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By email (aykshek@legco.gov.hk)

10 April 2019

Ms Angel SHEK
Clerk to Bills Committee
Legislative Council Secretariat
1 Legislative Council Road
Central, Hong Kong

Dear Ms Shek,

**Bills Committee on
Inland Revenue (Amendment) (Tax Concessions) Bill 2019**

Thank you for your email dated 4 April 2019 enclosing the list of follow-up actions arising from the Bills Committee meeting held on 3 April 2019. Please find the Government's response at **Annex**.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'Pecvin Yong'.

(Ms Pecvin Yong)
for Secretary for Financial Services and the Treasury

c.c.

Commission of Inland Revenue (Attn: Mr KK CHIU)
Department of Justice (Attn: Ms Amy CHAN)

**Bills Committee on
Inland Revenue (Amendment) (Tax Concessions) Bill 2019**

**Government's response to the follow-up issues arising from
the Bills Committee meeting on 3 April 2019**

At the meeting of the Bills Committee on 3 April 2019, the Government was requested to provide written response on the following –

- (a) the number of taxpayers who had paid salaries tax and tax under personal assessment for previous year(s) of assessment (“YA(s)”) but will not benefit from the proposed one-off reductions of these taxes for YA 2018/19 due to lowered or no income;
- (b) the number of taxpaying corporations and unincorporated businesses which had paid profits tax for previous YA(s) but will not benefit from the proposed one-off reductions of this tax for YA 2018/19 due to losses;
- (c) in relation to taxpayers, taxpaying corporations and unincorporated businesses in (a) and (b) above, whether the Government will consider introducing tax concessionary measures to help them tide over financial difficulty, including –
 - (i) one-off tax rebate calculated with reference to the amount (or average amount) of salaries tax, tax under personal assessment and profits tax paid for previous YA(s), and subject to a ceiling of \$20,000 per case; and/or
 - (ii) allowing losses made in an accounting year to be carried backward for setting off against the profits of a tax-paying corporations and unincorporated businesses.

2. The Administration was also requested to consider introducing more tax concessionary measures under the 2019-20 Budget, or adjusting the current proposal of one-off reductions of salaries tax, tax under personal assessment and profits tax under the Bill, with a view to providing more tax concessions to the needy, if the actual surplus far

exceeds the forecast surplus of \$58.7 billion for the financial year 2018-19.

3. The Government's response is set out below.

One-off Tax Reductions

4. The amount of one-off tax reduction for a YA is based on the final tax liability of a taxpayer for the YA. As the tax returns for YA 2018/19 for corporations/partnerships and individuals are not yet due for submission, it is unclear whether there will be a tax reduction in a particular case before the completion of the tax assessment.

5. Moreover, the Inland Revenue Department does not compile statistics on the number of taxpayers who paid tax in a certain year but did not benefit from tax reduction in the subsequent year. As a matter of fact, there could be various reasons why an individual taxpayer who paid tax in a certain year but did not have income or had lowered income in the subsequent year, e.g. retiring, pursuing further study, switching to work part-time only, etc. Indeed, a taxpayer who had the same level of annual income in two YAs might not need to pay tax in the second year because of the increases of tax allowances and deductions that he is eligible for the second year. The taxpayer concerned did not necessarily have financial difficulties.

6. It is worthy to note that given tax reductions for salaries tax, tax under personal assessment and profits tax were provided in every YA since YA 2011/12, allowing one-off tax rebate calculated with reference to the amount (or average amount) of tax paid for the previous YA(s) may result in double deductions of tax for a YA, and thus distort the basis of assessment.

7. When formulating one-off relief or concessionary measures in the annual Budget, the Government takes into account the overall economic situation, the Government's fiscal position, the needs of various sectors in the community and relevant policies in a holistic manner. In the 2019-20 Budget, the Government has proposed one-off tax reductions for salaries tax, tax under personal assessment and profits tax for YA 2018/19 by 75%, subject to a ceiling of \$20,000. The proposed one-off

tax reductions together with other one-off revenue reduction and expenditure measures together amount to \$42.9 billion. This compares favourably with the revised estimate of consolidated surplus for 2018-19 of \$58.7 billion. We have no intention to make adjustments to the proposed one-off tax reductions for YA 2018/19. The provisional surplus for 2018-19 will be announced in end April 2019.

Carrying Losses

8. The Inland Revenue Ordinance (Cap. 112) already allows losses of enterprises of the current YA to be carried forward, without time limit, for setting off against assessable profits derived in the subsequent YAs. Allowing losses made in a YA to be carried backward for setting off against the assessable profits in the back years may result in tax refund at any time and cause drastic and unpredictable fluctuations in tax revenue. We believe that our current arrangement for enterprises to carry forward their losses without time limit to offset profits in future years should assist enterprises to manage their losses and remains attractive to investors.

**Treasury Branch
Financial Services and the Treasury Bureau
April 2019**