

立法會
Legislative Council

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**Report of the Bills Committee on
Inland Revenue (Amendment) Bill 2010**

Purpose

This paper reports on the deliberations of the Bills Committee on Inland Revenue (Amendment) Bill 2010.

Background

2. The Inland Revenue (Amendment) Bill 2010 was gazetted on 30 April 2010 to implement the following two concessionary revenue measures announced in the 2010-2011 Budget:-

- (a) to reduce 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 to alleviate taxpayers' financial burden at an early stage of economic recovery; and
- (b) to accelerate profits tax deduction for capital expenditure on environment-friendly vehicles to encourage the business sector to purchase these vehicles.

The Inland Revenue (Amendment) Bill 2010

3. Under the Bill, 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*)

4. 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 specified environment-friendly vehicles in the year of purchase. (*Clauses 3 and 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. Section 16J is further amended that in case of cessation of business, an environment-friendly vehicle is deemed to have been sold immediately before the cessation and that 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 deducted from assessable profits. (*Clause 6*)
 - (d) Schedule 17 is amended to specify environment-friendly vehicles to be eligible for the tax deduction. (*Clause 8*)
5. The Bill, if enacted, shall come into operation on the day it is published in the Gazette as an Ordinance.

The Bills Committee

6. The House Committee agreed at its meeting on 14 May 2010 to form a Bills Committee to study the Bill. The membership list of the Bills Committee is in the **Appendix I**. Under the chairmanship of Hon CHAN Kam-lam, the Bills Committee has held one meeting to discuss with the Administration.

Deliberations of the Bills Committee

Proposed one-off tax reduction

7. The Bills Committee has no objection to the proposed 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.

Proposed tax deduction for environment-friendly vehicles

Types of environment-friendly vehicles eligible for the proposed tax deduction

8. The Bills Committee notes that as specified in the new Part 3 of Schedule 17 to the Principal Ordinance, the proposed tax deduction will apply to the following environment-friendly vehicles:

- (a) vehicles qualified for remission of first registration tax under the two tax incentives schemes respectively for the environment-friendly commercial

vehicles and petrol private cars administered by the Environmental Protection Department (EPD);

- (b) vehicles that are capable of drawing energy from both consumable fuel and battery (or other electrical energy or power storage device) for mechanical propulsion; and
- (c) vehicles that are solely propelled by electric power and do not emit any exhaust gas.

9. According to the Administration, the current qualifying standard for environment-friendly commercial vehicles is set at Euro V level¹, and that for environment-friendly petrol private cars are:

- (a) hydrocarbons and nitrogen oxide (NOx) emissions not exceeding 50% of the limits in the Euro IV emission standards or the Japan 2005 emission standards; and
- (b) fuel efficiency (measured by the mileage travelled with a litre of fuel) being at least 40% better than the average fuel efficiency in the corresponding private car class according to vehicle weight.

EPD will review the two qualifying standards (**Appendix II**) annually in the light of technological development and the prevailing statutory emission standards so as to ensure that only vehicles of truly outstanding emission performance and/or fuel efficiency performance are entitled to enjoy concessions for first registration tax. The new qualifying standards, if tightened up after the annual review, will be introduced on 1 April each year and published in EPD's website.

10. The Bills Committee notes that the reference of vehicle under proposed paragraph 1 of the new Part 3 of Schedule 17 to the Principal Ordinance, i.e. "Any vehicle qualified for **remission** of first registration tax" (*emphasis added*) does not tally with the empowering provision in section 5 of the Motor Vehicles (First Registration Tax) Ordinance (Cap. 330), i.e. "The Chief Executive may **remit in whole or in part** first registration tax ..." (*emphasis added*). For consistency, members request the Administration to consider improving the drafting of the proposed paragraph 1 by adding "in whole or in part" after "remission of first registration tax" which would also help avoiding a misunderstanding that "remission" meant total exemption of the first registration tax in respect of the qualified vehicles under the two current tax incentive schemes administered by EPD.

¹ Compared with Euro IV vehicles, Euro V heavy duty diesel vehicles emit about 40% less NOx. For light duty diesel vehicles, Euro V models emit about 80% less respirable suspended particulates and 30% less NOx. As regards Euro V petrol/LPG vehicles, they emit about 30% less NOx.

11. The Administration has advised that the word "remission" must be interpreted or read in the context of the relevant provisions of Cap. 330 (i.e. section 5(5), (5A) and (5B)) which clearly indicate that the term includes a remission in whole or in part. Moreover, the Administration has advised that details of the two current tax incentive schemes are clearly published in EPD's website and it is therefore unlikely that a misunderstanding about the extent of the remission of first registration tax under the schemes would arise. As such, the Administration considers that the term "remission" used in proposed Part 3 of the Schedule under clause 8 of the Bill is consistent with term used in the empowering provision in Cap. 330 will not give rise to statutory interpretation problem or misunderstanding in practice.

Follow-up action

12. Hon KAM Nai-wai expresses concern about the low take-up rate of environment-friendly vehicles despite the Government has implemented a number of incentive schemes to promote wider use of these vehicles. He suggests inviting users and relevant trades to give views on the proposed concessionary measure. Some other members are of the view that promoting the wider use of environment-friendly vehicles involves various issues such as the types and price of environment-friendly vehicles available in the market. The Bills Committee agrees that the matter should be referred to the Panel on Environmental Affairs for consideration.

Committee Stage amendments

13. The Administration and the Bills Committee have not proposed any Committee Stage amendments to the Bill.

Consultation with the House Committee

14. The Bills Committee reported its deliberations to the House Committee on 28 May 2010. The House Committee noted that the Administration intended to resume the Second Reading debate on the Bill at the Council meeting on 9 June 2010.

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

Membership List

Chairman	Hon CHAN Kam-lam, SBS, JP
Members	Hon Tommy CHEUNG Yu-yan, SBS, JP Hon WONG Ting-kwong, BBS, JP Hon KAM Nai-wai, MH Hon Alan LEONG Kah-kit, SC (Total : 5 members)
Clerk	Ms Debbie YAU
Legal Adviser	Mr YICK Wing-kin
Date	25 May 2010

I. Qualifying Standards for Environment-friendly Commercial Vehicles

Euro V Emission Standard for Heavy Duty Diesel Vehicles

European Steady-State Cycle

CO (g/kWh)	HC (g/kWh)	NO_x (g/kWh)	PM (g/kWh)
1.5	0.46	2.0	0.02

European Transient Cycle

CO (g/kWh)	NMHC (g/kWh)	NO_x (g/kWh)	PM (g/kWh)
4.0	0.55	2.0	0.03

Note: CO – Carbon monoxide
 NMHC – Non-methane hydrocarbons
 HC – Hydrocarbons
 NO_x – Nitrogen oxides
 PM – Particulate matters

Euro V Emission Standard for Light Duty Diesel Vehicles

New European Driving Cycle

CO (g/ km)	NO_x (g/ km)	HC + NO_x (g/ km)	PM (g/ km)
0.74	0.28	0.35	0.005

Note: CO – Carbon monoxide
 HC – Hydrocarbons
 NO_x – Nitrogen oxides
 PM – Particulate matters

II. Qualifying Standards for Environment-friendly Petrol Private Cars

Emission Requirements:

Complying standards	50% of Emission Limits (g/km)	
	Hydrocarbons (HC)	Nitrogen oxides (NOx)
Euro IV emission standards	0.05	0.04
Japan 2005 emission standards	0.025	0.025

Fuel Efficiency Requirements:

Vehicle Weight	Fuel Efficiency Limits (Lower limit in km/L)	
	Under Japanese Test Cycle	Under Euro Test Cycle
less than 703 kg	26.1	26.7
703 kg or more, but less than 828 kg	23.2	23.7
828 kg or more, but less than 1,016 kg	22.1	22.6
1,016 kg or more, but less than 1,266 kg	19.7	19.6
1,266 kg or more, but less than 1,516 kg	16.0	16.0
1,516 kg or more, but less than 1,766 kg	12.9	13.6
1,766 kg or more, but less than 2,016 kg	11.0	11.7
2,016 kg or more, but less than 2,266 kg	9.6	9.8
2,266 kg or more	8.2	8.2