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Bills Committee on Inland Revenue (Amendment) Bill 2012

Meeting on 29 May 2012

Background brief

Purpose

This paper provides background information on the Inland Revenue (Amendment) Bill 2012 ("the Bill") and summarizes the views and concerns expressed by Members on the relevant concessionary revenue measures.

Background

2. To alleviate the burden of taxpayers, the Financial Secretary announced the various proposals concerning tax concessions in the 2012-2013 Budget. The Bill, gazetted on 27 April 2012, aims to amend the Inland Revenue Ordinance (Cap. 112) ("the Ordinance") in order to implement the concessionary revenue measures, which include the following:

(a) to raise the level of various allowances for salaries tax and tax under personal assessment;

(b) to raise the deduction ceiling for elderly resident care expenses from $72,000 to $76,000;

(c) to raise the deduction ceiling for mandatory contributions to recognized retirement schemes from $12,000 to $15,000;

(d) to extend the entitlement years for home loan interest deduction from 10 years to 15 years; and

(e) to reduce the amount of salaries tax, tax under personal assessment and profits tax payable for the 2011-2012 assessment year by 75% or $12,000, whichever is lesser.

Major provisions of the Inland Revenue (Amendment) Bill 2012

Increase tax allowances

3. Clause 9 amends Schedule 4 to the Ordinance to give effect to the proposal on increasing various kinds of allowances for salaries tax and tax under personal assessment.

Increase deduction ceiling for residential care expenses for parent/grandparent

4. Clause 8 amends Schedule 3C to the Ordinance to give effect to the proposal to raise the deduction ceiling for the elderly residential care expenses from $72,000 to $76,000. The proposed increase will apply in relation to the 2012-2013 assessment year and subsequent assessment years.

Increase deduction ceiling for contributions to recognized retirement schemes

5. Clause 7 amends Schedule 3B to the Ordinance to increase the maximum amount deductible from assessable income for the mandatory contributions paid by any self-employed person under the Mandatory Provident Fund Schemes Ordinance (Cap. 485), and contributions paid by any person to a recognized retirement scheme as an employee. The maximum deductible amount is increased from $12,000 to $14,500 for the 2012-2013 assessment year, and to $15,000 with effect from the 2013-2014 assessment year.

Extension of entitlement period for home loan interest deduction

6. Clauses 3 and 4 amend sections 26E and 26F of the Ordinance to give effect to the proposal on extending the entitlement period for the tax deduction for home loan interest from 10 years to 15 years, while maintaining the current deduction ceiling of $100,000 per year.

One-off tax reduction for 2011-2012

7. Clause 6 adds a new section 94 to the Ordinance. The new section and the new Schedule 26 (added by clause 10) provide for the reduction of salaries tax, profits tax and tax under personal assessment payable for the 2011-2012 assessment year by 75%, subject to a maximum of $12,000 in each case.

8. Summaries of the proposed increases in the allowances and deductions are set out in **Appendices I** and **II** respectively.

Transitional provisions

9. Clause 10 adds new Schedules 25 and 26 to the Ordinance. The new Schedule 25 provides for:

(a) the transitional arrangements relating to the assessment of, and holding over of payment of, provisional salaries tax for the 2012-2013 assessment year; and

(b) the transitional arrangements relating to the holding over of payment of provisional salaries tax and provisional profits tax on specified additional grounds for the assessment years 2012-2013 and 2013-2014.

LegCo Members' discussion on the concessionary revenue measures

Council meetings

10. Hon LAU Kong-wah moved a motion at the Council meeting on 2 November 2011 on "Alleviating the financial burden of middle-class people", urging the Government to put forward effective measures in the 2012-2013 Budget on, inter alia, the following:

(a) increasing the personal allowance, child allowance, dependant brother or dependant sister allowance, dependant parent or dependant grandparent allowance and disabled dependant allowance under salaries tax according to inflation rates and overall economic conditions;

(b) permitting children to share the dependant parent or dependant grandparent allowance;

(c) reducing salaries tax and personal assessment by up to 100% of the final tax, subject to a ceiling of $10,000 per case;

(d) introducing tax deduction for voluntary Mandatory Provident Fund contributions with a ceiling of $24,000; and

(e) raising the tax allowance for new-born infants to $100,000, and increasing the child allowance by 50% for the second child of a family or any child born to it thereafter in the first six years after birth.

The motion as amended by Hon WONG Kwok-hing, Hon Paul CHAN, Hon Albert HO, Hon LEE Wing-tat, Hon WONG Sing-chi, Hon KAM Nai-wai and Dr Hon LEUNG Ka-lau was carried. An extract of the progress report provided by the Administration on the motion is at **Appendix III**.

11. Hon Frederick FUNG raised a written question at the Council meeting on 1 February 2012. He was concerned whether the Government had conducted any study on the suggestions of the public on further extending the entitlement period for home loan interest deduction and increasing the maximum limit of the amount of deduction. The Administration advised that it had carefully considered public views and introduced relevant concessionary measures in the 2012-2013 Budget.

Meeting of the Finance Committee

12. At the meeting of the Finance Committee on 2 February 2012 when Members were briefed on the Estimates of Expenditure and Budget proposals for 2012-2013, Hon IP Kwok-him asked whether the tax allowance for maintaining dependent parents and the child allowance could be further increased. The Administration responded that the tax allowance for maintaining dependent parents/grandparents as well as the child allowance and the additional one-off child allowance in the year of birth were raised by 20% in the 2011-2012 Budget. Although the proposed increase in the allowances in this year's Budget was moderate, the cumulative adjustments in these two Budgets were already quite substantial.

13. In response to Hon Miriam LAU's question on the reasons for proposing to reduce salaries tax and tax under personal assessment for 2011-2012 by 75%, but not widening the tax band from $40,000 to $45,000 and reducing the marginal tax rate by 1%, the Administration responded that the current tax proposals would benefit the majority of taxpayers, providing relief to the middle class while having only transitional impact on the tax base. If at the same time tax bands were widened and tax rates reduced, loss in tax revenue would be much greater and there could be structural impact on the tax base.

References

Motion moved by Hon LAU Kong-wah on "Alleviating the financial burden of middle-class people" at the Council meeting on 2 November 2011 (Hansard p. 126 to 250)
http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm1102-translate-e.pdf

Administration's paper on progress report on motion debate on "Alleviating the financial burden of middle-class people"
http://www.legco.gov.hk/yr11-12/english/counmtg/motion/cm1102-m1-prpt-e.pdf

Hon Frederick FUNG raised a written question on "Review of the arrangement for tax deductions for home loan interest" at the Council meeting on 1 February 2012 (Hansard p. 90 to 93)
http://www.legco.gov.hk/yr11-12/english/counmtg/hansard/cm0201-translate-e.pdf

Legislative Council Brief on Inland Revenue (Amendment) Bill 2012
http://www.legco.gov.hk/yr11-12/english/bills/brief/b34_brf.pdf

Press release dated 27 April 2012 on Inland Revenue (Amendment) Bill 2012
http://www.info.gov.hk/gia/general/201204/27/P201204260506.htm

Powerpoint presentation materials provided by the Administration on the 2012-2013 Budget
http://www.legco.gov.hk/yr11-12/english/fc/fc/papers/fc0202-briefing-e.pdf

Administration's replies to initial written questions raised by Finance Committee Members in examining the Estimates of Expenditure 2012-2013
http://www.legco.gov.hk/yr11-12/english/fc/fc/w_q/fstb-tsy-e.pdf

Council Business Division 1
Legislative Council Secretariat
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Appendix I

A summary of proposed increases in allowances

Nature of allowance	Assessment year 2011-2012	From assessment year 2012-2013	Recent changes
(a) Basic allowance granted under section 28 of the Ordinance	$108,000	$120,000	Not changed since assessment year 2008-2009
(b) Single parent allowance granted under section 32 of the Ordinance	$108,000	$120,000	Not changed since assessment year 2008-2009
(c) Married person's allowance granted under section 29 of the Ordinance	$216,000	$240,000	Not changed since assessment year 2008-2009
(d) Dependent parent/grandparent[1] and additional dependent parent/grandparent[2] allowances granted under section 30(1) and section 30A(1) of the Ordinance	$36,000	$38,000	Last increased in assessment year 2011-2012 by 20% to the current level of $36,000
(e) Dependent parent/grandparent[3] and additional dependent parent/grandparent allowances respectively granted under section 30(1A) and section 30A(1A) of the Ordinance	$18,000	$19,000	Last increased in assessment year 2011-2012 by 20% to the current level of $18,000
(f) Dependent brother or dependent sister allowance granted under section 30B of the Ordinance	$30,000	$33,000	Not changed since assessment year 1998-1999

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1 For parent/grandparent aged 60 or above, or under the age of 60 and eligible to claim an allowance under the Government's Disability Allowance Scheme ("GDAS").

2 If an eligible parent/grandparent resided, other than for full valuable consideration, with a taxpayer continuously throughout a year of assessment, the taxpayer will be granted the additional dependent parent/grandparent allowance.

3 For parent/grandparent aged 55 or above but is under the age of 60 and not eligible to claim an allowance under GDAS.

Nature of allowance		Assessment year 2011-2012	From assessment year 2012-2013	Recent changes
(g)	Children allowance and additional one-off child allowance in the year of birth for each eligible child respectively granted under section 31(1) and (1A) of the Ordinance	$60,000	$63,000	Last increased in assessment year 2011-2012 by 20% to the current level of $60,000
(h)	Disabled dependant allowance granted under section 31A of the Ordinance	$60,000	$66,000	Last increased in assessment year 1998-1999 to the current level of $60,000

Appendix II

A summary of proposed increases in deduction ceilings

Deduction ceiling	Current proposals	Recent changes
(a) Deduction ceiling for residential care expenses for parent/grandparent	Increased from $72,000 to $76,000 in relation to the 2012-2013 assessment year and subsequent assessment years.	The deduction ceiling for elderly residential care expenses was increased to $72,000 in assessment year 2011-2012.
(b) Deduction ceiling for contributions to recognized retirement schemes	Increased from $12,000 to $14,500 for the assessment year 2012-2013, and to $15,000 with effect from the assessment year 2013-2014.	By resolution, the LegCo approved on 23 November 2011 the Mandatory Provident Fund Schemes Ordinance (Amendment of Schedule 3) Notice 2011 to raise the prescribed maximum relevant income level under the MPFSO from $20,000 to $25,000 per month effective from 1 June 2012.
(c) Entitlement period for home loan interest deduction	Extended from 10 years to 15 years, while maintaining the current deduction ceiling of $100,000 per year.	Home loan interest deduction was introduced in assessment year 1998-1999 with a view to alleviating the financial burden on home purchasers during their initial years of home ownership. The maximum period of entitlement was five years (whether continuous or not) initially, and was lengthened subsequently to seven years since assessment year 2003-2004, and further extended to the current ten years since assessment year 2005-2006. The deduction has been capped at $100,000 per annum (except for assessment years 2001-2002 and 2002-2003, in which the maximum deduction was raised to $150,000).

Appendix III

Extract of Progress Report on motion debate on "Alleviating the financial burden of middle-class people"

At the Legislative Council meeting on 2 November 2011, the motion on "Alleviating the financial burden of middle-class people" moved by Hon LAU Kong-wah as amended by Hon WONG Kwok-hing, Hon Paul CHAN Mo-po, Hon Albert HO Chun-yan, Hon LEE Wing-tat, Hon WONG Sing-chi, Hon KAM Nai-wai and Dr Hon LEUNG Ka-lau was carried. This report informs Members of the follow-up actions taken by the Administration in respect of the motion.

Tax Measures

2. On 1 February 2012, the Financial Secretary proposed in his Budget delivered seven tax measures starting from the 2012-2013 year of assessment to ease people's tax burden. These include:

(a) Raising the basic allowance and single parent allowance from $108,000 to $120,000; and increasing the married person's allowance from $216,000 to $240,000. These proposals will benefit 1.38 million taxpayers, costing the Government $2.2 billion a year;

(b) Increasing the allowance for maintaining a dependent parent or grandparent aged 60 or above from $36,000 to $38,000. At the same time, the additional allowance for a taxpayer residing with his/her parent or grandparent continuously throughout the year will increase from the current $36,000 to $38,000. The allowance for maintaining a dependent parent or grandparent aged between 55 and 59 will increase from the current $18,000 to $19,000. The same increase applies to the additional allowance for taxpayers residing with these parents or grandparents continuously throughout the year. For taxpayers whose parents or grandparents are admitted to residential care homes, the deduction ceiling for elderly residential care expenses will be raised from the current $72,000 to $76,000. This measure will benefit 460 000 taxpayers, costing the Government $220 million a year;

(c) Raising the child allowance from the current $60,000 to $63,000 for each child; and increasing the additional one-off child allowance in the year of birth from $60,000 to $63,000 for each child. This measure will benefit 280 000 taxpayers, costing the Government $170 million a year;

(d) Raising the dependent brother/sister allowance from the current $30,000 to $33,000. This measure will benefit 25 000 taxpayers and cost the Government $10 million a year;

(e) Raising the disabled dependant allowance from the current $60,000 to $66,000. This measure will benefit 30 000 taxpayers and cost the Government $20 million a year;

(f) Extending the entitlement period for the tax deduction for home loan interest from 10 years of assessment to 15 while maintaining the current deduction ceiling of $100,000 a year. This proposal will cost the Government $540 million a year in the coming five years of assessment; and

(g) Increasing the maximum annual tax deduction for mandatory contributions to Mandatory Provident Fund schemes from $12,000 to $15,000. This proposal will cost the Government $360 million a year. This is a consequential amendment in light of the increase of the maximum relevant income level under the Mandatory Provident Fund Schemes Ordinance to $25,000, which will take effect from June 2012.

3. In considering the adjustment of the allowances and the need to introduce new deductions or change the tax rates, the Government must carefully examine the impact of these proposals on public finance. The tax measures proposed in the Budget seek to strike a balance between reducing tax burden of taxpayers and maintaining a prudent fiscal position.

4. The Government notes that some Members have proposed additional allowances for different kinds of expenses. Nevertheless, the various types of personal allowances to taxpayers, including basic allowance, married person's allowance, dependent parent/grandparent allowance and child allowance provided under the current salaries tax regime are already quite comprehensive. These allowances are adequate in taking care of taxpayers' basic needs and additional financial burden arising from family responsibilities. The introduction of deductible items for various expenses of a private nature will overlap with the existing allowances and make our tax system less flexible, because individual taxpayers without the need to pay such specific expenses will not benefit from these deductions.

One-off Relief Measures

5. To help ease the pressure of the economic downturn on our community, the Financial Secretary also proposed in his Budget a series of one-off relief measures, among which include:

(a) Waiving rates for 2012-2013, subject to a ceiling of $2,500 per quarter for each rateable property. It is estimated that almost 90% of properties, or 2.7 million properties, will be subject to no rates in the year;

(b) Reducing salaries tax and tax under personal assessment for 2011-2012 by 75%, subject to a ceiling of $12,000. The reduction will benefit the 1.5 million taxpayers in the territory;

(c) Granting each residential electricity account a subsidy of $1,800. This will benefit about 2.5 million households in the territory;

(d) Providing an extra allowance to Comprehensive Social Security Assistance (CSSA) recipients, equal to one month of the standard rate CSSA payments; and an extra allowance to Old Age Allowance and Disability Allowance recipients, equal to one month of the allowances;

(e) Paying two months' rent for public housing tenants. The Government will pay two months' base rent for tenants who are required to pay extra rent to the Hong Kong Housing Authority. For non-elderly tenants of the Hong Kong Housing Society's Group B estates, the Government will pay two-thirds of their rent for two months;

(f) The Government extended and improved short-term food assistance services through the additional funding of $100 million made at the end of last year. Enhancements include providing a wider variety of foods along with fresh foods. The Government will allocate another $100 million to the services when necessary; and

(g) Giving all student loan borrowers who complete their studies in 2012 the option to start repaying their student loans one year after completion of studies. This will alleviate the financial burden of fresh graduates and allow them more time to secure a stable job.

The middle class will also benefit from some of the above measures.