Motion Debate on "Reducing the salaries tax"
Progress Report

At the Legislative Council meeting on 15 February 2006, the motion on "Reducing the salaries tax", moved by Hon SIN Chung-kai as amended by Hon James TIEN Pei-chun, Hon CHAN Kam-lam and Hon James TO Kun-sun, was carried. The motion reads as follows :

> "That, as the Treasury of the Government has benefited from the continuous recovery of Hong Kong's economy, which has improved the Government's financial position and will likely advance the elimination of the fiscal deficit, this Council urges the Government to make appropriate use of its resources to provide the grass-roots people with adequate services, and to reduce the rates of salaries tax by reverting them to at least the 2002-03 level; to revert the personal allowances and the marginal tax bands to the 2002-03 level; to raise the child allowance and the allowances for dependent parent/grandparent; to further increase the entitlement period and the amount of home loan interest deduction; and to study allowing voluntary contributions to the Mandatory Provident Fund to be tax deductible up to a ceiling, so as to alleviate the tax burden on the middle class and the grass-roots people, thereby stimulating consumer spending and creating jobs."

2. This report informs Members of the follow-up actions taken by the Administration in respect of the motion.

3. The Financial Secretary, in his Budget for 2006-07, has proposed that the marginal rates of the second, third and top bands of the Salaries Tax be lowered by one percentage point and that salaries tax deduction for home loan interest of up to $100,000 a year be extended for three years to a total of ten years. These measures aim to give relief to the community, particularly middle-class families, on their tax burden.

4. By implementing these tax relief measures, nearly a million

people, i.e. three quarters of taxpayers, will benefit from the marginal rates reduction, while about 400,000 taxpaying home owners will benefit from the home loan interest deduction. It is expected that Government will forgo a total of $2.7 billion in taxation income for a full year in 2006-07.

5. We note that some people suggested that the rates of salaries tax and the levels of personal allowances and marginal tax bands should revert to the 2002-03 levels. We have given due consideration to these suggestions but do not agree that they should be adopted. That is because, though our economy has recovered and the Government's fiscal position has improved, we are still faced with many uncertainties ahead, e.g. high oil prices, rising interest rates, etc. These uncertainties will have an impact on our economy as well as on our public finances. We therefore have to be mindful of these uncertainties and must remain prudent in financial management to ensure that our expenditures will be kept within the limits of our revenues so as to avoid deficits. As we only estimate a modest surplus in our consolidated account for 2006-07 and if the salaries tax rates and bands did revert to their 2002-03 levels, this would immediately bring our Budget for 2006-07 into deficit.

6. As regards child allowance and allowances for dependent parents/grandparents, in the 2005-06 Budget, the Financial Secretary proposed to increase the former from $30,000 per child for the first to ninth child to $40,000 per child for the first to ninth child and proposed that an allowance of $15,000 a year be provided to those taxpayers who take care of their dependent parents/grandparents aged 55 to 59, and if that parents or grandparents are residing with them, they would be granted an additional allowance of $15,000. These proposals have already commenced effect.

7. We will continue to consult widely in preparing annual budgets, and will take all comments and suggestions, including those from Legislative Council Members, into account in formulating our recommendations.

Financial Services and the Treasury Bureau
April 2006