

LEGISLATIVE COUNCIL BRIEF

Inland Revenue Ordinance
(Chapter 112)

INLAND REVENUE (AMENDMENT) (NO. 2) BILL 2015

INTRODUCTION

A At the meeting of the Executive Council on 31 March 2015, the Council ADVISED and the Chief Executive ORDERED that the Inland Revenue (Amendment) (No. 2) Bill 2015 (the Bill), at **Annex A**, should be introduced into the Legislative Council (LegCo) to implement the following concessionary revenue measures proposed in the 2015-16 Budget –

- (a) increasing both the child allowance and the additional one-off child allowance in the year of birth for each eligible child from \$70,000 to \$100,000 under salaries tax and tax under personal assessment with effect from the year of assessment 2015/16; and
- (b) reducing salaries tax, tax under personal assessment and profits tax for the year of assessment 2014/15 by 75%, subject to a ceiling of \$20,000 per case.

JUSTIFICATIONS

Proposed Increases in Child Allowances

2. To alleviate taxpayers' burden in raising their children, the 2015-16 Budget proposes to increase the child allowance under salaries tax and tax under personal assessment from the current \$70,000 to \$100,000 for each child per annum. The additional one-off child allowance in the year of birth will also be increased from the current \$70,000 to \$100,000 for each child. The increases will take effect from the year of assessment 2015/16 onwards.

About 370 000 taxpayers would benefit from the above proposals. The revenue forgone is estimated to be about \$2 billion a year.

Proposed One-off Tax Reduction for the Year of Assessment 2014/15

3. The Government has proposed a number of one-off relief measures in the 2015-16 Budget. These include a one-off reduction of salaries tax, tax under personal assessment and profits tax for the year of assessment 2014/15 by 75%, subject to a ceiling of \$20,000 per case. The reduction will be reflected in the taxpayers' final tax payable for the year of assessment 2014/15. About 1.82 million taxpayers will benefit from the proposed one-off reduction of salaries tax and tax under personal assessment. The proposed one-off reduction of profits tax will benefit about 130 000 tax-paying corporations and unincorporated businesses. The revenue forgone for 2015-16 is about \$17.7 billion.

OTHER OPTIONS

4. We must amend the Inland Revenue Ordinance (IRO) to give effect to the relevant proposals. There is no other option.

THE BILL

5. The major provisions of the Bill are as follows –

- (a) **Clause 3** amends section 89 of the IRO to provide that the transitional provisions set out in the new Schedule 33 (added by clause 6) have effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment 2015/16;
- (b) **Clause 4** adds a new section 97 to the IRO. The new section and the new Schedule 34 (added by clause 6) provide for the reduction of salaries tax, tax under personal assessment and profits tax payable for the year of assessment 2014/15 by 75%, subject to a maximum of \$20,000 in each case;
- (c) **Clause 5** amends Schedule 4 to the IRO to increase –
 - (i) the amount of child allowance granted under section 31(1) of the IRO in respect of a child from \$70,000 to \$100,000, and

the maximum amount of those allowances granted to a person from \$630,000 to \$900,000; and

- (ii) the amount of additional child allowance granted under section 31(1A) of the IRO, in respect of a child in the year of assessment in which the child is born, from \$70,000 to \$100,000, and the maximum amount of those allowances granted to a person from \$630,000 to \$900,000.

The increases take effect for the year of assessment 2015/16 and subsequent years of assessment.

- (d) **Clause 6** adds new Schedules 33 and 34 to the IRO. The new Schedule 33 provides for the transitional arrangements relating to the assessment of, and holding over of payment of, provisional salaries tax for the year of assessment 2015/16.

LEGISLATIVE TIMETABLE

6. The legislative timetable will be as follows –

Publication in the Gazette	17 April 2015
First Reading and commencement of Second Reading debate	29 April 2015
Resumption of Second Reading debate, committee stage and Third Reading	To be notified

IMPLICATIONS OF THE PROPOSAL

7. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. The proposal will not affect the binding effect of the existing provisions of the IRO and its subsidiary legislation. The financial, economic, sustainability and family implications of the proposal are at **Annex B**. The proposal has no productivity, environmental or civil service implications.

B

PUBLIC CONSULTATION

8. Owing to the confidentiality of the Budget, no formal consultation was conducted specifically in respect of the proposals in the Bill. The Financial Secretary has conducted consultations with LegCo Members, various business and professional bodies as well as the general public when formulating the 2015-16 Budget. Their views have been taken into account in drawing up those proposals.

PUBLICITY

9. We will issue a press release on the Bill on 17 April 2014. A spokesperson will be available to answer media and public enquiries.

BACKGROUND

10. Recent adjustments to the child allowance and the additional one-off child allowance included –

Year of Assessment	Change
2013/14	From \$63,000 to \$70,000;
2012/13	From \$60,000 to \$63,000; and
2011/12	From \$50,000 to \$60,000.

ENQUIRIES

11. Enquiries on this Brief can be addressed to Mr Gary Poon, Principal Assistant Secretary for Financial Services and the Treasury (Treasury) at 2810 2370.

Financial Services and the Treasury Bureau
15 April 2015

LEGISLATIVE COUNCIL BRIEF

Inland Revenue Ordinance
(Chapter 112)

INLAND REVENUE (AMENDMENT) (NO. 2) BILL 2015

ANNEXES

- | | |
|---------|---|
| Annex A | Inland Revenue (Amendment) (No. 2) Bill 2015 |
| Annex B | Financial, Economic, Sustainability and Family Implications of the Proposal |

Inland Revenue (Amendment) (No. 2) Bill 2015

Contents

Clause		Page
1.	Short title	1
2.	Inland Revenue Ordinance amended	1
3.	Section 89 amended (transitional provisions).....	1
4.	Section 97 added.....	1
	97. Reduction of taxes for year of assessment 2014/15	2
5.	Schedule 4 amended (allowances).....	2
6.	Schedules 33 and 34 added.....	4
	Schedule 33 Transitional Provisions Relating to Provisional Salaries Tax in respect of Year of Assessment 2015/16	4
	Schedule 34 Reduction of Taxes for Year of Assessment 2014/15.....	5

A BILL

To

Amend the Inland Revenue Ordinance to give effect to the proposals concerning tax concessions in the Budget introduced by the Government for the 2015–2016 financial year; and to provide for transitional matters.

Enacted by the Legislative Council.

1. Short title

This Ordinance may be cited as the Inland Revenue (Amendment) (No. 2) Ordinance 2015.

2. Inland Revenue Ordinance amended

The Inland Revenue Ordinance (Cap. 112) is amended as set out in sections 3 to 6.

3. Section 89 amended (transitional provisions)

After section 89(13)—

Add

“(14) Schedule 33 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2015.”.

4. Section 97 added

After section 96—

Add

“97. Reduction of taxes for year of assessment 2014/15

Schedule 34 contains provisions relating to the reduction of salaries tax, profits tax and tax under personal assessment for the year of assessment commencing on 1 April 2014.”.

5. Schedule 4 amended (allowances)

(1) Schedule 4, subheading—

Repeal

“For the year of assessment 2014/15 and for each year after that year”

Substitute

“For the year of assessment 2014/15”.

(2) At the end of Schedule 4—

Add

“For the year of assessment 2015/16 and for each year after that year

	FIRST COLUMN (section)	SECOND COLUMN (the prescribed amount)
1.	Section 28 (basic allowance)	\$120,000
2.	Section 29 (married person’s allowance)	\$240,000
3.	Section 30 (dependent parent allowance)—	
	(a) subsection (3)(a)	\$ 40,000
	(b) subsection (3)(b)	\$ 40,000
	(c) subsection (3A)(a)	\$ 20,000

FIRST COLUMN (section)	SECOND COLUMN (the prescribed amount)
---------------------------	--

(d) subsection (3A)(b)	\$ 20,000
(e) subsection (4)(a)	\$ 12,000

4. Section 30A (dependent grandparent allowance)—

(a) subsection (3)(a)	\$ 40,000
(b) subsection (3)(b)	\$ 40,000
(c) subsection (3A)(a)	\$ 20,000
(d) subsection (3A)(b)	\$ 20,000
(e) subsection (4)(a)	\$ 12,000

5. Section 30B(1) (dependent brother or dependent sister allowance)

\$ 33,000

6. Section 31 (child allowance)—

(a) subsection (1)	\$100,000 for each child
(b) subsection (1A)	\$100,000 for each child
(c) subsection (5) (in relation to subsection (1))	\$900,000
(d) subsection (5) (in relation to subsection (1A))	\$900,000

	FIRST COLUMN (section)	SECOND COLUMN (the prescribed amount)
7.	Section 31A(1) (disabled dependant allowance)	\$ 66,000
8.	Section 32(1) (single parent allowance)	\$120,000”.

6. Schedules 33 and 34 added

After Schedule 32—

Add

“Schedule 33 [s. 89(14)]

Transitional Provisions Relating to Provisional Salaries Tax in respect of Year of Assessment 2015/16

1. Interpretation

In this Schedule—

year of assessment 2014/15 (2014/15 課稅年度) means the year of assessment commencing on 1 April 2014;

year of assessment 2015/16 (2015/16 課稅年度) means the year of assessment commencing on 1 April 2015.

2. Allowances granted for year of assessment 2015/16

(1) For the purposes of section 63C(1), in calculating the net chargeable income of a person for the year of assessment 2014/15 to ascertain the provisional salaries tax in respect of the year of assessment 2015/16—

(a) the reference to “such allowances as are under Part 5 permitted for that person” in section 12B(1)(b); and

(b) the reference to “such allowances as are under Part 5 permitted in their case” in section 12B(2)(b),

are to be construed as allowances that may be granted to that person, or that person and his or her spouse, whichever is applicable, for the year of assessment 2015/16 under Part 5 as amended by the Inland Revenue (Amendment) (No. 2) Ordinance 2015 (of 2015).

(2) For the purposes of an application under section 63E(1) to hold over the payment of provisional salaries tax in respect of the year of assessment 2015/16, the reference to “net chargeable income for the year preceding the year of assessment” in section 63E(2)(a) and (b) is to be construed as the net chargeable income for the year of assessment 2014/15 as calculated in accordance with subsection (1).

Schedule 34

[s. 97]

Reduction of Taxes for Year of Assessment 2014/15

1. Salaries tax

The amount of salaries tax charged under Part 3 for the year of assessment commencing on 1 April 2014 is reduced by an amount equivalent to—

(a) 75% of the amount of the tax as computed under section 13(1) read together with section 13(2); or

(b) \$20,000,

whichever is the lesser.

2. Profits tax

(1) The amount of profits tax charged under Part 4 for the year of assessment commencing on 1 April 2014 is reduced by an amount equivalent to—

(a) 75% of the amount of the tax as computed under section 14 read together with sections 14A and 14B; or

(b) \$20,000,

whichever is the lesser.

(2) If a trade, profession or business is carried on by a partnership, and any of the partners has elected to be assessed in accordance with Part 7 for the year of assessment commencing on 1 April 2014, the reduction under subsection (1) applies to the tax chargeable on the whole of the net assessable profits of the trade, profession or business, and not the tax charged on the net assessable profits of the trade, profession or business shared by those partners who have not made that election.

3. Tax under personal assessment

(1) The amount of tax charged under Part 7 for the year of assessment commencing on 1 April 2014 is reduced by an amount equivalent to—

(a) 75% of the amount of the tax as computed under section 43(1) read together with section 43(1A); or

(b) \$20,000,

whichever is the lesser.

(2) For the purposes of section 43(2B), in ascertaining the portion of tax to be charged on each spouse in the year of assessment commencing on 1 April 2014, the amount of tax to be apportioned between the husband and wife is the amount as reduced under subsection (1).”

Explanatory Memorandum

The object of this Bill is to amend the Inland Revenue Ordinance (Cap. 112) to give effect to the proposals concerning tax concessions in the Budget introduced by the Government for the 2015–2016 financial year.

2. Clause 1 sets out the short title.
3. Clause 3 amends section 89 of the Ordinance to provide that the transitional provisions set out in the new Schedule 33 (added by clause 6) have effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment 2015/16.
4. Clause 4 adds a new section 97 to the Ordinance. The new section and the new Schedule 34 (added by clause 6) provide for the reduction of salaries tax, profits tax and tax under personal assessment payable for the year of assessment 2014/15 by 75%, subject to a maximum of \$20,000 in each case.
5. Clause 5 amends Schedule 4 to the Ordinance to increase—
 - (a) the amount of child allowance granted under section 31(1) of the Ordinance in respect of a child from \$70,000 to \$100,000, and the maximum amount of those allowances granted to a person from \$630,000 to \$900,000; and
 - (b) the amount of additional child allowance granted under section 31(1A) of the Ordinance in respect of a child in the year of assessment in which the child is born from \$70,000 to \$100,000, and the maximum amount of those allowances granted to a person from \$630,000 to \$900,000.

The increases take effect for the year of assessment 2015/16 and subsequent years of assessment.

6. Clause 6 adds new Schedules 33 and 34 to the Ordinance. The new Schedule 33 provides for the transitional arrangements relating to the assessment of, and holding over of payment of, provisional salaries tax for the year of assessment 2015/16.

**Financial, Economic, Sustainability and
Family Implications of the Proposal**

Financial Implications

It is estimated that the proposed increases in child allowances will involve \$2 billion a year as revenue forgone. As for the proposed one-off reduction of salaries tax, tax under personal assessment and profits tax for the year of assessment 2014/15, the estimated one-off revenue forgone is \$17.7 billion.

Economic Implications

2. The proposed concessionary tax measures will help relieve the financial burden of taxpayers, and possibly generate some mild stimulus to consumer spending. The proposed one-off reduction of profits tax will allow enterprises, especially small and medium ones, to have more disposable funds.

Sustainability Implications

3. The proposed concessionary tax measures are expected to generate economic benefits to households through increasing their disposable incomes and to promote social harmony through alleviating taxpayers' burden in raising children. The proposed one-off reduction of profits tax will encourage enterprises to make more reinvestment with a view to enhancing their competitiveness.

Family Implications

4. The proposed increases in child allowances will help to relieve the financial burden of some families in raising their children.