

## LEGISLATIVE COUNCIL BRIEF

Inland Revenue Ordinance  
(Chapter 112)

### INLAND REVENUE (AMENDMENT) (TAX CONCESSIONS) BILL 2019

#### INTRODUCTION

At the meeting of the Executive Council on 27 February 2019, the Council ADVISED and the Chief Executive ORDERED that the Inland Revenue (Amendment) (Tax Concessions) Bill 2019 (“Bill”), at A **Annex A**, should be introduced into the Legislative Council (“LegCo”).

#### JUSTIFICATIONS

2. The 2019-20 Budget proposes one-off reductions of salaries tax, tax under personal assessment (“PA”) and profits tax for year of assessment (“YA”) 2018/19 by 75%, subject to a ceiling of \$20,000 per case. The reductions will be reflected in taxpayers’ final tax payable for YA 2018/19. The proposed one-off reductions will benefit 1.91 million taxpayers of salaries tax and tax under PA, and 145 000 tax-paying corporations and unincorporated businesses. The revenue forgone amounts to \$18.9 billion (\$17 billion for salaries tax and tax under PA; and \$1.9 billion for profits tax).

#### OTHER OPTIONS

3. Amending the Inland Revenue Ordinance (Cap. 112) (“IRO”) is the only way to give effect to the relevant proposal in paragraph 2. There is no other option.

#### THE BILL

4. The major provisions of the Bill are set out below –
- (a) **Clauses 3 and 4** amend sections 14(5) and 100(2) of the IRO to make corrections to those sections.

- (b) **Clause 5** amends Schedule 43 such that for YA 2018/19, the salaries tax, profits tax and tax under PA payable are to be reduced by 75%, subject to a maximum of \$20,000 in each case.

## LEGISLATIVE TIMETABLE

5. The legislative timetable is as follows –

|  |                |
|--|----------------|
| Publication in the Gazette   | 8 March 2019   |
| First Reading and commencement of Second Reading debate                | 20 March 2019  |
| Resumption of Second Reading debate, committee stage and Third Reading | To be notified |

## IMPLICATIONS OF THE PROPOSAL

6. For the proposed one-off reductions of salaries tax, tax under PA and profits tax for YA 2018/19, the estimated one-off revenue forgone is \$18.9 billion.

7. In 2019-20, revenues from salaries tax, tax under PA and profits tax are estimated to be \$232.3 billion after taking into account the one-off reductions for salaries tax, tax under PA and profits tax for YA 2018/19.

8. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. The proposal will not affect the binding effect of the existing provisions of the IRO and its subsidiary legislation. The economic, sustainability and family implications of the proposals are at **Annex B**. The proposal has no productivity, environmental, gender or civil service implications.

B

## PUBLIC CONSULTATION

9. We have formulated the proposal after taking into account views received from LegCo Members and other stakeholders during the Budget consultation process. Owing to the confidentiality of the Budget, we have not carried out prior consultation for the proposed measure.

## **PUBLICITY**

10. We will issue a press release on 6 March 2019. A spokesperson will be available to answer media and public enquiries.

## **BACKGROUND**

### ***Salaries Tax and PA***

11. Salaries tax is chargeable mainly on income from employment arising in or derived from Hong Kong. There are currently five tax bands, each \$50,000 apart. The marginal tax rates are 2%, 6%, 10%, 14% and 17% of the net chargeable income (i.e. assessable income after deducting eligible allowances and deductions), and the tax payable is subject to a ceiling capped at 15% of the assessable income after deductions. In 2017-18, the revenue from salaries tax was \$60.8 billion.

12. PA may provide relief for taxpayers who have income that is chargeable to profits tax and/or property tax apart from their employment. The eligible allowances and deductions as well as the progressive rates applicable to salaries tax will apply. In 2017-18, the revenue from PA was \$5.3 billion.

13. In YA 2017/18, about 1.88 million taxpayers are subject to salaries tax and tax under PA while the working population was about 3.98 million as at 31 December 2018.

### ***Profits Tax***

14. The two-tiered profits tax rates regime has been implemented since YA 2018/19. The profits tax rates for the first \$2 million assessable profits is 8.25% for corporations and 7.5% for unincorporated businesses. The rate for assessable profits exceeding \$2 million is 16.5% for corporations and 15% for unincorporated businesses. In 2017-18, the revenue from profits tax was \$139 billion.

15. In YA 2017/18, about 142 000 corporations and unincorporated businesses had assessable profits while there were 1.27 million corporations and 258 000 unincorporated businesses in Hong Kong as at 31 December 2018.

## **ENQUIRIES**

16. Enquiries on this Brief can be addressed to Ms Pecvin YONG, Principal Assistant Secretary for Financial Services and the Treasury (Treasury), at 2810 2370.

**Financial Services and the Treasury Bureau**  
**6 March 2019**

# A BILL

## To

Amend the Inland Revenue Ordinance to give effect to a proposal concerning tax concessions in the Budget introduced by the Government for the 2019–2020 financial year; to correct a cross-reference in section 14(5) of the Ordinance; and to revise the way of computing the amount of profits tax that may be reduced under section 100(2) of the Ordinance.

Enacted by the Legislative Council.

### 1. Short title

This Ordinance may be cited as the Inland Revenue (Amendment) (Tax Concessions) Ordinance 2019.

### 2. Inland Revenue Ordinance amended

The Inland Revenue Ordinance (Cap. 112) is amended as set out in sections 3, 4 and 5.

### 3. Section 14 amended (charge of profits tax)

Section 14(5)—

#### Repeal

“14B(2)(a)”

#### Substitute

“14B(2)(b)”.

### 4. Section 100 amended (reduction of taxes)

(1) Section 100(2)(a)—

#### Repeal

“14(2)”

#### Substitute

“14(2), (3), (4) and (5)”.

(2) Section 100(2)(a), after “sections”—

#### Add

“14AAC,”.

### 5. Schedule 43 amended (reduction of taxes)

At the end of Schedule 43—

#### Add

“For the year of assessment 2018/19

|                                  | Column 1<br>(section) | Column 2<br>(prescribed percentage or<br>prescribed amount) |
|----------------------------------|-----------------------|---|
| 1. Salaries tax                  |                       |   |
| (a) section 100(1)(a)            |                       | 75%   |
| (b) section 100(1)(b)            |                       | \$20,000  |
| 2. Profits tax                   |                       |   |
| (a) section 100(2)(a)            |                       | 75%   |
| (b) section 100(2)(b)            |                       | \$20,000  |
| 3. Tax under personal assessment |                       |   |
| (a) section 100(4)(a)            |                       | 75%   |

| Column 1<br>(section) | Column 2<br>(prescribed percentage or<br>prescribed amount) |
|-----------------------|---|
| (b) section 100(4)(b) | \$20,000”.  |

### Explanatory Memorandum

The main object of this Bill is to amend the Inland Revenue Ordinance (Cap. 112) (*Ordinance*) to give effect to a proposal concerning tax concessions in the Budget introduced by the Government for the 2019–2020 financial year.

2. Clause 1 sets out the short title.
3. Clause 3 amends section 14(5) of the Ordinance to correct a cross-reference to a provision of the Ordinance.
4. Clause 4 amends section 100(2) of the Ordinance to revise the way of computing the amount of profits tax that may be reduced under that section.
5. Clause 5 amends Schedule 43 to the Ordinance to the effect that, for the year of assessment 2018/19, the salaries tax, profits tax and tax under personal assessment payable are to be reduced by 75%, subject to a maximum of \$20,000 in each case.

## **Economic, Sustainability and Family Implications of the Proposal**

### *Economic Implications*

The proposed one-off tax reductions will help reduce the financial burden of taxpayers and stimulate local consumption, as well as enable enterprises to have more disposable funds.

### *Sustainability Implications*

2. The proposed one-off reductions of salaries tax and personal assessment are expected to generate economic benefits to households through increasing their disposable incomes and to promote social harmony through alleviating taxpayers' burden in meeting personal expenses. The proposed one-off reduction of profits tax will encourage enterprises to make more reinvestment with a view to enhancing their competitiveness.

### *Family Implications*

3. The proposed one-off reductions of salaries tax and personal assessment would relieve the tax burden and help strengthen taxpayers' capability to foster care of their family members.