LC Paper No. CB(1)885/18-19(01)

Inland Revenue (Amendment) (Tax Concessions) Bill 2019

The Government's Written Response to the Liberal Party's Submission

The Government's response to the submission from the Liberal Party (LP) to the Legislative Council on the Inland Revenue (Amendment) (Tax Concessions) Bill 2019 on 10 April 2019 is set out below.

Profits Tax

2. The LP suggested the Government to reduce the upper corporate profits tax rate from 16.5% to 15%.

3. The two-tiered profits tax rates regime has been implemented since 1 April 2018. For the first $2 million of profits, the profits tax rate for corporations has been lowered to 8.25% while that for unincorporated businesses has been lowered to 7.5%. Profits above the first $2 million of corporations and unincorporated businesses are subject to the tax rates of 16.5% and 15% respectively. A tax-paying corporation or unincorporated business may save up to $165,000 and $150,000 each year respectively. Hong Kong's corporate tax rates are still amongst the lowest in the world and remain highly competitive.

4. Further, the Government has introduced preferential tax regimes for different sectors in recent years to promote the development of various industries. These include offering tax concessions to corporate treasury centres, captive insurers, qualifying aircraft lessors and qualifying aircraft leasing managers, etc. Moreover, with effect from 1 April 2018, enhanced tax deduction has been provided for qualifying research and development expenditure. We believe that these measures can further reduce the tax burden on the enterprises concerned, foster a favourable business environment and enhance Hong Kong's competitiveness.

5. In view of the above, we have no plan to adjust the profits tax rates for corporations for the time being.

Salaries Tax/Tax under Personal Assessment

6. The LP also suggested increasing the basic allowance for individuals to $150,000, raising the ceiling for one-off tax reduction of salaries tax to $40,000 and offering tax deduction for rental expenses.

7. The Government has made various adjustments to the salaries tax regime in the previous two Budgets, including widening and increasing the number of tax bands, adjusting the marginal tax rates, increasing various allowances and deduction ceilings, etc., so as to reduce the tax burden on taxpayers. Moreover, two new deductions, namely tax deduction under the Voluntary Health Insurance Scheme and that for qualifying deferred annuity premiums and Mandatory Provident Fund voluntary contributions, would take effect from the year of assessment (YA) 2019/20 onwards. We will review the salaries tax regime from time to time, including adjusting various types of allowances and deduction ceilings in a timely manner.

8. 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.

9. The Government appreciates the pressure of rental expenses on members of the public, and has therefore deliberated over the provision of tax deduction for rental expenses on residential properties. After careful consideration, however, we are of the view that in the midst of the tight housing supply, it is not an appropriate time to provide tax deduction for rental expenses on residential properties as it may prompt some landlords to raise the rent, thereby affecting the tenants.

Financial Services and the Treasury Bureau
April 2019