

立法會
Legislative Council

LC Paper No. LS72/03-04

**Paper for the House Committee Meeting
on 30 April 2004**

**Legal Service Division Report on
Revenue Bill 2004**

I. SUMMARY

- 1. Object of the Bill** To implement some of the revenue-related proposals announced by the Financial Secretary in his 2004-05 Budget Speech.
- 2. Comments**

 - (a) The scope of profits tax deduction will be extended to cover not only scientific research expenditure but research and development expenditure, in particular, to cover expenditure on design-related activities.
 - (b) The 5-year salaries tax deduction for home loan interest will be extended by further 2 years.
- 3. Public Consultation** The Financial Secretary has conducted consultations with various chambers of commerce, groups and associations as well as the general public during the formulation of the 2004-05 Budget.
- 4. Consultation with LegCo Panel** The policy aspects of the Bill have not been referred to any LegCo Panel for discussion.
- 5. Conclusion** Members may decide whether to set up a Bills Committee to deliberate on the policy aspects of the Bill.

II. REPORT

Object of the Bill

To implement some of the revenue-related proposals announced by the Financial Secretary in the 2004-05 Budget, the Inland Revenue Ordinance (Cap. 112) ("the Ordinance") is to be amended -

- (a) to extend the scope of profits tax deduction to cover not only scientific research expenditure but research and development expenditure, in particular, to cover expenditure on design-related activities; and
- (b) to extend the 5-year salaries tax deduction for home loan interest by further 2 years.

LegCo Brief Reference

2. FIN CR 2/7/2201/03 issued by the Financial Services and the Treasury Bureau dated 20 April 2004.

Date of First Reading

3. 28 April 2004.

Comments

4. On 10 March 2004, the Financial Secretary announced in his Budget Speech that the Government will proactively encourage research and development, innovation and design. To facilitate this promotional initiative, the Government will extend the profits tax deduction for research and development expenses to cover expenses on design-related activities (paragraphs 38 to 41 of the Budget Speech).

5. Further, to provide relief to households heavily burdened with home mortgage payments, the 5-year salaries tax deduction for home loan interest will be extended by further 2 years (paragraphs 76 and 77 of the Budget Speech).

6. This Bill is to amend the Ordinance to give effect to the above two proposals.

7. Clauses 2, 4 and 5 of the Bill amend sections 16B, 37A and 40 of the Ordinance to replace references to “scientific research” with references to “research and development”. The scope of profits tax deduction will be extended to cover research and development expenditure, in particular, expenditure on design-related activities. These clauses, if passed by this Council, will apply in relation to the year of assessment commencing on 1 April 2004 and to all subsequent years of assessment.

8. Clause 3 of the Bill amends section 26E of the Ordinance to increase the number of years for which deductions for home loan interest paid by a person are allowable from 5 years of assessment to 7 years of assessment. Deduction for home loan interest was introduced in 1998/99. For taxpayers who have claimed the deduction since 1998/99 continuously, the 5-year entitlement period will have expired in the 2003/04 year of assessment. If this clause is passed by this Council, it will be deemed to have come into operation on 1 April 2003.

9. No difficulties in relation to the legal and drafting aspects of the Bill have been identified.

Public Consultation

10. According to the LegCo Brief, the Financial Secretary has conducted consultations with various chambers of commerce, groups and associations as well as the general public during the formulation of the 2004-05 Budget.

Consultation with LegCo Panel

11. The policy aspects of the Bill have not been referred to any LegCo Panel for discussion.

Conclusion

12. Members may decide whether to set up a Bills Committee to deliberate on the policy aspects of the Bill.

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