立法會
Legislative Council

LC Paper No. CB(1)799/17-18(04)

Ref: CB1/BC/5/17

Bills Committee on Inland Revenue (Amendment) Bill 2018

Background brief

Purpose

This paper provides background information on the Inland Revenue (Amendment) Bill 2018 ("the Bill") and summarizes the views and concerns expressed by Members on related issues.

Background

2. To alleviate the tax burden on salary earners, the Financial Secretary ("FS") announced various proposals of tax concessions in the 2018-2019 Budget ("the Budget"). The Bill, gazetted on 9 March 2018 and introduced to the Legislative Council ("LegCo") on 21 March 2018, seeks to amend the Inland Revenue Ordinance (Cap. 112) ("IRO") to give effect to the following adjustments for salaries tax and tax under personal assessment, with effect from the year of assessment 2018-2019:

(a) increasing the number of tax bands from four to five with marginal rates at 2%/6%/10%/14%/17% respectively and widening the tax bands from $45,000 to $50,000 each, as set out in **Appendix I**;[1]

(b) increasing both the child allowance for each eligible child and the additional child allowance in respect of each child born in the year of assessment from $100,000 to $120,000;[2]

---

[1] According to the Administration, these adjustments will benefit 1.34 million taxpayers and reduce tax revenue by $4.09 billion a year.

[2] This measure will benefit 335 000 taxpayers and reduce tax revenue by $1.31 billion a year.

(c) increasing both the dependent parent/grandparent allowance and the additional dependent parent/grandparent allowance for each eligible parent/grandparent from $46,000 to $50,000 (for aged 60 or above, or disabled) and from $23,000 to $25,000 (for aged 55 or above but below 60);

(d) raising the deduction ceiling for elderly residential care expenses for each eligible parent/grandparent from $92,000 to $100,000;[3] and

(e) introducing a new personal disability allowance of $75,000 for eligible taxpayers with disability.[4]

3. The above proposed adjustments, with the number of estimated beneficiaries, will together reduce tax revenue by $6.43 billion each year. A summary of the above proposed changes to allowances and deductions in the Budget is in **Appendix II**.

4. The Bill also amends IRO to give effect to a one-off reduction of salaries tax, tax under personal assessment and profits tax for the year of assessment 2017-2018 by 75%, subject to a ceiling of $30,000 per case. The proposed one-off reduction will benefit 1.88 million taxpayers of salaries tax and tax under personal assessment, and 142 000 tax-paying corporations and unincorporated businesses. The revenue forgone amounts to $25.5 billion in total ($22.6 billion for salaries tax and tax under personal assessment, and $2.9 billion for profits tax). The effects of this proposal on tax reduction by categories of assessable income/profits are set out in **Appendix III**.

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

Major views and concerns expressed by Members

6. Members raised tax-related issues during the consultation on the Budget at a special meeting of the Panel on Financial Affairs on 8 January 2018. Previous tax concession proposals similar to those under the Bill were discussed by the bills committees concerned. The major views and concerns expressed by Members relevant to the current proposals are summarized in the ensuing paragraphs.

---

[3] The measures in paragraphs 2(c) and 2(d) above will benefit 607 000 taxpayers and reduce tax revenue by $580 million a year.

[4] This measure will reduce tax revenue by $450 million a year.

Rationales for tax concession proposals

7. Members noted that there had been different views and suggestions from various sectors of the community on the tax concessions to be introduced in each year's budget, and enquired about the rationales for the specific proposals. Some Members suggested the Administration put in place a mechanism to review and adjust tax allowances or deduction ceilings regularly so as to ensure that the intended benefits of alleviating the tax burden of taxpayers would be maintained, and not offset/reduced by inflation and other circumstances. In view of the widening wealth gap in Hong Kong, some Members considered that the Administration should use taxation measures and tax concessions to help achieve a better and fairer allocation of wealth and resources in the community.

8. The Administration advised that it had taken into account the then prevailing local and external economic environment, inflation and economic outlook, impact of the proposed tax concessions on Government's fiscal position, public expenditure trend, taxation regime, and the views expressed by the public and various stakeholders during the consultation on the budgets concerned, in finalizing each year's tax concession proposals, if any. The tax concessions offered might vary from year to year having regard to the keynote of the budgets concerned, which might include considerations for the population policy, as in the case of increasing child allowance to help boost the birth rates, or increasing dependent parent/grandparent allowance to promote care for the elderly.

9. The Administration further advised that there was no specific mechanism for determining the timing and extent of adjusting each tax allowance and deduction ceiling, and no reference made to the levels of specific expenses borne by taxpayers that were relevant to the tax allowances/deductions. In fact, certain items (such as the child allowance and the dependent parent/grandparent allowance) were adjusted more frequently due to their wider public concern. The Administration would strike a balance of all factors to determine which tax allowances and deduction ceilings should be adjusted in a particular year, and whether one-off tax reductions could be offered. As regards the considerations in determining the amount of increase in particular allowance, the Administration explained that the increase had taken into account the amounts of increase in the previous years.

10. The Administration stressed that due to the narrow tax base of Hong Kong, it should critically assess the long-term financial implication of any tax concessionary measures on tax revenue which was highly susceptible to economic fluctuation. There should be wide public consensus for any major reform of the taxation regime, including whether or not tax measures should be used to achieve a re-distribution of wealth.

Adjustments to tax bands and marginal tax rates

11. Members enquired if fiscal implication was the main factor in determining whether to widen tax bands and/or reduce the marginal tax rates, and the potential impact on the tax base if the marginal tax bands were adjusted. The Administration advised that various factors, such as the number of taxpayers that would be benefited, would be taken into account when deciding what tax measures should be introduced. Regarding the impact of widening tax bands, it would likely be short-term as the number of taxpayers and taxable income would increase as a result of wage rise during a period of strong economy. However, if the tax bands were widened and tax rates reduced at the same time, loss in tax revenue would be much greater and there could be structural impact on the tax base. The Administration assured Members that it would continue to conduct regular reviews of the taxation regime of Hong Kong, including the tax bands and rates of various taxes.

Dependent parent allowances

12. Members sought explanation on why it was a condition that the dependent parents must ordinarily reside in Hong Kong for a taxpayer to claim the dependent parent allowance. The Administration advised that the Administration's policy was to encourage the younger generation to take care of their parents by providing taxpayers with the dependent parent allowance under salaries tax and tax under personal assessment. The Administration was of the view that the additional dependent parent allowance provided to taxpayers if they resided with their parents throughout the year of assessment could further encourage the younger generation to live with their parents. Thus, the Hong Kong residence requirement was imposed on parents if a taxpayer wished to claim the above allowances.

Child allowances

13. Members asked about the age of children eligible for the child allowances under salaries tax and tax under personal assessment. The Administration advised that according to section 31(1) of IRO, child allowances should be granted in the prescribed amount in any year of assessment if the taxpayer had living and was maintaining at any time during the year of assessment an unmarried child who was: (a) under the age of 18; (b) of or over the age of 18 years but under the age of 25 years and was receiving full time education at a university, college, school or other similar educational establishment; or (c) of or over the age of 18 years and was, by reason of physical or mental disability, incapacitated for work.

Consultation exercise

14. Some Members raised concern about the lack of transparency on the details of Administration's consultation on tax concession proposals and the views expressed by the consulted parties. They considered that such information should be made available to the public.

15. The Administration advised that in formulating each year's budget, FS would engage the public, and meet with LegCo Members, professional bodies and other relevant parties to gauge their views and suggestions. However, owing to the confidentiality of the budget, the Administration had not carried out consultation specifically with reference to the proposals in the bills concerned.

Due dates for tax payments

16. Regarding how the due dates for tax payments were determined, the Administration advised that under IRO, a taxpayer was obliged to pay salaries tax or tax under personal assessment in respect of a particular year of assessment in one go by a date to be specified by the Commissioner of Inland Revenue ("the Commissioner"). In practice, the Commissioner exercised his discretion under IRO to allow taxpayers to pay the tax by two installments, usually in January and April of the relevant year. In determining the payment due dates for individual taxpayers, the Inland Revenue Department would give consideration to various factors. Generally speaking, taxpayers required to pay larger amounts of tax were likely to be subject to earlier payment due dates, and similar payment due dates would apply to the same taxpayer in subsequent years to facilitate his/her financial planning.

Council meeting

17. At the Council meeting of 1 March 2017, a motion on "Actively studying the establishment of a middle class commission" moved by Hon Tommy CHEUNG and as amended by Hon Frankie YICK, Hon KWOK Wai-keung and Dr Hon Elizabeth QUAT was passed urging the Government to, in relation to taxation:

(a) introduce a tax allowance for rentals for the marginal middle class;

(b) adjust salaries tax downwards, in particular widening tax bands for salaries tax and lowering the marginal tax rates, so as to vigorously alleviate the burden of the marginal middle class;

(c) relax the restrictions on the dependent parent or dependent grandparent allowance by relaxing the eligibility requirement from living in the same unit to living in the same housing estate;

(d) introduce a tax allowance for children's education to alleviate the burden of children education expenses on middle-class families;

(e) substantially increase the salaries tax deduction for self-education expenses and the subsidy under the Continuing Education Fund;

(f) provide tax deduction for medical insurance contributions; and

(g) provide tax deduction for medical examinations to encourage the middle class to undergo such examinations on a regular basis.

The wording of the motion is hyperlinked in **Appendix IV**.

Recent development

18. At the House Committee meeting held on 23 March 2018, Members agreed to form a bills committee to study the Bill.

References

19. A list of relevant papers is in **Appendix IV**.

Council Business Division 1
Legislative Council Secretariat
16 April 2018

Appendix I

Tax concession proposals related to tax bands and marginal tax rates under the 2018-2019 Budget

The Financial Secretary proposed in the 2018-2019 Budget to widen the width of tax bands from $45,000 to $50,000 and to increase the number of tax bands from four to five with marginal tax rates of 2%, 6%, 10%, 14% and 17% commencing from the year of assessment 2018-2019. The present and the proposed tax bands and marginal tax rates are shown in the table below:

Year of Assessment	**Present (2017-2018)**		**Proposed (From 2018-2019 onwards#)[1]**	
	Net chargeable income (Tax band) $	Rate	Net chargeable income (Tax band) $	Rate
On the first	45,000	2%	50,000	2%
On the next	45,000	7%	50,000	6%
	45,000	12%	50,000	10%
On the next	_____		50,000	14%
	135,000		200,000	
Remainder		17%		17%

#Until superseded

[Source: Website of the Inland Revenue Department on 2018-2019 Budget – Tax Measures]

---

[1] The tax bands were last widened from $40,000 to $45,000 from the year of assessment 2017-2018.

Appendix II

A summary of proposed changes to allowances and deductions from the year of assessment 2018-2019

Nature of allowances/ deduction ceilings	Present (Assessment year 2017-2018)	Proposed (From assessment year 2018-2019)	Increase		Recent changes
(a) Child allowance for each eligible child and additional child allowance in respect of each child born in the year of assessment granted under sections 31(1) and 31(1A) of the Inland Revenue Ordinance (Cap. 112) ("IRO")	$100,000	$120,000	$20,000	20%	Last increased in assessment year 2015-2016 from $70,000 to the current level of $100,000
(b) Dependent parent/grandparent allowance and additional dependent parent/grandparent allowance granted under sections 30(1) and 30A(1) of IRO	$46,000 (for aged 60 or above, or disabled)	$50,000 (for aged 60 or above, or disabled)	$4,000	About 9%	Last increased in assessment year 2016-2017 from $40,000 to the current level of $46,000

Nature of allowances/ deduction ceilings	Present (Assessment year 2017-2018)	Proposed (From assessment year 2018-2019)	Increase		Recent changes
(c) Dependent parent/grandparent allowance and additional dependent parent/grandparent allowance granted under sections 30(1A) and 30A(1A) of IRO	$23,000 (for aged 55 or above but below 60)	$25,000 (for aged 55 or above but below 60)	$2,000	About 9%	Last increased in assessment year 2016-2017 from $20,000 to the current level of $23,000
(d) Deduction ceiling for elderly residential care expenses for each eligible parent/grandparent under Schedule 3C to IRO	$92,000	$100,000	$8,000	About 9%	Last increased in assessment year 2016-2017 from $80,000 to the current level of $92,000
(e) Personal disability allowance granted under a proposed new section 28A of IRO	--	$75,000 (New allowance)	--	--	--

[Source: Adapted from page (3) of Supplement to 2018-2019 Budget – proposed changes to allowances and deductions]

Appendix III

Effects of the proposed one-off reduction of salaries tax, tax under personal assessment and profits tax for the year of assessment 2017-2018

Salaries tax and tax under personal assessment:
75% tax reduction subject to a cap at $30,000 per case

Assessable Income	No. of taxpayers	Average amount of tax reduction	Average % of tax reduced
$200,000 and below	307 000	$590	75%
$200,001 to $300,000	406 000	$3,010	75%
$300,001 to $400,000	314 000	$7,870	75%
$400,001 to $600,000	386 000	$15,730	70%
$600,001 to $900,000	244 000	$25,070	48%
Above $900,000	219 000	$29,880	12%
Total	1 876 000	—	—

Note: As at 31 December 2017, Hong Kong had a working population of 3.96 million.

Profits tax:
75% tax reduction subject to a cap at $30,000 per case

Assessable Profits	No. of businesses#	Average amount of tax reduction	Average % of tax reduced
$100,000 and below	44 000	$4,170	75%
$100,001 to $200,000	19 000	$17,690	75%
$200,001 to $300,000	12 000	$28,110	72%
$300,001 to $400,000	8 000	$30,000	54%
$400,001 to $600,000	10 000	$30,000	38%
$600,001 to $900,000	9 000	$30,000	26%
Above $900,000	40 000	$30,000	1%
Total	142 000	—	—

Note: As at 31 December 2017, there were about 1.26 million corporations and 260 000 unincorporated businesses in Hong Kong.

\# Including 110 000 corporations and 32 000 unincorporated businesses.

[Source: Page (4) of Supplement to 2018-2019 Budget – Effect of the Proposed One-off Reduction of Salaries Tax, Tax under Personal Assessment and Profits Tax]

Appendix IV

List of relevant papers

Date	Event	Papers/Minutes of meeting
12 July 2012	Resumption of Second Reading of the Bills Committee on Inland Revenue (Amendment) Bill 2012 at the Council meeting	Report of the Bills Committee (LC Paper No. CB(1)2317/11-12)
26 June 2013	Resumption of Second Reading of the Bills Committee on Inland Revenue (Amendment) (No. 2) Bill 2013 at the Council meeting	Report of the Bills Committee (LC Paper No. CB(1)1340/12-13)
25 June 2014	Resumption of Second Reading of the Bills Committee on Inland Revenue (Amendment) Bill 2014 at the Council meeting	Report of the Bills Committee (LC Paper No. CB(4)819/13-14)
8 July 2015	Resumption of Second Reading of the Bills Committee on Inland Revenue (Amendment) (No. 2) Bill 2015 at the Council meeting	Report of the Bills Committee (LC Paper No. CB(1)1028/14-15)
1 March 2017	Council meeting	Motion moved by Hon Tommy CHEUNG and as amended by Hon Frankie YICK, Hon KWOK Wai-keung and Dr Hon Elizabeth QUAT
17 May 2017	Resumption of Second Reading of the Bills Committee on Inland Revenue (Amendment) Bill 2017 at the Council meeting	Report of the Bills Committee (LC Paper No. CB(1)904/16-17)
21 March 2018	The Inland Revenue (Amendment) Bill 2018 was introduced into the Legislative Council	The Bill Legislative Council Brief (TsyB R 183/535-1/5/0(18-19)(C)) Legal Service Division report (LC Paper No. LS 46/17-18)