

LEGISLATIVE COUNCIL BRIEF

Inland Revenue Ordinance
(Chapter 112)

REVENUE (TAX CONCESSIONS) BILL 2021

INTRODUCTION

A At the meeting of the Executive Council on 24 February 2021, the Council ADVISED and the Chief Executive ORDERED that, the Revenue (Tax Concessions) Bill 2021, at **Annex A**, should be introduced into the Legislative Council (“LegCo”).

JUSTIFICATIONS

2. The 2021-22 Budget has proposed, amongst other relief measures, one-off reductions of salaries tax, tax under personal assessment (“PA”) and profits tax by 100%, subject to a ceiling of \$10,000 per case for year of assessment (“YA”) 2020/21. The reductions will be reflected in taxpayers’ final tax payable for YA 2020/21. The proposed one-off reductions will benefit 1.87 million taxpayers of salaries tax and tax under PA, and 128 000 tax-paying corporations and unincorporated businesses. The revenue forgone amounts to \$11.4 billion for salaries tax and tax under PA; and \$1.05 billion for profits tax.

THE BILL

3. **Clause 3**, the major provision of the Bill, amends Schedule 43 to the Inland Revenue Ordinance (Cap. 112) (“IRO”) such that for YA 2020/21, the salaries tax, tax under PA and profits tax payable are to be reduced by 100%, subject to a maximum of \$10,000 in each case.

LEGISLATIVE TIMETABLE

4. The legislative timetable is as follows –

| | |
|--|----------------|
| Publication in the Gazette | 5 March 2021 |
| First Reading and commencement of Second Reading debate | 17 March 2021 |
| Resumption of Second Reading debate, committee stage and Third Reading | To be notified |

IMPLICATIONS OF THE PROPOSALS

5. The proposed one-off reductions of salaries tax, tax under PA and profits tax for YA 2020/21 will result in an estimated one-off total revenue forgone of \$12.45 billion.

6. In 2021-22, the total revenue from salaries tax, tax under PA and profits tax are estimated to be \$197.2 billion after taking into account the one-off reductions for salaries tax, tax under PA and profits tax for YA 2020/21. Their respective contributions to government revenue are \$64.4 billion, \$6.1 billion and \$126.7 billion respectively.

7. The proposals are in conformity with the Basic Law, including the provisions concerning human rights. The proposals 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 proposals have no productivity, environmental, gender or civil service implications.

B

PUBLIC CONSULTATION

8. We have formulated the proposals 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 measures.

PUBLICITY

9. We will issue a press release on 3 March 2021. A spokesperson will be available to answer media and public enquiries.

BACKGROUND

Salaries Tax and PA

10. 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 2019-20, the revenue from salaries tax was \$50.4 billion.

11. 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 2019-20, the revenue from PA was \$5 billion.

12. In YA 2019/20, about 1.95 million taxpayers were subject to salaries tax and tax under PA¹ while the working population was about 3.89 million as at 31 December 2020.

Profits Tax

13. 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. Businesses, including small and medium-sized enterprises, enjoyed tax savings amounting to about \$6 billion in 2019-20 under the two-tiered profits tax rates regime. The revenue from profits tax in 2019-20 was \$155.9 billion.

14. In YA 2019/20, about 141 000 corporations and unincorporated businesses had assessable profits while there were 1.28 million

¹ Two-thirds of these taxpayers were not required to pay salaries tax and tax under personal assessment in YA 2019/20 due to the one-off relief.

corporations and 278 000 unincorporated businesses in Hong Kong as at 31 December 2020.

ENQUIRIES

15. Enquiries on this Brief can be directed to Miss Helen CHUNG, Principal Assistant Secretary for Financial Services and the Treasury (Treasury), at 2810 2370.

**Financial Services and the Treasury Bureau
March 2021**

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 2021–2022 financial year.

Enacted by the Legislative Council.

1. Short title

This Ordinance may be cited as the Revenue (Tax Concessions) Ordinance 2021.

2. Inland Revenue Ordinance amended

The Inland Revenue Ordinance (Cap. 112) is amended as set out in section 3.

3. Schedule 43 amended (reduction of taxes)

At the end of Schedule 43—

Add

“For the year of assessment 2020/21

| Column 1 (section) | Column 2 (prescribed percentage or prescribed amount) |
|-----------------------|---|
| 1. Salaries tax | |
| (a) section 100(1)(a) | 100% |

| Column 1 (section) | Column 2 (prescribed percentage or prescribed amount) |
|----------------------------------|---|
| (b) section 100(1)(b) | \$10,000 |
| 2. Profits tax | |
| (a) section 100(2)(a) | 100% |
| (b) section 100(2)(b) | \$10,000 |
| 3. Tax under personal assessment | |
| (a) section 100(4)(a) | 100% |
| (b) section 100(4)(b) | \$10,000”. |

Explanatory Memorandum

The 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 2021–2022 financial year.

2. Clause 1 sets out the short title.
3. Clause 3 amends Schedule 43 to the Ordinance to the effect that, for the year of assessment 2020/21, the salaries tax, profits tax and tax under personal assessment payable are to be reduced, in each case, by an amount equal to the lesser of the whole amount of the tax and \$10,000.

Economic, Sustainability and Family Implications of the Proposals

Economic Implications

The proposed one-off tax reductions will help reduce the financial burden of taxpayers and stimulate local consumption, as well as enable businesses 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 businesses 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.