

**For discussion
on 18 December 2018**

Legislative Council Panel on Financial Affairs

Possible Modifications to the Rates Concession Mechanism

PURPOSE

This paper invites Members' views on possible modifications to the current mechanism for providing rates concession.

BACKGROUND

2. At present, a ratepayer can be the property owner, occupier or agent of the property owner or occupier. For the purpose of issuing quarterly demand notes for rates payment, the Rating and Valuation Department ("RVD") maintains basic information including the name of the ratepayers and their mailing addresses, without other identification information. This system works well for the purpose of rates collection and enables the grant of rates concession in an efficient manner with minimal administrative cost.

Call for Review

3. A one-off rates concession was announced in the 2018-19 Budget, waiving rates for the four quarters in 2018-19, subject to a ceiling of \$2,500 per quarter for each rateable property. When the rates concession proposal was discussed at the Subcommittee on Rating (Exemption) Order 2018 ("the Subcommittee") in March and April 2018, members of the Subcommittee expressed diverse views.

4. Some Subcommittee Members supported the current arrangement for providing rates concession to all ratepayers, including owners of properties and small and medium enterprises ("SMEs") which

may be owners or tenants, etc. Other Subcommittee Members expressed concern that some ratepayers such as property developers and owners with multiple rateable properties might receive a considerable sum of rates concessions under the current mechanism.

5. In response to the diverse views received and in response to Members' request, the Government undertook to review and explore possible options for improving the current rates concession mechanism, and revert to the Legislative Council ("LegCo") by end 2018.

OPTIONS EXPLORED

6. We have explored a number of options taking into account views expressed by LegCo members previously. We are mindful that, when considering changes to the current mechanism of providing rates concession, any new arrangement must be cogent, clear and feasible. We have taken into account the following considerations in analysing the various options –

- (a) To address the concern that owners of multiple properties may receive multiple rates concessions, rates concession should be tied to the property owner instead of a mere ratepayer who may be a tenant or agent.
- (b) Rates concession arrangements should not be differentiated according to the occupation status of the properties (i.e. self-occupied, leased out or vacant). Otherwise, RVD will have to track changes in the use of a large number of properties.
- (c) It will not be feasible or cost effective for RVD to trace the ultimate beneficial owners of properties held by companies.
- (d) To cater for change in property ownership, clear reference dates (say, on a quarterly basis) should be designated for determining the eligibility of a property for rates concession.

An analysis of five options explored is set out at **Annex A**.

Possible Modification

7. Amongst the options explored, Option 1 in Annex A may be a more feasible approach should we decide to pursue changes to the current rates concession mechanism. Adopting this option, rates concession will be granted to one rateable property (which can be domestic or non-domestic) for each **owner**. Special treatment will be accorded to the tenants of public rental housing units of the Housing Authority, the Housing Society and the Hong Kong Settlers Housing Corporation Limited so that they can continue to benefit from rates concession. Option 1 entails the following requirements / restrictions for rates concession to be granted –

- (a) The owner must be a holder of a valid Hong Kong Identity Card (“HKIC”) or a Certificate of Incorporation or a Certificate of Registration of a Non-Hong Kong Company under the Companies Ordinance (Cap. 622).
- (b) The eligibility of a property for rates concession for any quarter will be determined on a reference date for that relevant quarter, e.g. 1 March 2021 for Q1 2021-22, 1 June 2021 for Q2, etc. For instance, if a new owner who does not own any property previously purchases an originally “ineligible” property on 2 March 2021, he will not enjoy rates concession in respect of this property for Q1 2021-22 but will be so eligible from Q2 onwards, provided that he has informed RVD of his new owner status (see paragraph (e) below).
- (c) RVD needs to build up a property ownership database and collate information from property owners. Existing owners must complete and return the requisition forms to be issued by RVD in bulk so as to enable RVD to –
 - (i) collect the owners’ HKIC or identification numbers of Certificate of Incorporation or Certificate of Registration of a Non-Hong Kong Company; and
 - (ii) obtain owners’ consent for RVD’s verification of the information provided with the Land Registry.
- (d) Existing owners with more than one rateable property (whether

solely owned or co-owned) can take the opportunity of completing and returning the requisition forms to elect one of the properties for enjoying rates concession. Otherwise, an election has to be made later before rates concession may be granted.

- (e) New owners of properties must take the initiative to inform RVD of their new owner status for rates concession to be granted timely.
- (f) Only one owner of a co-owned rateable property may opt to receive rates concession for that property.

8. If we adopt Option 1, owners (individuals or companies) can only enjoy rates concession in respect of one property. Almost all unsold properties held by developers will be excluded as a result as the unsold units of a development are usually held by one company. This will help address the perception that property developers and owners with many rateable properties would receive a considerable sum of rates concessions under the current mechanism.

Major Limitations

9. However, we must recognize the major limitations and drawbacks of Option 1 as follows –

- (a) Some individuals, especially those better off financially, may hold some properties through limited companies, or hold each property through a separate limited company. They may still be able to enjoy rates concession in respect of more than one property if we adopt Option 1. As explained in paragraph 6(c) above, it is not possible for RVD to trace the ultimate beneficial owners of property holding companies.
- (b) Save for tenants of public rental housing units, most tenants including many SMEs renting non-domestic properties (in the form of offices, shops, market stalls, etc.) can no longer enjoy rates concession. Only a small number of tenants may continue to benefit from rates concession. Even if the tenant is responsible for paying rates under the tenancy agreement, he will

not benefit from rates concession unless the owner has only the leased-out property or has chosen that property for receiving rates concession.

- (c) Option 1 takes snapshots only on designated reference dates for each quarter to determine the eligibility of a property for rates concession for that quarter. It will not be able to take into account recent changes in ownership (although law firms handling property transactions would in general make appropriate apportionment for rates payable in the intervening quarter and hence the rates concession amount in that quarter would have been apportioned accordingly between the seller and buyer). Requiring RVD to trace changes in property ownership and adjust the net rates payable retrospectively throughout the financial year would render the mechanism unworkable.
- (d) This option will complicate the rates concession mechanism and bring inconvenience to owners. For example, new owners of properties have to inform RVD of their new owner status or no rates concession will be granted. Also, owners of a co-owned rateable property have to agree among themselves which owner may opt to receive rates concession for that property. This may lead to arguments among the co-owners.
- (e) RVD has to set up a new computer system for capturing property ownership information. Besides RVD has to incur significant manpower resources to build the database and update it on an ongoing basis, and handle related enquiries and complaints. A rough estimate is that the set-up costs required in the initial two years (2019-20 to 2020-21) to gear up for the implementation of the revised mechanism amounts to \$200 million to \$300 million, including some \$60 million for establishing the property ownership system. The recurrent costs for maintaining and updating the system as well as implementing the revised mechanism have yet to be assessed.

A comparison of the existing rates concession mechanism and Option 1 is at **Annex B**.

10. For 2018-19, the rates concession based on the existing

arrangement will cost the Government about \$17.8 billion. If Option 1 is adopted and assuming that 20% of private property owners have multiple properties and hence will not receive rates concession under the new proposal, the amount of rates concession will be reduced by around \$3 billion. This sum will be smaller if the ceiling of rates concession is less than \$2,500 for each of the four quarters.

ENGAGEMENT WITH LEGCO MEMBERS

11. In the past few weeks, we have sounded out LegCo Members on possible modification to the rates concession mechanism on the basis of Option 1.

12. Members who are inclined to support Option 1 consider that it will enable the distribution of rates concessions in a more equitable manner, thereby achieving social justice. It will minimize cases in which developers and landlords of multiple properties receive considerable rates concessions. While they note that a considerable number of domestic and non-domestic tenants will no longer be eligible for rates concession, they consider that the overall merits of the proposal will outweigh its limitations. In this connection, some considered that non-domestic tenants would benefit from the two-tiered profits tax rates regime and one-off tax relief for enterprises, and hence rates concession for them is not necessary. Some suggested that Option 1 should only apply to self-occupied domestic properties but others argued that all tenants should be eligible to benefit rates concession. On the other hand, some considered that leased out properties should not benefit from rates concession as they are investment properties.

13. Some LegCo Members have expressed grave reservation over differential treatment in rates concession, and cast doubt on whether the proposed change can achieve social justice. First of all, they note that over 82% of the tenancies of the top 10 ratepayers in 2018-19 (mainly involving non-domestic properties) are rates-exclusive, meaning that the rates concessions are rebated to the tenants and are not enjoyed by owners. RVD's earlier surveys also find that some 53% of the tenancies of non-domestic properties are rates exclusive. These Members are

therefore very worried about the collateral damage of the proposed change, affecting existing beneficiaries including tenants who pay rates under tenancy agreements. Moreover, they insisted that all ratespayers should be treated equally and deserve a share of rates concession as and when offered by the Government. It would be unfair to restrict owners of multiple properties to receiving rates concession for only one of such properties while they pay rates for all. Since some people hold more than one property for meeting legitimate needs (such as one for self-use and another for use by family members, or one for residential use and one for doing business), the proposed change would reduce their benefits from rates concession. It is a divisive measure not conducive to social harmony. Some suggested that Option 1 can be relaxed so that each individual or company may enjoy rates concessions in respect of more than one property. As rates concession is a one-off relief measure which may not be granted every year, some Members have also expressed serious doubt over the investment of a considerable amount of resources (both non-recurrent and recurrent) by RVD for this purpose.

14. Some pointed out that developers are likely to be the parties with a large number of domestic properties and receive considerable benefits from rates concessions. However, the Government's plan to levy Special Rates would incentivize the developers to reduce the holding of newly completed domestic units.

15. Some Members felt that the proposal would create controversies and suggested adopting other one-off measures for the needy instead of offering rates concession in future.

WAY FORWARD

16. Members are invited to consider whether the current rates concession mechanism should be changed and if so, whether Option 1 as outlined above should be pursued. If affirmative, we will seek necessary funding approval according to the established mechanism for RVD to establish the property ownership system.

17. To pursue Option 1, RVD will take some 18 to 20 months to

build the new property ownership system and enable implementation of the new rates concession mechanism. In the interim, should rates concession be offered in 2019-20 or 2020-21, the current mechanism will be adopted.

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

Analysis of Options Explored to Modify the Rates Concession Arrangement

	Option	Analysis	
		Pros	Cons
1	<p>Confining the rates concession measure to one rateable property for each owner (who can be individuals or companies) meeting the following criteria –</p> <ul style="list-style-type: none"> the owner must be a holder of a valid Hong Kong Identify Card (“HKIC”) or a Certificate of Incorporation or a Certificate of Registration of a Non-Hong Kong Company under the Companies Ordinance (Cap.622); if the owner owns more than one property (whether solely owned or co-owned), he can only elect one property to enjoy rates concession; and only one owner of a co-owned rateable property may opt to receive rates concession for that property. <p>The eligibility of a property for rates concession for an entire quarter will be determined on a reference date for that quarter.</p>	<ul style="list-style-type: none"> Owners (individuals or companies) can only enjoy rates concession in respect of one property. Almost all unsold properties held by developers are excluded, leaving just one per owner. Prima facie, this option may address the perception that property developers and owners with many rateable properties would receive a considerable sum of rates concessions under the current mechanism. 	<ul style="list-style-type: none"> This option arguably cannot prevent owners of multiple properties (held through different companies) from enjoying multiple rates concession. Save for tenants of PRH, most tenants including many small and medium enterprises (“SMEs”) with rented premises who are required to pay rates under the tenancy agreements will be excluded from rates concession. Only a small number of tenants may continue to benefit from rates concession, if the relevant tenancies are rates-exclusive and the owner has only the leased-out property or has chosen that property for receiving rates concession. Taking snapshots only on a designated reference date for each relevant quarter to determine the eligibility of a property for rates concession for that quarter will not be able to take into account recent changes in ownership. This option will complicate the rates concession mechanism, bringing inconvenience to owners through submission of returns to the Rating and Valuation Department (“RVD”). Apart from setting up a new computer system for capturing the property ownership information, RVD has to incur significant manpower resources to build the database and update it on an ongoing basis, and handle related enquiries and complaints.

	Option	Analysis	
		Pros	Cons
	Tenants of public rental housing (“PRH”) will receive special treatment and be granted rates concession.		
2	<p>Confining the rates concession measure to one rateable property for an individual owner meeting the following criteria –</p> <ul style="list-style-type: none"> the owner must be a holder of a valid HKIC card; if the owner owns more than one property (whether solely owned or co-owned), he can only elect one property to enjoy rates concession; and only one owner of a co-owned rateable property may opt to receive rates concession for that property. <p>The eligibility of a property for rates concession for an entire quarter will be determined on a reference date for that quarter.</p> <p>PRH tenants will receive special treatment and be granted rates concession.</p>	<ul style="list-style-type: none"> Owners (who must be individuals) can only enjoy rates concession in respect of one property. All property holding companies are excluded so as to prevent owners holding multiple properties through different companies from enjoying multiple rates concession in effect. All unsold properties held by developers are excluded. This option can address the perception that property developers and owners with many rateable properties would receive a considerable sum of rates concessions under the current mechanism. 	<ul style="list-style-type: none"> Save for PRH tenants, most tenants including many SMEs with rented premises who are required to pay rates under the tenancy agreements will be excluded from rates concession. Only a small number of tenants renting properties from owners who are natural persons may continue to benefit from rates concession, if the relevant tenancies are rates-exclusive and the owner has only the leased-out property or has chosen that property for receiving rates concession. Taking snapshots only on a designated reference date for each relevant quarter to determine the eligibility of a property for rates concession for that quarter will not be able to take into account recent changes in ownership. This option will complicate the rates concession mechanism, bringing inconvenience to owners through submission of returns to RVD. Apart from setting up a new computer system for capturing the property ownership information, RVD has to incur significant manpower resources to build the database and update it on an ongoing basis, and handle related enquiries and complaints.

	Option	Analysis	
		Pros	Cons
3	<p>Confining rates concession to ratepayers of domestic properties</p>	<p>All non-domestic properties are carved out. This option may address the perception that owners with a large number of non-domestic properties would receive a considerable sum of rates concessions under the current mechanism. Rates concession for non-domestic properties in 2018-19 only amounts to \$2.9 billion or 16% of the total rates concession (\$17.8 billion).</p>	<ul style="list-style-type: none"> • This option cannot prevent owners of multiple domestic properties (which may be held for investment or leasing and mainly let on a rates inclusive basis) from enjoying multiple rates concession. • SMEs with self-occupied or rented non-domestic properties will be excluded from rates concession. • Unsold domestic properties held by developers will still be included. • There may be disputes on the classification of domestic and non-domestic properties, especially for cases where the permissible use cannot be clearly ascertained or cases where the tenements may involve mixed uses and/or change of uses. • Ratepayers of block assessments may request separate rates assessment of the domestic and non-domestic portions comprised in an assessment, necessitating additional resources in RVD to handle the relevant work.
4	<p>Limiting the number of rateable properties eligible for rates concession per ratepayer</p> <p>PRH tenants will receive special treatment and be granted rates concession.</p>	<ul style="list-style-type: none"> • Prima facie, this option may address the perception that ratepayers with multiple properties can benefit from multiple rates concessions. • A considerable number of unsold properties held by developers may be 	<ul style="list-style-type: none"> • At present, the ratepayer of a property can be the owner, tenant or agent. Owners of multiple properties who originally serve as the ratepayers may simply assign different agents (which could be relatives and friends, etc.) to act as the ratepayers of the properties to circumvent the restriction. • Save for tenants of PRH, most tenants including many SMEs with rented premises who are required to pay rates under the tenancy agreements but with owners remain as the ratepayers

	Option	Analysis	
		Pros	Cons
		<p>excluded, if a single company serves as the ratepayer for unsold units of a development.</p>	<p>will be excluded from rates concession. Only a small number of tenants may continue to benefit from rates concession, if the relevant tenancies are rates-exclusive and the owner (as ratepayer) has chosen those properties for receiving rates concession.</p> <ul style="list-style-type: none"> The necessary election of properties by ratepayers will bring inconvenience to them and additional work to RVD.
5	<p>Confining the rates concession measure to tenants and owners of self-occupied rateable properties</p> <p>The eligibility of a property for rates concession for an entire quarter will be determined on a reference date for that quarter.</p>	<ul style="list-style-type: none"> This approach is more targeted, with rates concession benefiting two groups (i.e. tenants and owners of self-occupied properties) generally perceived to be more deserving of the rates concession measure. SMEs with their own properties or rented properties with tenancy agreements of a rates exclusive basis can benefit from the rates concession measure. 	<ul style="list-style-type: none"> As at March 2018, 96% of domestic tenancy agreements and 47% of non-domestic tenancy agreements are of rates inclusive basis. These tenants concerned would not benefit from the rates concession measure pending changes in the relevant provision of the tenancy agreements, even though the owners (or their agents as registered ratepayers) cannot benefit as well. RVD would have immense difficulties making differential rates concession arrangements to cater for the occupation status of the properties (i.e. self-occupied, leased out or vacant). There could also be different tenancy terms between owners and tenants (e.g. who pay rates). Given the large number of tenancy agreements in existence and the frequent changes due to tenancy termination or signing of new tenancies, etc., it would not be cost-effective for RVD to allocate considerable manpower to keep track of these changes. Such work goes beyond the mandate and functions of RVD. Should RVD rely on self-declaration by the owners/tenants and conduct random checks, the rates concession measure may be subject to abuse. Some tenants may be renting multiple properties from the same or different owners with tenancy agreements of a rates

	Option	Analysis	
		Pros	Cons
			<p>exclusive basis. They can enjoy multiple rates concessions unless a further restriction is specified, but that will make the rates concession mechanism very complicated.</p> <ul style="list-style-type: none"> • Taking snapshots only on a designated reference date for each relevant quarter to determine the eligibility of a property for rates concession for that quarter will not be able to take into account recent changes in ownership/tenancy arrangements. • This option will complicate the rates concession mechanism, bringing inconvenience to owners/tenants through submission of returns to RVD. • Apart from setting up a new computer system for capturing the property ownership and tenancy information, RVD has to incur significant manpower resources to build the database and update it on an ongoing basis, and handle related enquiries and complaints.

Comparison of the Current Rates Concession Mechanism and Option 1

	Current Mechanism	Option 1
Features	<ul style="list-style-type: none">• All domestic and non-domestic properties can enjoy rates concession• No limit on the number of rateable properties for individuals or companies	<ul style="list-style-type: none">• Only owners (individuals or companies) can enjoy rates concession, which will be granted to just one property for each owner<ul style="list-style-type: none"><u>Individuals</u> - must be a Hong Kong resident holding a valid Hong Kong Identity Card<u>Companies</u> - must be registered under the Companies Ordinance• Existing owners must complete and return the requisition forms to be issued by the Rating and Valuation Department (“RVD”) in bulk. Those with more than one rateable property (whether solely owned or co-owned) can take the opportunity of completing and returning the requisition forms to elect one of the properties for enjoying rates concession. Otherwise, an election has to be made later before rates concession may be granted• New owners of properties must inform RVD of their new owner status or no rates concession will be granted• Only one owner of a co-owned rateable property may opt to receive rates concession for that property• The eligibility of a property for rates concession for an entire quarter will be determined on a reference date for that relevant quarter, e.g. 1 March 2021 for Q1 2021-22, 1 June 2021 for Q2, etc.• Special treatment will be accorded to the tenants of public rental housing (“PRH”) units of the Housing Authority, the Housing Society and the Hong Kong Settlers Housing Corporation Limited i.e. they can continue to benefit from rates concessions

	Current Mechanism	Option 1
Beneficiaries	<ul style="list-style-type: none"> • All individuals and companies responsible for paying rates, regardless of whether they are owners, tenants or agents (including public housing tenants and small and medium enterprises (“SMEs”) renting non-domestic properties) • Amongst domestic properties, at least 4% of the tenants can benefit since they are required to pay rates under the tenancy agreements • Amongst the non-domestic properties, at least 53% of the tenants can benefit since they are required to pay rates under the tenancy agreements • For the top 10 ratepayers in 2018-19, over 82% of their tenancies (mainly involving non-domestic properties) are rates-exclusive; the rates concessions are rebated to the tenants although for the sake of management convenience, the owners remain as ratepayers 	<ul style="list-style-type: none"> • Only one property from owners of private properties (individuals or companies) can benefit • PRH tenants can continue to enjoy rates concession. • Only a small number of tenants may continue to benefit from rates concession, if the relevant tenancies are rates-exclusive and the owner has only the leased-out property or has chosen that property for receiving rates concession #
Who cannot benefit	All ratepayers can enjoy rates concession	<ul style="list-style-type: none"> • Tenants of most private properties (except for those labelled # above) • Owners with more than one rateable property may enjoy rates concession for one property only, including those owners who hold a residential flat and a car parking space of which the rateable values are separately assessed

	Current Mechanism	Option 1
Pros	<ul style="list-style-type: none"> • Simple and easy to understand and administer • Benefiting a wide spectrum of citizens, thereby achieving the objective of sharing the fruits of economic success with the community • Incurs minimal administrative cost and does not create hassles to ratepayers since no application or vetting process is involved. In 2018-19, the rates concession measure only incurs an estimated administrative cost of about \$480,000 for printing pamphlets attaching to the rates demand notes for explaining the rates concession arrangements. RVD does not need to deploy dedicated manpower for handling the work on rates concession 	<ul style="list-style-type: none"> • Owners (individuals or companies) can only enjoy rates concession in respect of one property • Almost all unsold properties held by developers are excluded, leaving just one per owner • Prima facie, this option may address the perception that owners with many rateable properties would enjoy multiple rates concessions under the current mechanism
Cons	<ul style="list-style-type: none"> • Owners with multiple properties may enjoy multiple rates concession 	<ul style="list-style-type: none"> • This option arguably cannot prevent owners of multiple properties (held through different companies) from enjoying multiple rates concession • Save for PRH tenants, most tenants including many SMEs with rented premises who are required to pay rates under the tenancy agreements will be excluded from rates concession. Only a small number of tenants may continue to benefit from rates concession, if the relevant tenancies are rates-exclusive and the owner has only the leased-out property or has chosen that property for receiving rates concession • Taking snapshots only on a designated reference date for each relevant quarter to determine the eligibility of a property for rates concession for

	Current Mechanism	Option 1
		<p>that quarter will not be able to take into account recent changes in ownership</p> <ul style="list-style-type: none"> • This option will complicate the rates concession mechanism, bringing inconvenience to owners through submission of returns to RVD • Apart from setting up a new computer system for capturing the property ownership information, RVD has to incur significant additional manpower resources to build the database and update it on an ongoing basis, and handle related enquiries and complaints