

(Revised)

**For discussion
on 18 February 2000**

FCR(1999-2000)68

ITEM FOR FINANCE COMMITTEE

HEAD 76 - INLAND REVENUE DEPARTMENT Subhead 189 Interest on tax reserve certificates

Members are invited to approve supplementary provision of \$20 million for payment of interest on Tax Reserve Certificates.

PROBLEM

The approved provision of \$99.7 million for the payment of interest on Tax Reserve Certificates (TRCs) is insufficient to meet increased expenditure in 1999-2000.

PROPOSAL

2. The Commissioner of Inland Revenue (CIR) proposes supplementary provision of \$20 million to meet the increased expenditure on payment of interest on TRCs.

JUSTIFICATION

3. On the basis of the actual expenditure for the period from 1 April 1999 to 26 January 2000, CIR estimates that expenditure in the current financial year on payment of interest on TRCs will exceed the approved provision by \$20 million, calculated as follows -

/(a)

	\$ million
(a) Expenditure from 1 April 1999 to 26 January 2000	73.5
(b) Estimated expenditure from 27 January to 31 March 2000	46.2
(c) Estimated total expenditure for 1999-2000 [(a) + (b)]	119.7
<i>Less</i> (d) Approved provision	99.7
(e) Shortfall [(c) - (d)]	20.0

4. Supplementary provision of \$20 million is therefore required to enable Government to settle the interest payment in full. The higher than anticipated requirement is due to payment of interest to five exceptionally large objection cases which were only finalised in late January 2000. For these five cases, the CIR has ruled in favour of the taxpayers in respect of part of the objection. As a result, a total interest payment of \$34.8 million will need to be made to the concerned taxpayers.

FINANCIAL IMPLICATIONS

5. If Members approve the proposal, we shall offset the supplementary provision of \$20 million by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 251 Additional commitments.

BACKGROUND INFORMATION

6. The Tax Reserve Certificates Ordinance (Cap. 289) provides for the payment of interest on TRCs by the CIR. A taxpayer may buy TRCs in the following circumstances -

- (a) to meet future payment of tax; and
- (b) as security for the payment of tax held over in dispute, where a taxpayer has objected to an assessment and has been required to buy certificates by the CIR under section 71(2) of the Inland Revenue Ordinance (Cap. 112).

7. In respect of paragraph 6(a) above, interest is payable when the taxpayer redeems the certificates to pay tax, subject to a maximum interest earning period of 36 months. For paragraph 6(b) above, according to section 71(7) of the Inland Revenue Ordinance, where the final decision in respect of the objection or appeal case is made, or partially made, in favour of the taxpayer, interest will be payable on the TRCs refunded to the taxpayer without any limit on the interest earning period. On the other hand, where the decision is against the taxpayer or where the taxpayer withdraws the objection or appeal, no interest will be payable.

Finance Bureau
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