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Report of the Bills Committee on Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Bill 2024

Purpose

This paper reports on the deliberations of the Bills Committee on Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Bill 2024 ("the Bills Committee").

Background

Deduction ceiling amounts for home loan interest or domestic rents

2. Currently, the Government provides tax deduction for home loan interest ("HLI") and domestic rents ("DR") under salaries tax and tax under personal assessment ("PA"), each capped at $100,000 per year of assessment ("YA"). If a person has more than one place of residence and paid HLI and DR for the same period in a YA, the person can only claim either the deduction for HLI or DR in respect of his/her principal place of residence for that period.

3. To encourage childbearing, the Chief Executive has proposed in the 2023 Policy Address, amongst other initiatives, that starting from YA 2024-2025, the respective deduction ceiling amounts for HLI and DR will be raised from $100,000 to $120,000 for taxpayers. To give effect to the aforesaid initiative, the Administration proposes to amend the Inland Revenue Ordinance (Cap. 112) ("IRO") to allow a person, in respect of his/her claim for HLI or DR deduction, an additional deduction ceiling amount of $20,000 when he/she uses the basic deduction ceiling amount of $100,000, starting from YA 2024-2025. The maximum number of YAs for the use of the additional deduction ceiling amounts is 19 YAs if:

(a) the person, in the YA concerned, resides with a child of the person in Hong Kong for (i) a continuous period of not less than six months; or (ii) a shorter period that the Commissioner of Inland Revenue ("the Commissioner") considers reasonable in the circumstances;

(b) the child (i) was born on or after 25 October 2023 ("the Date"); and (ii) is, at any time in that YA, under the age of 18;

(c) the qualifying amount of HLI or DR paid is larger than the basic deduction ceiling amount of $100,000; and

(d) the person elects in writing to use both the basic deduction ceiling amount and the additional deduction ceiling amount for that YA.

Salaries tax and tax under personal assessment

4. Salaries tax is chargeable mainly on employment income arising in or derived from Hong Kong. Currently, salaries tax is charged on an individual's net chargeable income[1] at progressive rates ranging from 2% to 17%, or on an individual's net income[2] at a standard rate of 15%, whichever is lower. The Government has proposed in the 2024-2025 Budget the introduction of a two-tiered standard rates regime for salaries tax and tax under PA, with a view to increasing government revenue and reflecting the "affordable users pay" principle. Under the proposed two-tiered standard rates regime, a high-tier standard rate of 16% will be applied to the portion of net income that exceeds a threshold of $5 million, whilst the portion of net income within the threshold will continue to be taxed at the existing standard rate of 15%.

One-off tax reduction measures

5. As one of the one-off relief measures to taxpayers, the 2024-2025 Budget has proposed reducing salaries tax, tax under PA and profits tax for the YA 2023-2024 by 100%, subject to a ceiling of $3,000. The reduction will be reflected in the final assessment for the YA 2023-2024.

[1] Net chargeable income = Total income – Deductions – Allowances

[2] Net income = Total income – Deductions

The Bill

6. The Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Bill 2024 ("the Bill") was published in the Gazette on 8 March 2024 and received its First Reading at the Legislative Council ("LegCo") meeting of 20 March 2024.

7. The Bill seeks to amend IRO to:

(a) increase the ceiling amounts for concessionary deductions allowable for HLI and DR;

(b) give effect to certain proposals in the Budget introduced by the Government for the 2024-2025 financial year concerning tax concessions and the introduction of two-tiered standard rates for salaries tax, provisional salaries tax and tax under PA; and

(c) provide for related matters.

8. Details of the major provisions of the Bill are set out in **Appendix 1**. The Bill, if passed, will come into operation on the day on which it is published in the Gazette as an Ordinance.

The Bills Committee

9. At its meeting on 22 March 2024, the House Committee agreed to form a Bills Committee to study the Bill. Ir Hon LEE Chun-keung has been elected Chairman of the Bills Committee. The membership list of the Bills Committee is in **Appendix 2**. The Bills Committee has held one meeting with the Administration to study the Bill and also invited the public to give written views on the Bill. A list of organizations which have submitted views to the Bills Committee is in **Appendix 3**.

Deliberations of the Bills Committee

10. Members of the Bills Committee in general support the Bill. Regarding the three proposals thereunder, namely, introducing a two-tiered standard rates regime for salaries tax and tax under PA, providing one-off tax reduction measures, as well as increasing the deduction ceiling amounts for HLI and DR, the major issues deliberated by the Bills Committee are set out below:

(a) Definitions of child, marriage and dwelling (paragraphs 11-13);

(b) Requirements on taxpayers and conditions to be met by taxpayers (paragraphs 14-17);

(c) Maximum number of YAs for the use of the additional deduction ceiling amounts (paragraphs 18-20);

(d) Calculation of tax rates and tax amounts under the two-tiered standard rates regime (paragraphs 21-22);

(e) Proposal on the introduction of a “sunset clause” (paragraphs 23-24);

(f) Impact on Hong Kong’s tax competitiveness (paragraphs 25-28); and

(g) Relief provided by tax concessions for members of the public and enterprises (paragraphs 29-30).

<u>Deduction ceiling amounts for home loan interest or domestic rents</u>

Definitions of child, marriage and dwelling

11. The Bill proposes to add the definition of “child” to sections 26E(9) and 26W(1) of IRO. Under the newly added definition, a child, in relation to a person, (a) means a child of the person or of the person’s spouse or former spouse, whether or not the child was born in wedlock; and (b) includes the adopted or step child of either or both of the following: (i) the person; (ii) the person’s spouse or former spouse. Members have requested the Administration to elaborate the expression “born in wedlock” and clarify whether a taxpayer residing in Hong Kong with an eligible child (i.e. born on or after the Date and who is under the age of 18 years at any time during the YA) born out of wedlock is likewise entitled to the additional deduction ceiling amount of $20,000.

12. Noting that “marriage” is not defined in the Bill, members have sought clarification from the Administration on whether the definition of marriage includes same sex marriages, and whether an unmarried person residing in Hong Kong with an eligible child is likewise entitled to the additional deduction ceiling amount of $20,000. Moreover, members have enquired whether dwelling in the context of the deduction for DR includes serviced apartments.

13. The Administration has advised that the definitions of "marriage", "spouse", "husband" and "wife" have already been provided in section 2 of the existing IRO, and the Bill will not make any changes to those definitions. Regarding the definition of "child" under the Bill, the Administration has pointed out that the definition, which is the same as the existing definition of "child" as referred to in relation to the Child Allowance and other tax deductions[3], mainly refers to a child of the taxpayer and his/her spouse, and there is no requirement for the child to be born in wedlock. The same principle applies in determining whether a taxpayer is entitled to the additional deduction ceiling amount of $20,000, i.e. a child born out of wedlock will be regarded as the taxpayer's child. If a taxpayer resides in Hong Kong with an eligible child born out of wedlock, he/she will likewise be entitled to the additional deduction ceiling amount of $20,000. Regarding the deduction for DR, the Administration has explained that in order to be eligible for the deduction, a taxpayer's domestic premises must be a building or part of such a building that is not prohibited by or pursuant to any law or by any specified instrument (e.g. a Government lease or an occupation permit) from being used for residential purposes. In addition, the taxpayer must have entered into a tenancy (or sub-tenancy) in writing in respect of the domestic premises, which must be stamped under the Stamp Duty Ordinance (Cap. 117). For taxpayers who reside in serviced apartments, their entitlement to the deduction of DR would depend on whether tenancies in writing have been entered into with the residents of individual serviced apartments.

Requirements on taxpayers and conditions to be met by taxpayers

14. Members have pointed out that a number of measures have been proposed under the 2023 Policy Address to encourage childbearing and support families with newborn children. Unlike other measures such as the Newborn Babies Bonus, the measure to raise the accommodation-related tax deduction ceiling does not require that one of the parents of the newborn child must be a Hong Kong permanent resident ("HKPR"), i.e. the measure will apply to all taxpayers. Referring to the Government's policy to encourage childbearing, members consider that its original intent is to encourage childbearing by people with ties to Hong Kong as their children would normally stay in Hong Kong for development, thereby promoting a balanced development of the population in the long run. As such, members have enquired why there is no requirement under the Bill for one of the parents of the newborn child to be a HKPR and whether such an arrangement may deviate from the Government's original policy intent.

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3 For example, the deduction of qualifying premiums paid under Voluntary Health Insurance Scheme policies.

15. The Administration has advised that in formulating the conditions to be met by taxpayers, reference has been made to the existing relevant requirements on the Child Allowance. Under such requirements, all taxpayers, whether or not they are HKPRs, may claim the Child Allowance if their unmarried dependent children meet certain conditions in the YA concerned. The Administration has pointed out that increasing the deduction ceiling amounts for HLI and DR, being an accommodation-related tax deduction, is intended to provide additional support to taxpayers living with their newborn children as doing so may involve additional housing need and expenses on their part. To qualify for the additional deduction, the child must reside with the taxpayer in Hong Kong, and the maximum number of YAs for the use of the additional deduction ceiling amounts is 19. If the child has already resided with the taxpayer in Hong Kong for 19 years, that child would have established sufficient ties with Hong Kong or even become a HKPR. Moreover, given that the actual amount of tax savings due to a taxpayer arising from the additional deduction ceiling is limited ($3,400 if calculated at the highest progressive rate of 17%), the Administration considers that, on balance, this measure has little room for potential abuse even without a requirement that one of the parents of the newborn child must be a HKPR.

16. Members have enquired whether a taxpayer's newborn child must be born and/or reside in Hong Kong in order to be eligible for the additional deduction ceiling amount of $20,000. Referring to the situation where a taxpayer has not resided with an eligible child in Hong Kong for a continuous period of not less than six months in the YA concerned, members have also sought information about the circumstances under which the taxpayer is still eligible to elect for using the additional deduction ceiling amount by meeting the condition of a shorter period that the Commissioner considers reasonable as specified under the proposed new sections 26E(2A)(a)(ii) and 26Y(5A)(a)(ii).

17. The Administration has replied that there is no requirement for a taxpayer's newborn child to be born in Hong Kong, which is also the practice adopted for the Child Allowance. Taxpayers subject to salaries tax or tax under PA in Hong Kong normally reside in Hong Kong, and their eligible newborn children must also fulfil the requirement of residing with their parents in Hong Kong before the taxpayers are eligible for the additional deduction ceiling amount. If a taxpayer does not reside with his/her newborn child in Hong Kong or for an extended period of time, the taxpayer concerned may not be eligible for the additional deduction ceiling amount, but he/she will still be eligible for the original deduction ceiling amount of $100,000. The Administration has further advised that in determining whether a shorter period of co-residence is reasonable, the Commissioner will take into account the overall facts of each case. Generally, a taxpayer

can qualify for the additional deduction ceiling amount under the following circumstances even if he/she has resided with the eligible child in Hong Kong for less than six months: the child is born in the second half of the YA concerned; the child studies abroad or studies in a boarding school in Hong Kong, and resides with the taxpayer in Hong Kong when the child is on vacation; the taxpayer is required to work outside Hong Kong frequently, and the child resides with his/her family in Hong Kong; the child's grandparents look after and reside with the child during weekdays, and the child returns home to reside with the taxpayer during weekends; the child has been hospitalized for a period of time in the YA concerned; and the taxpayer departs from Hong Kong for a period of time with his/her child in the YA concerned.

Maximum number of years of assessment for the use of the additional deduction ceiling amounts

18. Clauses 3 and 8 of the Bill seek to amend sections 26E and 26ZA of IRO respectively to provide that the maximum number of YAs for the use of the additional deduction ceiling amounts would be an aggregate of 19 YAs (whether continuous or not). Members have enquired whether the maximum number of YAs for the use of the additional deduction ceiling amounts would be calculated afresh on the year of birth of the second or subsequent child of a taxpayer if the taxpayer has more than one child born on or after the Date. In addition, members have enquired whether the Administration would consider providing higher additional deduction ceiling amounts for taxpayers with more than one child born on or after the Date or increasing the additional deduction ceiling amounts on a progressive basis according to the number of children, with a view to further encouraging childbearing.

19. The Administration has advised that the objective of increasing the deduction ceiling amounts for HLI and DR is to encourage childbearing by alleviating the financial burden of taxpayers who may need to purchase or rent a larger residential property as a result of their first child born after the announcement of the 2023 Policy Address. If a taxpayer subsequently has more than one newborn child, while he/she may still need a bigger home, the accommodation need may not increase proportionately at the same time. Therefore, after balancing the financial implications of the measure on the Government and the housing support to be provided for taxpayers, the 2023 Policy Address proposes to provide the additional deduction ceiling amounts only for the first child born after the announcement of the 2023 Policy Address.

20. The Administration has further advised that the relevant measure represents a slight relaxation as compared with the 2023 Policy Address

initiative, which required that the person must reside with his/her first child in order to claim the additional deduction ceiling amounts. The slight relaxation allows a person who may not be able to reside with his/her first child (e.g. the child studies abroad) to claim the additional deduction ceiling amount if he/she, during a YA commencing from 1 April 2024, resides with a child (instead of the first child) born on or after the Date and aged below 18, subject to the requirement that the maximum number of YAs for such claims is 19 and the satisfaction of all other conditions specified in the Bill. The relaxation is made having regard to the policy objective of the 2023 Policy Address initiative, which is to encourage childbearing by relieving the financial burden of the person in purchasing or renting a residential property. Since the person will still need to incur additional financial burden of purchasing or renting a residential property in respect of the second or subsequent child born or after the Date even if the first child is not residing with the person, the relaxation is proposed to cover such persons.

<u>Two-tiered standard rates regime</u>

Calculation of tax rates and tax amounts under the two-tiered standard rates regime

21. Given the Government's fiscal deficits in recent years which will persist for some time to come, members have expressed support for the Administration's proposal to introduce a two-tiered standard rates regime for salaries tax and tax under PA, in order to increase government revenue and reflect the "affordable users pay" principle. Noting that according to the Administration's estimates, the proposed two-tiered standard rates regime would affect only about 11 700 taxpayers (representing 0.6% of the total number of taxpayers) and generate an additional $905 million of revenue for the Government annually, members have sought the reasons for setting the threshold for charging the higher standard rate of 16% at $5 million and for applying the standard rate of 16% only to the portion of net income exceeding the $5 million threshold but not the first $5 million of net income.

22. The Administration has responded that "affordable users pay" has all along been one of the Government's principles in improving the tax system. The threshold is set at $5 million primarily to minimize the number of taxpayers affected while increasing the Government's tax revenue. In considering the introduction of the two-tiered standard rates regime, the Administration has examined whether it is appropriate to apply the same rate of 16% to the first $5 million of net income of the taxpayers concerned. However, this will result in a substantial increase in the tax burden of taxpayers with net income above $5 million. To minimize the impact on the taxpayers concerned, the Government has proposed to apply the standard rate of 16% only to the portion of net income exceeding the $5 million

threshold. The Administration has also advised that the two-tiered standard rates regime is a long-term measure that will bring more stable and sustainable revenue for the Government in the long run.

Proposal on the introduction of a "sunset clause"

23. Members have expressed concern on whether the Government will, in the face of fiscal pressure in future, further adjust the standard rate, such as raising the standard rate to 20% or 30%, further introducing a three- or four-tiered standard rates regime, or lowering the $5 million threshold for calculating the tax amount at the standard rate of 15% to $3 million or even lower. Members have pointed out that Hong Kong has all along been upholding a simple and low tax regime. A clear and uniform low tax regime provides a clear and stable business environment for enterprises, while giving Hong Kong a competitive edge in retaining and attracting local and overseas investments and talents. Any adjustment to the tax regime may affect the incentive of Mainland and international enterprises and talents to come to Hong Kong for development, as well as undermine Hong Kong's tax competitiveness. In this connection, some members have requested the Administration not to make further adjustments to the two-tiered standard rates regime lightly, in order to maintain Hong Kong's simple and low tax regime. Some members have also suggested that the Administration should consider introducing a "sunset clause" in the Bill to specify that the Government will abolish the two-tiered standard rates regime after achieving fiscal surplus again.

24. The Administration has advised that no "sunset clause" is introduced for the proposed two-tiered standard rates regime to specify the regime's termination date. This is in line with the previous practice in adjusting the standard rate or progressive rates. Nonetheless, the Administration will continue to collect opinions from different sectors of the society through various consultation channels when formulating the annual Budget in accordance with the existing mechanism, and devise appropriate tax policies and measures taking into account various factors, such as the latest economic, social, tax competitiveness and fiscal conditions.

Impact on Hong Kong's tax competitiveness

25. Pointing out that the Government is now proactively trawling the world for enterprises and talents, members are concerned that the proposed two-tiered standard rates regime may affect the incentive of enterprises and talents to come to Hong Kong for development. Members have enquired whether the Administration had estimated the percentage of those with an annual income exceeding $5 million among the total number of applicants applying for admission to Hong Kong (including those under the Top Talent

Pass Scheme), and whether the new measure would have an adverse impact on their plans to come to Hong Kong for development. In addition, members have called on the Administration to step up efforts in explaining to the international communities details of the two-tiered standard rates regime, so as to prevent smear campaigns by people with ulterior motives and allay concerns of outside parties about the measure.

26. The Administration has stated that the tax regime is one of the considerations of foreign enterprises or outside talents in planning to come to Hong Kong for development. Hence, in designing the two-tiered standard rates regime, the Government has maintained a proper balance between increasing government revenue and avoiding impact on Hong Kong's tax competitiveness as a result of the increased tax rate. Regarding the impact of the two-tiered standard rates regime on new arrivals, the Administration has pointed out that as shown by information on new arrivals to Hong Kong admitted through various talent schemes, only a limited number of persons have an annual income exceeding $5 million and hence, it is believed that the two-tiered standard rates regime will have a minimal impact on them. The Government will continue to proactively explain to new arrivals to Hong Kong admitted through various talent schemes the tax advantages of Hong Kong, including the difference between the tax systems and tax rates of Hong Kong and other jurisdictions, with a view to boosting their confidence in Hong Kong's tax system and coming to Hong Kong for development.

27. Members have requested the Administration to provide a comparison between Hong Kong and its neighbouring tax jurisdictions (e.g. Singapore) in terms of tax competitiveness and attractiveness to talents after the implementation of the proposed two-tiered standard rates regime.

28. The Administration has responded that due to the differences in the scope of tax, the tax system (e.g. the amount of marginal tax bands), and the provision of tax deduction/allowance in different tax jurisdictions, it is difficult to directly compare the competitiveness of different tax systems. As a reference case, the amount of tax payable in Hong Kong (after the implementation of the proposed two-tiered standard rates regime) and Singapore by a married taxpayer with two children is as follows:

Net Income (HK$)	Hong Kong[4] (After implementation of the proposed two-tiered standard rates regime)	Singapore[5]
	Hong Kong Dollar (HK$)	HK$ (1 Singapore Dollar = HK$5.8)
5.708 million[6]	863,280	1,097,892
6.00 million	910,000	1,165,486
6.50 million	990,000	1,285,486
7.00 million	1,070,000	1,405,486

The Administration has further advised that, based on the tax data (before one-off concession) of YA 2021-2022, the effective tax rate for salaries tax in Hong Kong was about 8.0%. After the implementation of the proposed two-tiered standard rates regime, the effective tax rate is expected to remain at 8.04%. Hence, the overall implication of the proposed two-tiered standard rates regime on the taxpayers in Hong Kong is minimal. It is believed that it would not have adverse impact on Hong Kong's tax competitiveness and attractiveness to talents. At members' request, the Administration has provided reference cases for the proposed two-tiered standard rates regime to illustrate its impact on taxpayers for members' reference. The reference cases are in **Appendix 4**.

<u>One-off tax concessions</u>

Relief provided by tax concessions for members of the public and enterprises

29. Clause 18 of the Bill seeks to amend Schedule 43 to IRO to give effect to one-off reductions of salaries tax, tax under PA and profits tax for YA 2023-2024 by 100%, subject to a ceiling of $3,000 in each case, as proposed in the 2024-2025 Budget. Members are of the view that such

4. It is assumed that the taxpayer's spouse has no income, the taxpayer is entitled to the Married Person's Allowance of HK$264,000 and the Child Allowance of HK$260,000, and the taxpayer is not entitled to any other allowance or deduction.

5. It is assumed that the two children of the taxpayer are born on or after 1 January 2024, the taxpayer claims Working Mother's Child Relief, Earned Income Relief and Qualifying Child Relief, and the taxpayer is not entitled to any other allowance.

6. For married taxpayers with two children, after the implementation of the two-tiered standard rates regime, they would only be taxed at standard rates when their annual income reaches at least HK$5.708 million.

measures can provide substantive relief to members of the public and enterprises amidst the current economic uncertainties of Hong Kong and the world.

30. The Administration has advised that with the implementation of the aforesaid one-off tax reduction measures, it is expected that about 25% of taxpayers for salaries tax and tax under PA and about 16% of taxpayers for profits tax will leave the tax net. The Government believes that this will help alleviate the burden on general taxpayers (including the middle class). The Government will continue to take into account factors such as the economic conditions, the needs of various sectors of the community, and the financial implication on the Government, in considering whether there is a need to formulate appropriate one-off tax concessionary measures in the Budget.

Amendments to the Bill

31. Neither the Administration nor the Bills Committee will propose any amendments to the Bill.

Resumption of Second Reading debate on the Bill

32. The Bills Committee has completed scrutiny of the Bill. The Administration has indicated its intention to resume the Second Reading debate on the Bill at the Council meeting of 22 May 2024, to which the Bills Committee has no objection.

Consultation with the House Committee

33. The Bills Committee reported its deliberations to the House Committee on 26 April 2024.

Council Business Division 1 and Public Complaints Office
Legislative Council Secretariat
16 May 2024

Appendix 1

Inland Revenue (Amendment)
(Tax Concessions and Two-tiered Standard Rates) Bill 2024

Major provisions

The major provisions of the Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Bill 2024 are set out below:

(a) Increase in the deduction ceiling amounts for home loan interest ("HLI") and domestic rents ("DR")

(i) **Clause 3** amends section 26E of the Inland Revenue Ordinance (Cap. 112) ("IRO") to provide that, if certain conditions are met, an additional deduction ceiling amount ("HLI additional deduction ceiling amount") can be used in determining the amount of deduction allowable under that section in respect of HLI paid. The amended section 26E also provides for the revocation of an election to use an HLI additional deduction ceiling amount and for the maximum number of years of assessment ("YAs") in which HLI additional deduction ceiling amounts can be used.

(ii) **Clause 6** amends section 26Y of IRO to provide that, if certain conditions are met, an additional deduction ceiling amount ("DR additional deduction ceiling amount") can be used in determining the amount of deduction allowable under section 26X of IRO in respect of DR paid.

(iii) **Clause 7** adds a new section 26YA to IRO to provide for the revocation of an election to use a DR additional deduction ceiling amount.

(iv) **Clause 8** amends section 26ZA of IRO to provide for the maximum number of YAs in which DR additional deduction ceiling amounts can be used.

(v) **Clause 9** amends section 26ZB of IRO to provide that an election by a taxpayer to use a DR additional deduction ceiling amount is to be regarded as not having been made if the domestic rents concerned is subsequently refunded and the deduction concerned is disallowed.

(vi) **Clauses 15 and 16** respectively amend Schedules 3D and 3G to IRO to set out the HLI additional deduction ceiling amount and the amount for calculating the DR additional deduction ceiling amount for YA 2024-2025 and subsequent years. Both amounts are $20,000.

(b) One-off tax concessions

(i) **Clause 18** amends Schedule 43 to IRO such that for YA 2023-2024, the salaries tax, tax under personal assessment ("PA") and profits tax payable are to be reduced by 100%, subject to a maximum of $3,000 in each case.

(c) Two-tiered standard rates regime

(i) **Clause 19** amends Schedule 1 to IRO to introduce a higher standard rate applicable to the portion of net income that exceeds $5 million for salaries tax and tax under PA.

(Source: Legislative Council Brief (File Ref: TsyB R 183/535-1/5/0 (24-25)(C)) issued by the Financial Services and the Treasury Bureau in March 2024)

Appendix 2

Bills Committee on Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Bill 2024

Membership List

Chairman	Ir Hon LEE Chun-keung, JP
Members	Prof Hon Priscilla LEUNG Mei-fun, SBS, JP Hon Frankie YICK Chi-ming, GBS, JP Hon KWOK Wai-keung, JP Hon Doreen KONG Yuk-foon Dr Hon TIK Chi-yuen, SBS, JP Hon Nixie LAM Lam Hon Duncan CHIU Hon Dennis LEUNG Tsz-wing, MH Hon Kenneth LEUNG Yuk-wai, JP Hon Rock CHEN Chung-nin, SBS, JP Hon Benson LUK Hon-man Hon TANG Fei, MH Hon YIM Kong (Total: 14 members)
Clerk	Miss Sharon LO
Legal Adviser	Mr Alvin CHUI

Appendix 3

Bills Committee on Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Bill 2024

List of organizations which have submitted views to the Bills Committee

1. Chinese Dream Think Tank

2. Liberal Party

Appendix 4

Bills Committee on Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Bill 2024

Reference cases for the proposed two-tiered standard rates regime

The impact of the proposed two-tiered standard rates regime on taxpayers will vary depending on their income level and the amount of allowance(s) and deduction(s) that can be claimed. Taking a married taxpayer with two children as an example, the impact of the proposed two-tiered standard rates regime on his/her tax amount under different income levels is as follows:

Net Income (HK$)	Before the implementation of the proposed two-tiered standard rates regime[1] (HK$)	After the implementation of the proposed two-tiered standard rates regime[1] (HK$)	Additional amount of tax payable (HK$)
5.50 million	825,000	827,920[2]	2,920 (0.35%)
5.708 million[3]	856,200	863,280	7,080 (0.83%)
6.00 million	900,000	910,000	10,000 (1.11%)
6.50 million	975,000	990,000	15,000 (1.54%)
7.00 million	1,050,000	1,070,000	20,000 (1.90%)

1 It is assumed that the taxpayer's spouse has no income, the taxpayer is entitled to the Married Person's Allowance of HK$264,000 and the Child Allowance of HK$260,000, and the taxpayer is not entitled to any other tax allowance or deductions.

2 Before the implementation of the proposed two-tiered standard rates regime, if the net income of the taxpayer in the reference case is HK$5.5 million, his/her tax amount calculated at standard rate (HK$825,000) is lower than the tax amount calculated at progressive rates (HK$827,920), and therefore the taxpayer should be taxed at standard rate. After the implementation of the proposed two-tiered standard rates regime, the tax amount calculated at standard rate (HK$830,000) would be higher than the tax amount calculated at progressive rates (HK$827,920), and therefore the taxpayer would be taxed at progressive rates.

3 For a married taxpayer with two children, after the implementation of the two-tiered standard rates regime, they would only be taxed at standard rates when their annual income reaches at least HK$5.708 million.

2. For an unmarried taxpayer with no child, the impact of the proposed two-tiered standard rates regime on his/her tax amount under different income levels is as follows:

Net Income (HK$)	**Before the implementation of the proposed two-tiered standard rates regime[4] (HK$)**	**After the implementation of the proposed two-tiered standard rates regime[4] (HK$)**	**Additional amount of tax payable (HK$)**
5.50 million	825,000	830,000	5,000 (0.61%)
6.00 million	900,000	910,000	10,000 (1.11%)
6.50 million	975,000	990,000	15,000 (1.54%)
7.00 million	1,050,000	1,070,000	20,000 (1.90%)

4 An unmarried taxpayer is entitled to a Basic Allowance of HK$132,000. It is assumed that the taxpayer is not entitled to any other tax allowance or deduction.