

LEGISLATIVE COUNCIL BRIEF

Rating Ordinance
(Chapter 116)

RATING (AMENDMENT) BILL 2024 FOR IMPLEMENTING THE PROGRESSIVE RATING SYSTEM FOR DOMESTIC TENEMENTS

INTRODUCTION

A At the meeting of the Executive Council on 21 May 2024, the Council ADVISED and the Chief Executive ORDERED that the Rating (Amendment) Bill 2024 (the “Amendment Bill”), at **Annex A**, should be introduced into the Legislative Council (“LegCo”) for amending the Rating Ordinance (Cap. 116) (“the Ordinance”) to implement the progressive rating system for domestic tenements.

JUSTIFICATIONS

2. The rating system in Hong Kong has a history of over 170 years and has not undergone any major changes in the last two decades. Since 1999, rates have been charged to tenements at a flat rate of 5% of the annual rateable value (“RV”). Ratepayers are subject to quarterly payment of rates to the Rating and Valuation Department (“RVD”). As the RV of a tenement reflects the rental value of the tenement concerned, the existing regime to a certain extent aligns with the “affordable users pay” principle by collecting more rates revenue in absolute amount from tenements with higher RVs. To further uphold the “affordable users pay” principle and to generate additional revenue, it was announced in the 2022-23 Budget Speech that a progressive element to the existing rating system would be introduced by applying higher rates percentage charge(s) to high RV domestic tenements. In the 2024-25 Budget Speech, the Financial

Secretary announced that the progressive rating system for domestic tenements will be brought into effect from the fourth quarter of 2024-25 onwards as part of the comprehensive fiscal consolidation programme to restore fiscal balance in a few years' time.

Features of the progressive rating system for domestic tenements

3. To bring the rating system more in line with the “affordable users pay” principle and maintain a simple rating system that is easy to administer, the proposed progressive rating system for domestic tenements will incorporate the following key elements –

- (a) Scope of domestic tenements: The scope of the application of the progressive rating system will be confined to tenements that are used, or intended to be used, wholly or mainly for domestic purposes. A tenement comprising one or more parking spaces that are used, or intended to be used, by the owners or occupiers of domestic tenements (including any other persons authorized by the owners or occupiers) and that are not available for rent by the public for any duration will also be covered as domestic tenements.

In general, tenements occupied for the purpose of business activities or social services are not regarded as tenements for domestic purposes. These tenements (e.g. hotel, guesthouse, child care centre, children's home, nursery, home for the elderly persons, orphanage, home for persons with disabilities, youth hostel, holiday camp, etc.) are non-domestic tenements which will not be subject to the progressive rating system.

- (b) Progressive rates scale: Higher rates percentage charge(s) will be applied to domestic tenements beyond specified threshold(s) in terms of RVs, and domestic tenements with RV(s) below the minimum threshold will not be affected by the higher rates percentage charge(s); and
- (c) Marginal approach for applying the progressive rates scale: Higher rates percentage charge(s) will only apply to the portion of RV that exceeds specified threshold(s). This will result in more moderate increases in rates for affected domestic tenements without undermining the “affordable users pay” principle.

4. The proposed progressive rating scale and the percentage of the affected domestic tenements as of 1 April 2024 are set out below –

Annual RV of domestic tenements (Monthly RV)	Proposed new rates percentage charges	Percentage out of all private domestic tenements (Number of such tenements)
\$550,000 or below (\$45,833 or below)	5% (Remains unchanged)	Around 98% (around 2.16 million tenements)
Above \$550,000 to \$800,000 (around \$45,833 to \$66,667)	First \$550,000: 5% Next \$250,000: 8%	Around 1.1% (around 24 000 tenements)
Above \$800,000 (above \$66,667)	First \$550,000: 5% Next \$250,000: 8% Portion above \$800,000: 12%	Around 0.8% (around 18 000 tenements)

5. Under the proposed framework, domestic tenements with RV of \$550,000 (equivalent to monthly rental of around \$46,000) or below will not be affected and will continue to be subject to rates computed at 5% of their RVs. These represent around 98% of all private domestic tenements on the 2024-25 Valuation List. Only 1.9% of private domestic tenements (around 42 000 tenements) with a RV above \$550,000 will have a portion of their rates payable being computed based on the higher rates percentage charge(s). In other words, the introduction of the progressive rating system will only lead to a moderate increase in rates payable for a limited number of domestic tenements with higher RV. For example, for a domestic tenement with a monthly rental value of \$60,000 (i.e. RV at \$720,000), the additional rates payable under the proposal will be \$5,100 per year, representing only 0.7% of the annual RV.

Carve-outs of certain domestic tenements from the scope of the progressive rating system

6. RVD is required to assess the RV of each tenement held or occupied as a distinct or separate tenancy or holding or under any licence. Under section 10 of the Ordinance, RVD is empowered to exercise discretion to value two or more tenements together as a single tenement having regard to considerations such as whether the value of a tenement is affected by the value of any other tenement and the tenements are used in connection with one another, etc. Besides, the physical setting and mode of occupation of certain domestic premises (e.g. a dormitory with a substantial portion of household facilities designed for shared use among different households) may require the whole premises to be assessed as a single tenement. Where multiple domestic tenements or multiple units within the same domestic premises are assessed as a single tenement, the assessment is collectively referred to as “en-bloc” domestic assessment.

7. For an en-bloc domestic assessment, when the RV of such a tenement exceeds the threshold of \$550,000, it will become subject to the progressive rating scale. These may include a whole block of public rental housing units, student dormitories of universities, staff dormitories of public hospitals, and dormitories provided by religious institutions. Since it is not the intended purpose of the progressive rating system to apply the “affordable users pay principle” to these tenements, in consultation with the Education Bureau, the Health Bureau and the Housing Bureau, we propose to carve out such domestic tenements from the scope of progressive rating system so as to avoid subjecting them to higher rates liability. Specifically, it is recommended that the following types of en-bloc domestic tenements would not be subject to the progressive rating scale –

- (a) public rental housing flats provided by the Hong Kong Housing Authority and the Hong Kong Housing Society, rental housing flats in Tai Hang Sai Estate provided by the Hong Kong Settlers Housing Corporation Limited as well as flats under the public housing scheme known as transitional housing or light public housing, which aim at providing low-income families or target groups with affordable accommodation;

- (b) dormitories that are provided by non-profit-making registered schools and are situated within the premises specified in its school registration certificate, as well as dormitories that are provided by post-secondary institutions¹ specified in section 2 of the Education Ordinance (Cap. 279), and in which a substantial portion of the household facilities (such as kitchen facilities and sanitary facilities) are designed for shared use;
- (c) dormitories provided by the Hospital Authority and The Chinese Medicine Hospital of Hong Kong², and in which a substantial portion of the household facilities (such as kitchen facilities and sanitary facilities) are designed for shared use; and
- (d) dormitories provided by religious institutions, which are defined in the Amendment Bill as those that owns or occupies tenement(s) used wholly or mainly for the purpose of public religious worship³, and in which a substantial portion of the household facilities (such as kitchen facilities and sanitary facilities) are designed for shared use.

Implementation Timetable

8. After the passage of the Amendment Bill, RVD will issue quarterly demands for the fourth quarter of 2024-25 (i.e. January – March 2025) in December 2024, in which the progressive rates will be reflected in those cases where the RV of a domestic tenement is above \$550,000.

OTHER OPTIONS

9. We need to set out in the Ordinance the different rates charging scales or basis applicable to domestic and non-domestic tenements on or

¹ They include the eight universities funded through the University Grants Committee, the Hong Kong Metropolitan University, the Vocational Training Council, the Hong Kong Academy for Performing Arts and post-secondary institutions registered under the Post Secondary Colleges Ordinance (Cap. 320).

² Carve-out concerning certain dormitories to be provided by The Chinese Medicine Hospital of Hong Kong will come into operation by way of publishing a notice by the Secretary for Financial Services and the Treasury only when the Hospital commences hospital services.

³ Currently, tenements used wholly or mainly for the purpose of public religious worship are exempt from rates under the Ordinance.

after 1 January 2025 under the progressive rating system. There is no other viable option.

THE BILL

10. The main provisions of the Amendment Bill are set out as follows:

- (a) Clause 1 sets out the short title and provides for commencement;
- (b) Clause 3 amends section 18 of the Ordinance to provide that the rates payable for any period that falls after 31 December 2024 are to be computed in accordance with the new Schedule to the Ordinance (added by clause 7). Under that Schedule, a progressive rating system applies to certain tenements;
- (c) Clauses 4, 5 and 6 make related amendments to sections 19, 21 and 56 of the Ordinance respectively; and
- (d) Clause 8 provides that the progressive rating system does not apply to certain dormitories provided by The Chinese Medicine Hospital of Hong Kong. The provision will come into operation on a day to be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

LEGISLATIVE TIMETABLE

11. The legislative timetable is as follows –

Publication in the Gazette	31 May 2024
First Reading and commencement of Second Reading debate	12 June 2024
Resumption of Second Reading debate, committee stage and Third Reading	To be notified

IMPLICATIONS OF THE PROPOSALS

B

12. The proposal has economic, financial and civil service implications, as detailed at **Annex B**. It has no environmental, family, gender or productivity implications, and no sustainability implications other than those set out in the economic implications paragraph in **Annex B**. It is in conformity with Basic Law, including the provisions concerning human rights. The Amendment Bill will not affect the current binding effect of the Ordinance and its subsidiary legislation.

PUBLIC CONSULTATION

13. On 4 April 2022, we consulted the Panel on Financial Affairs of the LegCo on the proposed progressive rating system for domestic tenements and the proposal to carve out public rental housing flats from the system⁴. Members generally supported the proposal.

PUBLICITY

14. We will issue a press release on 29 May 2024. A spokesperson will be available to answer media and public enquiries.

15. A leaflet about the progressive rating system for domestic tenements was enclosed to the quarterly demands issued to all ratepayers in the first quarter of 2024-25 (i.e. April – June 2024). RVD also made available in March 2024 a dedicated webpage on the progressive rating system with an online calculator for ratepayers to estimate the rates payable of tenements (including those subject to progressive rates). Besides, RVD issued notification letters in April 2024 to individual ratepayers with regard to those domestic tenements with RV above \$550,000, informing them of the potentially higher rates liability upon implementation of the progressive rating system. Subject to the passage of the Amendment Bill, RVD will issue a press release in January 2025 about the issue of the

⁴ After consultation with the Panel on Financial Affairs of the LegCo, it was further identified that transitional housing and Light Public Housing flats, as well as the dormitories with shared facilities provided by the relevant schools, post-secondary institutions, Hospital Authority, The Chinese Medicine Hospital of Hong Kong and religious institutions were also assessed en bloc. The proposal to carve out these tenements was developed based on similar considerations as the case for public rental housing flats.

quarterly demands for the fourth quarter of 2024-25 which will reflect the progressive rates for applicable cases.

ENQUIRIES

16. Enquiries on this Brief can be directed to Mr Stephen LO, Principal Assistant Secretary for Financial Services and the Treasury (Treasury), at 2810 2317.

Financial Services and the Treasury Bureau
May 2024

A BILL

To

Amend the Rating Ordinance to implement a progressive rating system for certain tenements; and to make related amendments.

Enacted by the Legislative Council.

1. Short title and commencement

- (1) This Ordinance may be cited as the Rating (Amendment) Ordinance 2024.
- (2) Subject to subsection (3), this Ordinance comes into operation on the day on which it is published in the Gazette.
- (3) Section 8 comes into operation on a day to be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

2. Rating Ordinance amended

The Rating Ordinance (Cap. 116) is amended as set out in sections 3 to 8.

3. Section 18 amended (computation of rates payable)

- (1) Before section 18(1)—

Add

“(1A) For every tenement included in a valuation list in force, rates are payable for each year on the rateable value of the tenement.”.

- (2) Section 18—

Repeal subsection (1)

Substitute

- “(1) The rates are to be computed—
- (a) subject to paragraph (b), on the basis of the percentage of the rateable value of the tenement that is prescribed for the purposes of this subsection; or
 - (b) if the rates are those payable for a year, or any part of a year, that falls after 31 December 2024—in accordance with the Schedule.”.

4. Section 19 amended (limitation on amount payable as rates)

- (1) Section 19(3)—

Repeal

“for paragraph (a) thereof there were substituted”

Substitute

“paragraph (a) of subsection (1) were substituted by”.

- (2) Section 19(3)—

Repeal

everything after “computed”

Substitute

“in respect of the whole of that preceding year—

- (i) in accordance with section 18 as in force on 31 March in that preceding year; and
- (ii) by reference to the rateable value of the tenement as of that date;”.

5. Section 21 amended (liability for payment of rates)

Section 21—

Repeal subsection (8)**Substitute**

“(8) To avoid doubt, an apportionment of the rateable value applicable to any tenements under subsection (6)—

- (a) does not prevent the Commissioner from valuing those tenements together as a single tenement under section 10;
- (b) does not affect the rates assessed on the single tenement; and
- (c) accordingly, does not prevent subsection (4) from continuing to apply in relation to the single tenement.”.

6. **Section 56 amended (savings and transitional arrangements on amendment of Ordinance by Provision of Municipal Services (Reorganization) Ordinance)**

Section 56—

Repeal subsection (4)**Substitute**

“(4) Subsection (3) does not apply in relation to rates payable for a year, or any part of a year, that falls after 31 December 2024.”.

7. **Schedule added**

After section 56—

Add**“Schedule**

[s. 18]

Computation of Rates for Section 18(1)(b)

1. For the purposes of section 18(1)(b), rates are payable—
 - (a) for a tenement to which this paragraph applies—
 - (i) at the rate of 5% on the rateable value of the tenement up to \$550,000;
 - (ii) at the rate of 8% on any part of the rateable value of the tenement over \$550,000, up to \$800,000; and
 - (iii) at the rate of 12% on any part of the rateable value of the tenement over \$800,000; or
 - (b) for any other tenement—at the rate of 5% on the rateable value of the tenement.
2. Section 1(a) of this Schedule—
 - (a) applies to a domestic tenement; but
 - (b) does not apply to—
 - (i) a tenement that is, or any part of which is, a public rental housing flat provided by—
 - (A) the Hong Kong Housing Authority; or
 - (B) the Hong Kong Housing Society;
 - (ii) a tenement that is, or any part of which is, a rental housing flat, provided by the Hong Kong Settlers Housing Corporation Limited,

- in an estate known as Tai Hang Sai Estate and situated at Shek Kip Mei, Kowloon;
- (iii) a tenement that is, or any part of which is, a flat under—
- (A) the public housing scheme known as Transitional Housing; or
- (B) the public housing scheme known as Light Public Housing; or
- (iv) a tenement that is a dormitory—
- (A) provided by a specified school and situated within the premises specified in the certificate of registration of the school;
- (B) provided by an institution specified in section 2 of the Education Ordinance (Cap. 279);
- (C) provided by a religious institution; or
- (D) provided by the Hospital Authority, and in which a substantial portion of the household facilities (such as kitchen facilities and sanitary facilities) are designed for shared use among different households occupying the dormitory.
3. For the purposes of section 2(a) of this Schedule, a tenement is a domestic tenement if the Commissioner is, having regard to all the circumstances (including any relevant specified instrument), satisfied that—
- (a) the tenement is used, or intended to be used, wholly or mainly for domestic purposes; or

- (b) the tenement comprises one or more parking spaces—
- (i) that are used, or intended to be used, by the owner or occupier (including being used, or being intended to be used, by any other person as authorized by the owner or occupier) of a tenement that falls within the description of paragraph (a); and
- (ii) that are not available for rent by the public for any duration.
4. In this Schedule—
- certificate of registration* (註冊證明書) has the meaning given by section 3(1) of the Education Ordinance (Cap. 279);
- Government grant* (政府批地書) means—
- (a) a grant by the Government to any person of any land;
- (b) an agreement for the grant by the Government to any person of any land;
- (c) a lease expressed to be granted for a period of not more than 7 years by the Government to any person of any land;
- (d) a licence issued by the Government for the occupation by any person of any land; or
- (e) any other document or instrument (however described) under or by virtue of which the Government disposes or agrees to dispose of any land to any person;
- religious institution* (宗教機構) means an institution that owns or occupies a tenement that is used wholly or mainly for the purpose of public religious worship;

specified instrument (指明文書) means—

- (a) a Government grant;
- (b) a deed of mutual covenant as defined by section 2 of the Building Management Ordinance (Cap. 344);
- (c) an occupation permit issued under section 21 of the Buildings Ordinance (Cap. 123); or
- (d) a building plan approved by the Director of Buildings for the purposes of section 14(1) of the Buildings Ordinance (Cap. 123);

specified school (指明學校) means a registered school within the meaning of the Education Ordinance (Cap. 279) that—

- (a) is not an exempted school as defined by section 2 of the Education (Exemption) (Private Schools Offering Non-Formal Curriculum) Order (Cap. 279 sub. leg. F); and
- (b) is not operated for profit.”.

8. Schedule amended (computation of rates for section 18(1)(b))

- (1) The Schedule, section 2(b)(iv)(C)—

Repeal

“; or”

Substitute a semicolon.

- (2) The Schedule, section 2(b)(iv)(D)—

Repeal

“Authority,”

Substitute

“Authority; or”.

- (3) The Schedule, after section 2(b)(iv)(D)—

Add

“(E) provided by The Chinese Medicine Hospital of Hong Kong,”.

Explanatory Memorandum

The purpose of this Bill is to amend the Rating Ordinance (Cap. 116) (*Cap. 116*) to implement a progressive rating system for certain tenements. The Bill also makes related amendments.

2. Clause 1 sets out the short title and provides for commencement. If the Bill is passed, the Ordinance to be enacted (except section 8 of the Ordinance) will come into operation on the day on which it is published in the Gazette.
3. Clause 3 amends section 18 of Cap. 116 to provide that the rates payable for any period that falls after 31 December 2024 are to be computed in accordance with the new Schedule to Cap. 116 (added by clause 7). Under that Schedule, a progressive rating system applies to certain tenements.
4. Clauses 4, 5 and 6 make related amendments to sections 19, 21 and 56 of Cap. 116 respectively.
5. The progressive rating system under the new Schedule to Cap. 116 will not apply to certain dormitories to be provided by The Chinese Medicine Hospital of Hong Kong. Since the construction of the dormitories has not yet been completed, the provision concerning them is added to that Schedule by a separate clause (clause 8), which will come into operation on a day to be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

Implications of the Proposal

Economic Implications

Under the proposal, it is estimated that around 1.9% (i.e. around 42 000) of domestic tenements will be subject to progressive rates at marginal scale. Since the proposal will only lead to an increase on the absolute amount of rates payable by a small portion of the domestic ratepayers, the impact on the overall residential market would not be significant.

Financial and Civil Service Implications

2. With reference to the RV for 2024-25, the progressive rating system is expected to generate additional revenue of about \$820 million to the Government per annum.
3. Additional resources including manpower support have been provided for the RVD to implement the proposed progressive rating system and other work arising from the review of rating system, including the development of computer system and other relevant preparatory work.