Government implemented one-off tax reduction in the previous three financial years as follows: -

- (a) In 2007-2008, the salaries tax and tax under personal assessment for 2006-2007 were reduced by 50%, subject to a ceiling of \$15,000 for each case;
- (b) In 2008-2009, the salaries tax, tax under personal assessment, profits tax and property tax for 2007-2008 were reduced by 75%, subject to a ceiling of \$25,000 for each case; and
- (c) In 2009-2010, the salaries tax and tax under personal assessment for 2008-2009 were reduced by 100%, subject to a ceiling of \$8,000 for each case<sup>1</sup>.

3. To alleviate taxpayers' financial burden at an early stage of economic recovery, the Financial Secretary, in his 2010-2011 Budget, proposes a one-off reduction of salaries tax and tax under personal assessment by 75% for the year of assessment 2009-2010, subject to a ceiling of \$6,000 per case. The reduction will be

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<sup>1</sup> The original proposal was to allow a one-off tax reduction of 50%, subject to a ceiling of \$6,000. However, after taking into account the economic indicators, the Government proposed on 26 May 2010 to increase the extent of the one-off tax reduction to 100%, subject to a ceiling of \$8,000.

reflected in the taxpayer's final tax payable for 2009-2010. It is estimated that the proposal will cost the Government about \$4,510 million in 2010-2011.

### **Accelerated profits tax deduction for capital expenditure on environment-friendly vehicles**

4. Motor vehicles are the major source of roadside pollution in Hong Kong. To improve roadside air quality, it is a standing policy to adopt the most stringent requirements for the emissions of motor vehicles where practicable. The Government has introduced the following incentive scheme to promote the wider use of environmentally-more-friendly vehicles: -

- (a) In April 2007, the Government provided a \$3.2 billion one-off grant to encourage vehicle owners to replace their pre-Euro and Euro I diesel commercial vehicles with new Euro IV commercial vehicles. Up to end of November 2009, the Administration has approved 13 050 applications. As at the end of 2009, the number of on-road pre-Euro and Euro I diesel commercial vehicles has been reduced from about 59 800 to 38 100. The scheme has expired on 31 March 2010.
- (b) Since April 2007, the Government has been providing a 30% reduction in first registration tax, subject to a cap of \$50,000 per vehicle, to encourage the use of environment-friendly private cars. Up to the end of November 2009, the Administration has approved 10 387 applications. Since the introduction of the scheme, environment-friendly private cars account for about 12% of first-registered private cars.
- (c) Since April 2008, the Government has reduced first registration tax of environment-friendly commercial vehicles to encourage early take-up of these vehicles, which are currently pitched at the Euro V standards. Up to the end of November 2009, the Administration has approved 395 applications.

5. To encourage the business sector to purchase environment-friendly vehicles, the Financial Secretary, in his 2010-2011 Budget, proposes a 100% profits tax deduction for capital expenditure on the following environment-friendly vehicles in the first year of purchase: -

- (a) environment-friendly vehicles under the "Tax Incentives Scheme for Environment-friendly Petrol Private Cars" and "Tax Incentives Scheme for Environment-friendly Commercial Vehicles" administered by the Environmental Protection Department (EPD)<sup>2</sup>;

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<sup>2</sup> Only models with emission standards well above the statutory limits will be approved by EPD as eligible for the proposed tax concession. EPD will review from time to time the models approved and remove those that are no longer environment-friendly from the approved list.

- (b) hybrid electric vehicles<sup>3</sup>; and
- (c) electric vehicles<sup>3</sup>.

The Government also proposes that the proposed tax concession should also be applicable to second-hand vehicles that are eligible environmental-friendly vehicles at the time of purchase. On subsequent sale of an environment-friendly vehicle, the sale proceeds, restricted to deductions previously allowed to the business, would be brought to tax.

### **The Inland Revenue (Amendment) Bill 2010**

6. To implement the one-off tax reduction proposal, proposed section 92 and a new Schedule 20 are added to the Inland Revenue Ordinance (Cap 112) to reduce the salaries tax and tax under personal assessment payable for the year of assessment 2009-2010 by 75%, subject to a ceiling of \$6,000 per case. (*Clauses 7 and 9*)

7. To give effect to the 100% profits tax deduction for capital expenditure on environment-friendly vehicles, the following provisions are included in the Bill:-

- (a) section 16I is amended to extend the eligibility for 100% profits tax deduction to capital expenditure incurred on environment-friendly vehicles in the year of purchase. (*Clause 4*)
- (b) section 16J is amended to provide that if any environment-friendly vehicle for which deduction has been allowed under 16I is sold, destroyed or stolen, the proceeds of the sale or any insurance or compensation monies are to be treated as trading receipts, and that in case of cessation of business, an environment-friendly vehicle is deemed to have been sold immediately before the cessation. If the vehicle is sold, destroyed or stolen within 12 months of the cessation, the taxpayer may claim an adjustment to the amount of proceeds deemed to have been received from the deemed sale. (*Clause 5*)
- (c) section 16K is amended to allow capital expenditure incurred on environment-friendly vehicles before the commencement date of the Bill to be eligible for deduction from assessable profits. (*Clause 6*)
- (d) Schedule 17 is amended to specify environment-friendly vehicles. (*Clause 8*)

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<sup>3</sup> The Environment Bureau and EPD will issue a list of hybrid electric vehicles and electric vehicles currently known to be available in the local market and update the list from time to time for public reference. There will be no review mechanism for the list since all these vehicles are environment-friendly.

## **Concerns raised by Members previously on related issues**

### One-off tax reduction

8. While the Bills Committee scrutinizing the one-off tax reduction proposal in 2008-2009 had no objection to the proposal, members considered that the Government should make good use of the surplus for the well-being of the community, given the large surplus in 2007-2008.

9. On similar tax reduction proposals in the 2009-2010 Budget, Hon Ronny TONG commented at the Finance Committee on 26 February 2009 that the tax concessions in respect of Salaries Tax and Rates failed to address the needs of both the unemployed and those Salaries Tax payers suffering from the global financial crisis. Hon James TO also opined that it would be more helpful if the revenue forgone from the one-off tax reduction could be used to create more jobs.

### Tax deduction for environment-friendly vehicles

10. In examining the Estimates of Expenditure 2010-2011, Hon WONG Ting-kwong raised a written question on the tax arrangement, the implementation schedule and the impact on the government revenue in respect of the tax deduction for capital expenditure on environment-friendly vehicles. In its written reply, the Administration has advised that according to the Inland Revenue Ordinance, businesses are entitled to a total of 72% of the capital expenditure as deduction of depreciation allowance in the first year of purchase of motor vehicles. Starting from the second year onwards, the annual allowances are at the rate of 30% (applicable for the category of motor vehicle) of the reducing value for the vehicles. Under the proposed tax concession, the tax deduction in the first year of purchase of an eligible environment-friendly vehicle will be increased from 72% to 100% of the capital expenditure.

## **References**

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