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Panel on Financial Affairs

Meeting on 18 December 2018

Background brief on rates concession mechanism

Purpose

This paper provides background information on the rates concession measure proposed in the 2018-2019 Budget, and summarizes the major views and concerns expressed by the Subcommittee on the Rating (Exemption) Order 2018 ("the Subcommittee") on the existing rates concession mechanism.

Background

2. According to the Administration, rates is a broad-based and stable source of government revenue. In accordance with the Rating Ordinance (Cap. 116) ("RO"), the valuation and collection of rates is based on tenements. The owner and the occupier shall both be liable for the payment of rates. The Administration has implemented the rates concession measure continuously since the 2007-2008 financial year. A summary of the rates exemption measures implemented from the 2014-2015 to 2018-2019 financial year is provided in **Appendix I**.

The Rating (Exemption) Order 2018

3. In the 2018-2019 Budget, the Financial Secretary announced a number of one-off concessionary measures, one of which is to waive rates for four quarters of 2018-2019 subject to a ceiling of \$2,500 per quarter for each rateable property. The Rating (Exemption) 2018 Order ("the 2018 Order") was made by the Chief Executive in Council in February 2018 to give effect to the rates concession

proposed in the 2018-2019 Budget, and was tabled at the Legislative Council ("LegCo") meeting of 21 March 2018 for negative vetting.¹

Major views and concerns expressed by Members

4. The major views and concerns expressed by the Subcommittee on the existing rates concession mechanism are summarized in the ensuing paragraphs.

Distribution of the concession amount among ratepayers

5. Some Subcommittee members expressed grave concern that a small number of ratepayers, such as property developers and owners with many rateable properties (especially owners with many non-residential properties, e.g. office premises and shopping malls), would reap a large proportion of the total rates concession.² They criticized that the rates concession measure was lopsided to the rich and returning wealth to the rich, thus ran counter to the Administration's objectives of targeting the concessionary measures at the grassroots and the needy, and sharing the fruits of Hong Kong's economic success with the community.

6. The Administration emphasized that over 82% of the tenancies (mainly involving non-residential properties) of the estimated top 10 ratepayers in 2018-2019 were of rates exclusive basis. In other words, most of the rates concessions would be rebated to the tenants concerned in accordance with the provisions of tenancy agreements although for the sake of management convenience, the owners remained as ratepayers. Under the arrangements effected by the 2018 Order, about 87% of the ratepayers of residential properties and 55% of the ratepayers of non-residential properties (or 83% overall) would not be required to pay any rates. Such properties had rateable values at or below \$200,000 (i.e. about \$16,667 per month). The 3.25 million properties liable to rates in Hong Kong that would be covered by the rates concession measures in the 2018 Order included 796 000 public residential premises such as public rental housing ("PRH") estates owned by the Housing Authority. The Housing Authority would rebate the rates concession to PRH tenants.

¹ Section 36(2) of the Rating Ordinance (Cap.116) provides that the Chief Executive in Council may, by order, declare any class of tenements, or parts thereof, or any part of Hong Kong to be exempted from the payment of rates wholly or in part.

² According to Administration's information provided to the Subcommittee, for the top 10 ratepayers who were expected to receive the largest amounts of rates concession, the total rates concession amounted to \$256.5 million involving 40 136 rateable properties. The top ratepayer alone paid rates on 15 645 rateable properties and the total rates concession involved amounted to \$102.6 million.

Proposals to improve the rates concession measure

7. A number of Subcommittee members pointed out that the Administration had been implementing the rates concession measure for a number of years, and there had all along been criticisms from LegCo Members and the public about the fairness of the measure. Yet the Administration had not taken any action to improve the measure. These members queried the effectiveness of the rates concession measure in relieving the financial pressure on the general public and urged the Administration to improve the rates concession measure to achieve a more equitable distribution of the concessions so as to ensure that the measure would benefit the needy more. The proposals raised by members included:

- (a) limiting the number of rateable properties per ratepayer eligible for rates concession;³
- (b) confining the rates concession measure to tenants and owners of self-occupied properties;
- (c) providing rates concession to ratepayers of residential properties only;⁴ and
- (d) requiring the ratepayers to apply to the Rating and Valuation Department ("RVD") for claiming rates concession.

8. The Subcommittee called on the Administration to study the above proposals, assess their implications and costs for implementation as soon as possible. The Administration should study the necessary adjustments to be made to the existing rates collection system and operation of RVD (e.g. requiring owners of the properties to pay rates and register their own names with RVD ("業主實名登記"), revamping the accounting and computer systems of RVD, and making necessary amendments to RO).

9. The Administration pointed out that the existing rates concession measure involved simple implementation mechanism and low administrative cost. At

³ Hon James TO and Hon WU Chi-wai suggested that each company might only nominate one rateable property to be eligible for rates concession. This restriction would not apply to a company which was a charitable organization eligible for tax exemption under section 88 of the Inland Revenue Ordinance (Cap. 112), or a company's properties where the tenancy agreements concerned stipulated that the payable rents of the properties did not include the payable rates.

⁴ Hon James TO and Hon WU Chi-wai further suggested that completed but unsold residential properties held by developers should be excluded from the rates concession measure.

present, for the purpose of issuing quarterly demand notes for rates payment, RVD collected information on the names and mailing addresses of the ratepayers, but not their Hong Kong Identity Card numbers, the Business Registration numbers, or information of the owners of the tenements. Any changes to the current rates concession approach might imply the need for making a fundamental change to the rates collection system. Such change might also require amendments to be made to RO and replacement of RVD's computer systems and databases with new ones. Moreover, all the relevant information would need to be constantly updated to reflect the latest status. The way of handling jointly-owned properties or properties held via a holding company might also be contentious and problematic. In addition, the restriction proposed by Subcommittee members might exclude those tenants who were required to pay rates by the terms of a tenancy agreement from enjoying rates concession. The Administration stressed that all these issues required careful and thorough consideration. Before a concrete improvement proposal to the existing rates concession measure was agreed on, the Administration was unable to estimate the precise costs and time required to implement the changes.

10. Noting the concerns of LegCo Members and the general public, the Administration undertook to study the matter and provide a paper to the relevant LegCo Panel in due course setting out its analysis of options to change or improve the current rates concession mechanism and the implications. The Administration endeavored to complete the analysis by the end of 2018.

Latest development

11. The Administration will brief the Panel on Financial Affairs at the meeting on 18 December 2018 on the possible options to modify the current mechanism for providing rates concession.

References

12. A list of relevant papers is in **Appendix II**.

**Rates exemption measures implemented from the 2014-2015 to
2018-2019 financial year**

	Rating (Exemption) Order 2014	Rating (Exemption) Order 2015	Rating (Exemption) Order 2016	Rating (Exemption) Order 2017	Rating (Exemption) Order 2018
Date of gazettal	26 February 2014	25 February 2015	24 February 2016	22 February 2017	28 February 2018
Date of tabling in LegCo	19 March 2014	18 March 2015	2 March 2016	1 March 2017	21 March 2018
Commencement date	1 April 2014	1 April 2015	1 April 2016	1 April 2017	1 April 2018
Concession period	1 April 2014 to 30 September 2014 (2 quarters)	1 April 2015 to 30 September 2015 (2 quarters)	1 April 2016 to 31 March 2017 (4 quarters)	1 April 2017 to 31 March 2018 (4 quarters)	1 April 2018 to 31 March 2019 (4 quarters)
Ceiling (per quarter for each rateable property)	\$1,500	\$2,500	\$1,000	\$1,000	\$2,500

List of relevant papers

Date	Event	Papers/Minutes of meeting
20 March 2013	The Rating (Exemption) Order 2013 was tabled in the Legislative Council	<u>The Order</u> <u>Legal Service Division Report</u> (LC Paper No. LS29/12-13)
March – April 2014	The Legislative Council formed a Subcommittee to scrutinize the Rating (Exemption) Order 2014	<u>The Order</u> <u>Legal Service Division Report</u> (LC Paper No. LS31/13-14) <u>Report of the Subcommittee</u> (LC Paper No. CB(1)1202/13-14) <u>Administration's paper on "Rates Exemption Proposal in the 2014-15 Budget"</u> (LC Paper No. CB(1)1068/13-14(01)) <u>Paper on Rating (Exemption) Order 2014 prepared by the Legislative Council Secretariat (background brief)</u> (LC Paper No. CB(1)1068/13-14(02)) <u>Administration's response to issues raised at the meeting on 13 March 2014</u> (LC Paper No. CB(1)1133/13-14(02)) <u>Paper for the Subcommittee on Rating (Exemption) Order 2014 prepared by the Legal Service Division</u> (LC Paper No. LS37/13-14)

Date	Event	Papers/Minutes of meeting
March – May 2015	The Legislative Council formed a Subcommittee to scrutinize the Rating (Exemption) Order 2015	<p><u>The Order</u></p> <p><u>Legal Service Division Report</u> (LC Paper No. LS46/14-15)</p> <p><u>Report of the Subcommittee</u> (LC Paper No. CB(1)766/14-15)</p> <p><u>Administration's paper on "Rating (Exemption) Order 2015"</u> (LC Paper No. CB(1)642/14-15(01))</p> <p><u>Paper on Rating (Exemption) Order 2015 prepared by the Legislative Council Secretariat (background brief)</u> (LC Paper No. CB(1)642/14-15(02))</p> <p><u>Administration's reponse to issues raised at the meeting on 17 March 2015</u> (LC Paper No. CB(1)708/14-15(02))</p>
March – April 2016	The Legislative Council formed a Subcommittee to scrutinize the Rating (Exemption) Order 2016	<p><u>The Order</u></p> <p><u>Legal Service Division Report</u> (LC Paper No. LS39/15-16)</p> <p><u>Report of the Subcommittee</u> (LC Paper No. CB(1)787/15-16)</p> <p><u>Administration's paper on "Rating (Exemption) Order 2016"</u> (LC Paper No. CB(1)643/15-16(01))</p> <p><u>Paper on Rating (Exemption) Order 2016 prepared by the Legislative Council Secretariat (background brief)</u> (LC Paper No. CB(1)643/15-16(02))</p>

Date	Event	Papers/Minutes of meeting
1 March 2017	The Rating (Exemption) Order 2017 was tabled in the Legislative Council	<u>The Order</u> <u>Legal Service Division Report</u> (LC Paper No. LS39/16-17)
21 March 2018	The Rating (Exemption) Order 2018 was tabled in the Legislative Council	<u>The Order</u> <u>Legal Service Division Report</u> (LC Paper No. LS39/17-18) <u>Report of the Subcommittee</u> (LC Paper No. CB(1)861/17-18) <u>Administration's paper on "Rating (Exemption) Order 2018"</u> (LC Paper No. CB(1)730/17-18(01)) <u>Paper on Rating (Exemption) Order 2018 prepared by the Legislative Council Secretariat (background brief)</u> (LC Paper No. CB(1)730/17-18(02)) <u>Administration's reponse to issues raised at the meeting on 27 March 2018</u> (LC Paper No. CB(1)775/17-18(01))
17 May 2018	The Council took note of the Report of the Subcommittee on Rating (Exemption) Order 2018	<u>Hansard</u> (pages 10474 – 10509)