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15 March 2012

Ms YUE Tin-po
Clerk to Subcommittee
Subcommittee on Rating (Exemption) Order 2012
Legislative Council Secretariat
Legislative Council Complex
Legislative Council Road
Central, Hong Kong

Dear Ms YUE,

**Subcommittee on Rating (Exemption) Order 2012
Proposed Amendments by Hon Albert Chan**

With regard to the proposed amendments to the Rating Order submitted by Hon Albert Chan on 12 March 2012, we have given due consideration from various aspects, including whether the proposal has set out the exemption criteria in clear and certain terms, whether the proposal will give rise to practical difficulties during implementation, the impact of the proposal on ratepayers, and the impact of the proposal on public expenditure, etc. Our detailed responses are set out in the ensuing paragraphs.

Exemption Criteria

2. The proposed amendments by Hon Albert Chan to the Rating (Exemption) Order 2012 will give rise to a number of issues regarding the scope of exemption. Firstly, the proposed amendments by Hon Chan have not addressed the basis to be used to consider which three of the tenements should be selected for the purpose of the rates exemption where an owner or occupier has more than three tenements under his name. It is for consideration whether the

Administration should simply choose the tenements with the highest rateable values or whether the selection should be based on the owners' or occupiers' preference. Moreover, Hon Albert Chan's proposed amendments have not articulated how to calculate the share of ownership under different circumstances, e.g. joint ownership or ownership through trustees, etc., in order to determine whether tenements under the names of individual owners or occupiers are eligible for rates concession. Also, we wish to point out that rates concession is effected on a quarterly basis. However, Hon Chan's proposed amendments have not specified the relevant dates to determine the ownership or the right of occupation of a property for the purpose of rates concession in each quarter nor the arrangements for rates concession when there is a change in ownership or right of occupation after the relevant dates. Therefore, Hon Albert Chan's proposed amendments could hardly be enforced due to lack of clear and certain exemption criteria.

Practical Difficulties in Implementation

3. As we have indicated in our letter of 28 February 2012 to the Subcommittee, the database of the Rating and Valuation Department (RVD) only maintains records of ratepayers, who can be owners, tenants or their agents. RVD does not have information on whether a ratepayer is the owner or occupier of the property concerned. In order to implement Hon Albert Chan's suggested amendments, before rates concession is offered, RVD needs to request ratepayers of over 3 million properties to provide their identity information, submit documents to prove themselves as the owners or occupiers of the tenements concerned (e.g. lease documents, tenancy agreements or other supporting documents) and provide their consent for RVD to cross-check the data with records held by other Government departments so as to ensure the accuracy of the identity information. At the same time, for ratepayers with more than three tenements under their names, they need to indicate in their replies to RVD whether they agree that the tenements concerned will receive rates concession and whether the concession will be counted against the owners' or occupiers' entitlement. The above procedures will take considerable time.

4. We wish to point out that during the afore-mentioned process, if a single ratepayer does not give consent or does not make any response, RVD cannot start the relevant cross-checking and implement Hon Albert Chan's proposed amendments. In reality, the situation will be more complicated in case of joint ownership and ownership through trustee. Furthermore, to accurately reflect the latest status of ownership and occupation of the properties, the owners or occupiers need to provide updates to RVD whenever there is any change in status in order to enable RVD to determine whether the relevant tenements still enjoy quota for rates concession.

5. In view of the above implementation difficulties, significant resources and lead time would be required to implement Hon Albert Chan's proposal. More importantly, as the proposal involves complicated preparatory work and procedures, it will considerably delay the commencement of the Rating (Exemption) Order 2012, thus rendering it impossible for all ratepayers to obtain rates concession with effect from 1 April 2012. The verification procedures as detailed above will also cause inconvenience to ratepayers. Due to time constraint, we are unable to accurately estimate the time required for the relevant preparation work and procedures. However, based on the major tasks expected (e.g. the relevant computer projects), we could come to a preliminary view that Hon Albert Chan's proposed arrangement will take at least around a year for preparation.

Other Impact on Ratepayers

6. As we have indicated in our letter of 28 February 2012 to the Subcommittee, if the owners are only allowed to enjoy rates concession for up to a certain number of tenements, for those individuals or business establishments renting properties and are liable for the payment of rates under their tenancy agreements, there would be occasions that they could not benefit from rates concession. Furthermore, Hon Albert Chan's proposal cannot tackle those owners or occupiers registering their properties under different ratepayers' names in order to obtain rates concession.

Additional Public Expenditure Involved in Implementing Hon Albert Chan's Proposal

7. The Administration has considered the implications of the amendments proposed by Hon Albert Chan from the public finance perspective. Under the existing system and arrangement, RVD does not have the information to estimate the amount of rates concession saved under Hon Albert Chan's proposal. On the other hand, if the proposed amendments were to be implemented, RVD needs to put in place a new computer system to store and process registrations and identity information collected during the verification process. The existing billing system of RVD will need to be substantially revamped as well to cope with the complicated arrangement proposed. RVD also has to issue over 2.3 million of forms to all ratepayers to collect their identity information and to obtain their consent for RVD to cross-check the data with that held by other Government departments. At the same time, in cases of owners or occupiers holding more than three tenements under their names, RVD has to request the persons to indicate their preference and to select the tenements which will obtain rates concession. After obtaining the consent and preference of the ratepayers, RVD

needs to cross-check the data with that held by the Immigration Department or Business Registration Office to verify whether the persons concerned are eligible to enjoy rates concession.

8. Therefore, during the year of implementation, RVD needs to set up a dedicated team to carry out the measure, including employing several hundreds of temporary staff to input into the computer the verified information collected from some 2.3 million of forms. RVD also needs to increase the departmental manpower resources to handle additional workload arising from the anticipated large number of applications for change of ratepayers' particulars and account adjustments triggered by the proposed arrangement. The information also needs to be constantly updated. Given the time constraint, we cannot provide a complete estimation of the additional expenditure involved. However, according to RVD's rough estimate, the implementation of Hon Albert Chan's proposal may cost over \$60 million.

Rating (Exemption) Order 2012 Submitted by the Administration

9. The rates concession to be implemented by the Rating (Exemption) Order 2012 is one of the one-off measures proposed by the Financial Secretary in his 2012-13 Budget to provide timely relief to the public, having regard to comments received during Budget consultation, the prevailing economic conditions and the Government's fiscal position, etc. Implementing Hon Albert Chan's proposed amendments would defeat the original purpose of the measure as ratepayers would no longer be able to obtain rates concession in a timely manner in 2012-13. Furthermore, the proposed amendments have not stipulated in clear and certain terms the criteria for exemption legally and will give rise to practical difficulties during implementation. The proposal is also not cost-effective and will entail additional public expenditure. Therefore, we do not agree to Hon Albert Chan's proposed amendments.

Yours sincerely,



(Ms Joan Hung)
for Secretary for Financial Services
and the Treasury

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