

II. REPORT

The date of First Reading of the Bill is 22 March 2017. Members may refer to the Legislative Council ("LegCo") Brief (File Ref.: TsyB R 183/535-1/5/0 (17-18) (C)) issued by the Financial Services and the Treasury Bureau on 1 March 2017 for further details.

Object of the Bill

2. The Bill seeks to amend the Inland Revenue Ordinance (Cap. 112) to give effect to certain proposals concerning tax concessions in the Budget introduced by the Government for the 2017-2018 financial year, and to provide for transitional matters.

Provisions of the Bill

Extension of entitlement period for home loan interest deduction

3. Under section 26E(1) of Cap. 112, where a person pays during any year of assessment any home loan interest for the purposes of a home loan obtained in respect of a dwelling which is used at any time in that year of assessment by the person exclusively or partly as his place of residence, a deduction in respect of the home loan interest shall be allowable to that person for that year of assessment. By virtue of section 26E(4)(c) of Cap. 112, the total entitlement period for home loan interest deduction is 15 years of assessment (whether continuous or not).

4. Clause 3 of the Bill seeks to amend section 26E of Cap. 112 to give effect to the proposal in the 2017-18 Budget ("the Budget") to extend the entitlement period for home loan interest deduction from 15 years of assessment to 20 years of assessment while maintaining the current deduction ceiling of \$100,000 a year¹.

Widening of marginal bands for salaries tax

5. Schedule 2 to Cap 112 specifies the rates of salaries tax charged on the net chargeable income of a person for each year of assessment. Clause 6 of the Bill seeks to amend Schedule 2 to Cap. 112 to give effect to the proposal in the Budget to widen the marginal bands for salaries tax from \$40,000 to \$45,000 for the year of assessment 2017/18 and for each subsequent year of assessment².

¹ Paragraph 61(d) of The 2017-18 Budget Speech by the Financial Secretary moving the Second Reading of the Appropriation Bill 2017 ("the Budget Speech").

² Paragraph 61(a) of the Budget Speech.

Increase in the maximum amount of deduction for self-education expenses

6. Sections 12(1)(e) and 12(6) of Cap. 112 provide that in ascertaining the net assessable income of a person for any year of assessment, there shall be deducted from the assessable income of that person the amount of the expenses of self-education paid in the year of assessment not exceeding the amount specified in relation to that year in Schedule 3A to Cap. 112.

7. Clause 7 of the Bill seeks to amend Schedule 3A to Cap. 112 to implement the proposal in the Budget to increase the maximum amount of deduction for self-education expenses from \$80,000 to \$100,000 for the year of assessment 2017/18 and for each subsequent year of assessment³.

Increase in various allowances

8. Part 5 of Cap. 112 prescribes the allowances which shall be granted to persons chargeable to salaries tax and tax under personal assessment and the circumstances in which such allowances are grantable. The prescribed amount or percentage of the respective allowances is set out in Schedule 4 to Cap. 112.

9. Clause 8 of the Bill seeks to amend Schedule 4 to Cap. 112 to implement the proposal in the Budget to increase the amount of dependent brother or dependent sister allowance granted under section 30B of Cap. 112 from \$33,000 to \$37,500, and to increase the amount of disabled dependant allowance granted under section 31A of Cap. 112 from \$66,000 to \$75,000 for the year of assessment 2017/18 and for each subsequent year of assessment⁴.

One-off tax reduction for the year of assessment 2016/17

10. The Budget also proposes a one-off reduction of salaries tax, profits tax and tax under personal assessment payable for the year of assessment 2016/17 by 75%, subject to a ceiling of \$20,000 in each case⁵. Clauses 5 and 9 of the Bill seek to add a new section 99 and a new Schedule 40 to Cap. 112 respectively to give effect to the proposal.

Transitional provisions

11. Clauses 4 and 9 of the Bill seek to add a new section 89(18) and a new Schedule 39 to Cap. 112 respectively to provide for the transitional arrangements relating to the assessment of, and holding over of payment of, provisional salaries tax for the year of assessment 2017/18.

³ Paragraph 61(e) of the Budget Speech.

⁴ Paragraph 61(b) and (c) of the Budget Speech.

⁵ Paragraph 60(a) and (b) of the Budget Speech.

Commencement

12. The Bill, if passed, would come into operation on the day on which it is published in the Gazette as an Ordinance.

Public Consultation

13. According to paragraph 9 of the LegCo Brief, owing to the confidentiality of the Budget, no consultation was conducted specifically in respect of the proposals in the Bill. However, the Administration has formulated the proposals after taking into account views received from LegCo Members and other stakeholders during the Budget consultation process.

Consultation with LegCo Panel

14. According to the Clerk to the Panel on Financial Affairs, the Panel has not been consulted on the Bill.

Conclusion

15. No difficulties relating to the legal and drafting aspects of the Bill have been identified. Subject to Members' views, the Bill is ready for resumption of Second Reading debate.

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