

Legislative Council Panel on Financial Affairs

Information Note on Exemption from Profits Tax (Renminbi Sovereign Bonds) Order

PURPOSE

This paper provides Members with information on the Exemption from Profits Tax (Renminbi Sovereign Bonds) Order (“the Order”) made under the Inland Revenue Ordinance (Cap. 112) (“IRO”).

BACKGROUND

2. The Central People’s Government (“CPG”), through the Ministry of Finance, launched Renminbi (“RMB”) sovereign bonds totalling RMB 6 billion in Hong Kong on 28 September 2009. The issue date for the bonds in question is 27 October 2009 and the first round of interest payments is scheduled for 27 April 2010. Individual denomination of such bonds is RMB 10,000. Out of the three types of tenor involved, the 2-year and 3-year bonds are available to retail investors while the 3-year and 5-year bonds are available to institutional investors.

EXEMPTION FROM PROFITS TAX (RENMINBI SOVEREIGN BONDS) ORDER

3. On 8 December 2009, the Chief Executive in Council made the Order pursuant to section 87 of the IRO to provide profits tax exemption for persons on the interest paid or payable on, and any profit on the sale or other disposal or on the redemption on maturity or presentment of RMB sovereign bonds issued or to be issued by the CPG in Hong Kong. It will apply to the year of assessment commencing on 1 April 2009 and all subsequent years of assessment. The Order was gazetted on 11 December 2009 and a Legislative Council (“LegCo”) Brief was issued on the same day. The Brief is at the [Annex](#) for Members’ easy reference.

4. The profits tax exemption provided in the Order is intended to apply to all persons who would be chargeable to profits tax on interests/profits arising from RMB sovereign bonds issued or to be issued by the CPG in Hong Kong. The Order is therefore subsidiary legislation, and will be tabled at LegCo for negative vetting on 16 December 2009.

5. The issue of RMB sovereign bonds in Hong Kong by the CPG is a new milestone for the development of RMB business in Hong Kong, increasing the breadth and depth of the local bond market, and strengthening Hong Kong's position as an international financial centre. It will also enhance financial cooperation between the Mainland and Hong Kong, and consolidate Hong Kong's role as the testing ground for the regionalization and internationalization of RMB.

6. Certain profits tax concessions are currently available in respect of bonds issued by the Hong Kong Special Administrative Region Government ("HKSARG"). We consider it appropriate that the same tax concessions be applicable to RMB sovereign bonds. Implementation of such profits tax concessions could demonstrate the HKSARG's commitment to promoting further and sustainable RMB sovereign bond issues in Hong Kong.

Financial Services and the Treasury Bureau
11 December 2009

LEGISLATIVE COUNCIL BRIEF

The Secretary for Financial Services and the Treasury submits the following note for Members' information:

<u>Title of the Note</u>	<u>Date of ExCo</u>	<u>Date of Gazette</u>
Exemption from Profits Tax (Renminbi Sovereign Bonds) Order	8 December 2009	11 December 2009

11 December 2009

Financial Services and the Treasury Bureau

LEGISLATIVE COUNCIL BRIEF

EXEMPTION FROM PROFITS TAX (RENMINBI SOVEREIGN BONDS) ORDER

INTRODUCTION

At the meeting of the Executive Council on 8 December 2009, the Executive Council ADVISED and the Chief Executive ORDERED to make the Exemption from Profits Tax (Renminbi Sovereign Bonds) Order (“the Order”) at **Annex A** pursuant to section 87 of the Inland Revenue Ordinance (Cap. 112) (“IRO”) to provide profits tax exemption for persons on the interest paid or payable on, and any profit on the sale or other disposal or on the redemption on maturity or presentment of Renminbi (“RMB”) sovereign bonds issued or to be issued by the Central People’s Government (“CPG”) in Hong Kong.

BACKGROUND

2. The CPG, through the Ministry of Finance (“MoF”), launched RMB sovereign bonds totalling RMB 6 billion in Hong Kong on 28 September 2009. The issue date for the bonds in question is 27 October 2009 and the first round of interest payments is scheduled for 27 April 2010. Individual denomination of such bonds is RMB 10,000. Out of the three types of tenor involved, the 2-year and 3-year bonds are available to retail investors while the 3-year and 5-year bonds are available to institutional investors. Having regard to the subscription response, the MoF allotted RMB 5 billion and 1 billion worth of sovereign bonds to retail and institutional investors respectively.

RELEVANT CONSIDERATIONS

3. The issue of RMB sovereign bonds in Hong Kong by the CPG is one of the important measures by the CPG to support Hong Kong to further develop RMB business and promote Hong Kong’s prosperity and economic development. It is a new milestone for the development of RMB business in Hong Kong, increasing the breadth and depth of the local bond market, and

strengthening Hong Kong's position as an international financial centre. It will also enhance financial cooperation between the Mainland and Hong Kong, and consolidate Hong Kong's role as a testing ground for the regionalisation and internationalisation of RMB.

4. In the light of the strategic value of the CPG's RMB sovereign bond issues in Hong Kong, the Hong Kong Special Administrative Region Government ("HKSARG") has been impressing upon the CPG to consider issuing RMB sovereign bonds in Hong Kong on an ongoing and regular basis.

5. Certain profits tax concessions are currently available in respect of bonds issued by the HKSARG. We consider it appropriate that the same tax concessions be applicable to RMB sovereign bonds. Implementation of such profits tax concessions could demonstrate the HKSARG's commitment to promoting further and sustainable RMB sovereign bond issues in Hong Kong. The latter would be conducive to attaining our policy goals to promote the development of our financial market and to strengthen our role as a testing ground for the regionalisation and internationalisation of RMB.

THE EXEMPTION ORDER

6. Section 87 of the IRO provides that the Chief Executive in Council may by order exempt any person, office or institution from payment of the whole or any portion of any tax chargeable under the IRO. The profits tax exemption provided in the Order is intended to apply to all persons who would be chargeable to profits tax on interests/profits arising from RMB sovereign bonds issued or to be issued by the CPG in Hong Kong. The Order is therefore subsidiary legislation under the IRO, and subject to negative vetting by the Legislative Council ("LegCo").

7. As the RMB sovereign bonds were issued in October 2009, viz. in the year of assessment commencing on 1 April 2009, the Order shall apply to the year of assessment commencing on 1 April 2009 and for all subsequent years of assessment.

LEGISLATIVE TIMETABLE

8. The legislative timetable is as follows -

Publication in the Gazette

11 December 2009

Tabling in the LegCo

16 December 2009

Commencement

5 February 2010

IMPLICATIONS OF THE PROPOSAL

9. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. It will not affect the binding effect of the existing provisions of the IRO and its subsidiary legislation. In addition, the proposed arrangement has no productivity, environmental, sustainability or civil service implication.

10. The economic and financial implications of the proposal are set out at **Annex B**.

PUBLIC CONSULTATION

11. We did not conduct prior public consultation on the Order. We issued an information note to the LegCo Panel on Financial Affairs on 11 December 2009.

PUBLICITY

12. We shall arrange a spokesman to handle media enquiries.

ENQUIRIES

13. Enquiries on this brief may be directed to Miss Natalie Li, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2529 0121.

Financial Services and the Treasury Bureau
11 December 2009

**EXEMPTION FROM PROFITS TAX (RENMINBI
SOVEREIGN BONDS) ORDER**

(Made by the Chief Executive in Council under section 87 of
the Inland Revenue Ordinance (Cap. 112))

1. Commencement

This Order comes into operation on 5 February 2010.

2. Interpretation

In this Order –

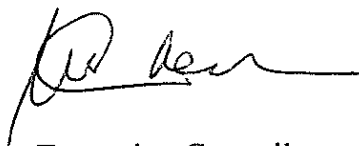
"Renminbi sovereign bonds" (人民幣國債) means any bonds denominated in the Renminbi and issued in Hong Kong by the Central People's Government.

3. Exemption from profits tax

(1) A person is exempt from the payment of profits tax chargeable under Part IV of the Ordinance in respect of sums received by or accrued to the person as –

- (a) interest paid or payable on Renminbi sovereign bonds; or
- (b) profits on the sale or other disposal or on the redemption on maturity or presentment of Renminbi sovereign bonds.

(2) This section applies in relation to profits tax chargeable for the year of assessment commencing on 1 April 2009 and for all subsequent years of assessment.



Clerk to the Executive Council

COUNCIL CHAMBER

8 December 2009

Explanatory Note

This Order exempts a person from the payment of profits tax chargeable under Part IV of the Inland Revenue Ordinance (Cap. 112) in respect of sums received by or accrued to the person as interest or profits arising from Renminbi sovereign bonds.

Economic Implications

On economic implications, implementation of the profits tax exemption in question is conducive to the further development of Renminbi (“RMB”) business in Hong Kong. This will help enhance financial cooperation between the Mainland and Hong Kong, and consolidate Hong Kong’s role as a testing ground for the regionalisation and internationalisation of RMB, thereby strengthening Hong Kong’s development as an international financial centre.

Financial Implications

2. In respect of the 3-year and 5-year RMB sovereign bonds issued by the Ministry of Finance for institutional investors in October 2009, which totalled RMB 1 billion, the estimated amount of tax foregone under the Inland Revenue Ordinance (Cap.112) (“IRO”) following the implementation of the exemption order is around HK\$5.8 million each year in the first three years of the tenor of the aforesaid bonds. Upon maturity of the 3-year bonds, the revenue foregone for the fourth and fifth years will be reduced to about HK\$3.2 million each year. The above estimation includes only profits arising from interest payment. No revenue foregone could be estimated for profits on the disposal of the bonds as there is no rational basis to make a projection. Retail investors are unlikely liable to tax on the interests or profits arising from the RMB sovereign bonds. For the RMB sovereign bonds to be issued in future, the estimated amount of tax foregone under the IRO would need to be calculated on the basis of the features and market prices of the bonds at the material time.