

Interest rate increase for Tax Reserve Certificates

Tax Reserve Certificates (Rate of Interest) (Consolidation) (Amendment) Notice 2019 will be published in the Gazette on November 1, 2019. The Notice seeks to increase the rate of interest payable on Tax Reserve Certificates (TRCs) to 0.3667 per cent per annum with effect from January 17, 2020.

Currently, the interest rate for TRCs is reviewed on a monthly basis, with reference to the average prevailing interest rate for a six-month time deposit below \$100,000 offered by the three note-issuing banks. After review, the Government has proposed to revise the mechanism for determining the interest rate for TRCs, i.e. the interest rate for TRCs will be reviewed on a monthly basis, with reference to the average prevailing interest rate for a twelve-month (instead of a six-month) time deposit for \$100,000 to \$499,999 (instead of below \$100,000) offered by the three note-issuing banks. According to the revised mechanism, the interest rate for TRCs will need to be adjusted upwards to 0.3667 per cent per annum.

"The Government has taken into account the market practice that a higher interest rate would normally be offered by banks for a longer term of time deposit of a larger sum of money, as well as the average holding period and value of both ordinary and conditional TRCs in this revision," a Government spokesperson said.

The Notice will be tabled at the Legislative Council on November 6, 2019 for negative vetting and will come into operation after the negative vetting period. The interest rate will continue to be reviewed monthly upon the commencement of the Notice.

With effect from January 17, 2020, the new annual rate of interest will be 0.3667 per cent against the current rate of 0.25 per cent. The new rate will apply to all TRCs purchased on or after the effective date of the Notice and to conditional TRCs not yet redeemed for the period when the new rate is in force. Ordinary TRCs purchased before the effective date of the Notice will continue to earn interest at the rates prevailing on their respective purchase dates.