

**Bills Committee on  
Inland Revenue (Amendment) (No. 7) Bill 2017 (“the Bill”)**

**Draft Committee Stage Amendments proposed by the Government**

**Purpose**

The Assistant Legal Adviser of the Legislative Council has sought our clarification on the policy intent in relation to the assessment of profits arising from qualifying debt instruments (“QDI”) and assessable profits other than arising from QDI. The Government proposes to introduce Committee Stage Amendments (“CSAs”) to the Bill in order to reflect our policy intent more clearly.

**Policy Intent under the Present Bill**

2. A corporation could have assessable profits from QDI and other sources. Section 14A of the Inland Revenue Ordinance (“IRO”) provides that interest, gains or profits derived from QDI are chargeable to profits tax at one-half of the rate specified in Schedule 1 (15%) or Schedule 8 (16.5%), as the case may be. The present Bill has not amended the existing section 14A of the IRO. Thus, such interest, gains or profits would continue to be taxed at 7.5% or 8.25% after the implementation of the two-tiered profits tax rates regime. Assessable profits from businesses unrelating to QDI would be chargeable to profits tax at the two-tiered rates under the proposed section 14(2), (3) or (4). With the above, profits relating to QDI would not be counted towards the “cap” of \$2 million of assessable profits under the proposed Schedule 8A or 8B.

**Committee Stage Amendments**

3. We agree that the Bill may be fine-tuned to reflect the above policy intent more clearly. To this end, we would propose CSAs to change the references to “assessable profits” in the proposed Schedules 8A and 8B to assessable profits to which section 14 of the IRO applies. The mark-up version of the draft CSAs are at [Annex](#).

## **Advice Sought**

4. Members are invited to note and comment on the draft CSAs.

**Financial Services and the Treasury Bureau  
February 2018**

Inland Revenue (Amendment) (No. 7) Bill 2017

**Committee Stage**

Amendments to be moved by  
the Secretary for Financial Services and the Treasury  
(mark-up version)

**11. Schedules 8A and 8B added**

After Schedule 8—

**Add**

**“Schedule 8A**

[ss. 14, 14AAC, 63H &  
63HA & Sch. 43]

**Two-tiered Rates of Profits Tax—Persons other than  
Corporations**

1A. In this Schedule—

**section 14 assessable profits** (第 14 條應評稅利潤) means assessable profits to  
which section 14 applies.

1. For a year of assessment commencing on or after 1 April 2018, profits tax is chargeable in respect of each trade, profession or business—
  - (a) at the rate of 7.5% on the section 14 assessable profits from the trade, profession or business up to \$2,000,000; and
  - (b) at the rate of 15% on any part of the section 14 assessable profits over \$2,000,000 from the trade, profession or business.

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**Schedule 8B**

[ss. 14, 14AAC, 63H &  
63HA & Sch. 43]

**Two-tiered Rates of Profits Tax—Corporations**

1. In this Schedule—

**section 14 assessable profits** (第 14 條應評稅利潤) means assessable profits to  
which section 14 applies;

**threshold** (限額), for a corporation that is a partner in a partnership, means \$2,000,000 multiplied by the ratio at which the corporation shares the profits or losses of the partnership during the basis period for the year of assessment concerned.

2. For a year of assessment commencing on or after 1 April 2018, profits tax is chargeable—

(a) for a corporation—

- (i) at the rate of 8.25% on [section 14](#) assessable profits up to \$2,000,000; and
- (ii) at the rate of 16.5% on any part of [section 14](#) assessable profits over \$2,000,000; and

(b) for a corporation that is a partner in a partnership—

- (i) at the rate of 8.25% on the net share of [section 14](#) assessable profits concerned up to the threshold; and
- (ii) at the rate of 16.5% on any part of the net share of [section 14](#) assessable profits over the threshold.”.