

立法會
Legislative Council

LC Paper No. LS57/05-06

**Paper for the House Committee Meeting
on 28 April 2006**

**Legal Service Division Report on
Revenue Bill 2006**

I. SUMMARY

- 1. Object of the Bill** To amend the Inland Revenue Ordinance to give effect to the salaries tax proposals announced by the Financial Secretary in his 2006-07 Budget Speech.
- 2. Comments**

 - (a) The Bill proposes to increase the number of years for which deduction in respect of home loan interest is allowable from 7 to 10 years of assessment. The amendment would be deemed to have come into effect on 1 April 2005.
 - (b) The marginal rates of the second, third and top tax bands would be reduced by one percentage point from the existing levels of 8, 14 and 20 per cent to 7, 13 and 19 per cent respectively. The amendment would apply in relation to the year of assessment 2006/07 and thereafter.
- 3. Public Consultation** The Financial Secretary has conducted consultations with Members, various chambers, groups and associations as well as the general public during the formulation of the 2006-07 Budget.
- 4. Consultation with LegCo Panel** The policy aspects of the Bill have not been referred to any LegCo Panel for discussion.
- 5. Conclusion** No difficulties in relation to the legal and drafting aspects of the Bill have been identified. Subject to Members' views, the Bill is ready for resumption of the Second Reading Debate.

II. REPORT

Object of the Bill

To amend the Inland Revenue Ordinance (Cap. 112) (“the Ordinance”) to give effect to the following salaries tax proposals in the 2006-07 Budget –

- (a) to increase the number of years for which deduction in respect of home loan interest is allowable from 7 to 10 years of assessment; and
- (b) to revise the marginal tax rates for the year of assessment 2006/07 and thereafter.

LegCo Brief Reference

2. FIN CR 1/7/2201/05 issued by the Financial Services and the Treasury Bureau in April 2006.

Date of First Reading

3. 26 April 2006.

Comments

Home loan interest

4. On 22 February 2006, the Financial Secretary announced in his Budget Speech that the Government proposed to extend the limit for the deduction of home loan interest by a further 3 years to a total of 10 years, subject to the maximum annual deduction of \$100,000. The proposal would cost the Government about \$1.5 billion a year (paragraph 77 of the Budget Speech).

5. The Bill seeks to amend section 26E of the Ordinance to increase the number of years for which deduction in respect of home loan interest is allowable from 7 to 10 years of assessment. Deduction for home loan interest for 5 years of assessment was introduced in 1998, and in 2004 the entitlement period was extended to 7 years of assessment. For taxpayers who have claimed the deduction continuously since 1998, the entitlement period will have expired in the year of assessment 2005/06. To facilitate these taxpayers to continue claiming the deduction without a break, the amendment would be deemed to have come into operation on 1 April 2005. The maximum amount of deduction of \$100,000 is specified in Schedule 3D of the Ordinance.

6. The administrative measures that the Administration would undertake are set out in its letter dated 24 April 2006 at the **Annex**. There will be a special message alerting taxpayers of the Budget proposal when the tax returns for the year of assessment 2005/06 are issued. When completing the returns, taxpayers may continue to claim deduction of home loan interest so that the claims may be dealt with after enactment of the Bill. Subject to passage of the Bill, the Inland Revenue

Department would invite eligible taxpayers who have paid salaries tax or tax under personal assessment for the year of assessment 2005/06 prior to the passage of the Bill to lodge home loan deduction claims. A taxpayer who is entitled to the deduction but has not made a claim in the return may file a claim within 6 years under section 70A (powers of assessor to correct errors) or 79 (tax paid in excess to be refunded) of the Ordinance.

Marginal tax rates

7. The Financial Secretary also proposed to lower the marginal rates of the second, third and top tax bands for salaries tax by one percentage point from the existing levels of 8, 14 and 20 per cent to 7, 13 and 19 per cent respectively. It was estimated that the measure would cost the Government \$1.2 billion in 2006-07 (paragraph 76 of the Budget Speech).

8. The Bill seeks to amend Schedule 2 of the Ordinance to lower the marginal rates of the second, third and top tax bands for salaries tax by one percentage point. The reduction would apply in relation to the year of assessment 2006/07 and to all subsequent years of assessment.

Public Consultation

9. According to the LegCo Brief, the Financial Secretary has conducted consultations with Members, various chambers, groups and associations as well as the general public during the formulation of the 2006-07 Budget.

Consultation with LegCo Panel

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

Conclusion

11. No difficulties in relation to the legal and drafting aspects of the Bill have been identified. Subject to Members' views, the Bill is ready for resumption of the Second Reading Debate.

Encl

Prepared by

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26 April 2006

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(Fax No. : 2877 5029)

24 April 2006

Ms Bernice Wong
Legislative Council Secretariat
Legal Service Division
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8 Jackson Road, Central
Hong Kong

Dear Ms Wong,

Revenue Bill 2006

I refer to your letter of 20 April 2006 regarding the captioned issue. My answers to your questions are, in seriatim, as follows -

- (a) The bulk of returns for the year of assessment 2005/06 will be issued on 2 May 2006. It is anticipated that about 1.8 million returns will be issued on that date. On each of the returns issued, there will be a special message alerting taxpayers to the Budget proposal that the home loan interest may be claimed for 10 years of assessment instead of 7 years as previously allowed. Where applicable, he or she may continue claiming such deduction by completing the relevant part of the return, so that the claim can be dealt with upon enactment of the Budget proposal.

In fact, starting from 1 April 2006, all tax returns for the year of assessment 2005/06 issued to individuals by the Inland Revenue Department (IRD) carry the above-mentioned message.

As long as the taxpayer has made a valid claim in the return, his or her claim will be dealt with after the Bill has been passed. However, even if the taxpayer has not made a claim in the return but he or she is entitled to the deduction, the taxpayer can still file such a claim within 6 years of the year of assessment 2005/06 under section 70A of the Inland Revenue Ordinance (IRO).

- (b) For taxpayers claiming deduction for home loan interest and requiring urgent finalization of the 2005/06 assessment before the Bill is passed (e.g. persons leaving Hong Kong), the assessment will be raised without granting the deduction and an assessor's note will be printed on the notice of assessment advising the taxpayer that the home loan interest claim will be considered subject to enactment of the Budget proposal.

Subject to the passage of the Bill, the IRD will develop a computer program to identify eligible taxpayers who have already been assessed and paid either salaries tax or tax under personal assessment prior to the enactment of the Bill for the year of assessment 2005/06 but without having claimed a deduction for home loan interest. The IRD will issue letters to these taxpayers and invite them to lodge home loan interest claims by providing the necessary information. Their claims will be processed and any excess tax paid will then be refunded under either section 70A or 79 of the IRO, as the case may be.

I hope the above has clarified the matter. Please feel free to contact me should you require further information.

Yours sincerely,

(Vincent TANG)
for Secretary for Financial Services and the Treasury

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