

## LCQ10: Profits tax

Following is a question by the Hon Wong Ting-kwong and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 26):

Question:

Regarding profits tax, will the Government inform this Council:

(1) of the number of locally registered corporations and, among them, the respective numbers and percentages of those corporations assessed to be (i) profits tax payers and (ii) not liable to pay profits tax, in the year of assessment (YA) 2019-2020; how such percentages compare with the corresponding percentages in each of the past ten years;

(2) of the percentage, in the total amount of profits tax revenue in YA 2019-2020, of the amount of profits tax paid by the top five per cent of registered corporations paying the most in profits tax;

(3) (a) of a breakdown of the number of registered corporations that were profits tax payers in YA 2019-2020 by the group (as set out below) to which their amounts of assessable profits belonged:

(i) \$0.5 million or below,

(ii) over \$0.5 million to \$1 million,

(iii) over \$1 million to \$2 million,

(iv) over \$2 million to \$3 million,

(v) over \$3 million to \$5 million,

(vi) over \$5 million to \$7.5 million,

(vii) over \$7.5 million to \$10 million,

(viii) over \$10 million to \$20 million,

(ix) over \$20 million to \$30 million,

(x) over \$30 million to \$50 million,

(xi) over \$50 million to \$100 million, and

(xii) over \$100 million; and

(b) in respect of each of the groups in (a),

(i) the percentage, in the total number of corporations, of the number of corporations in the group,

(ii) the average amount of profits tax payable by each corporation in the group, and

(iii) the percentage, in the total amount of profits tax revenue, of the total amount of profits tax payable by the corporations in the group

(set out the aforesaid information in a chart);

(4) given that following the implementation of the two-tiered profits tax rates regime from YA 2018-2019 onwards, the amount of profits tax payable on earnings below two million when regarded as assessable profits may be lower than the amount of salaries tax payable on such earnings when regarded as assessable income, whether there has been an upward trend in the past two years of cases in which individuals took the following course of action: changing their status from employees to providers of professional or personal services by setting up corporations, so as to reduce the amounts of tax payable; if so, of the details; and

(5) whether it will study and consider introducing in future a progressive profits tax regime with more tiers of tax rates; if not, of the reasons for that?

Reply:

President,

My response to each part of the Member's question is set out below:

(1) There were about 1 271 000 locally registered corporations in the year of assessment (YA) 2019/20. Before taking into account the one-off profits tax concession announced in the Budget, about 113 100 (nine per cent) of the corporations were assessed as profits tax payers, whereas about 1 157 900 (91 per cent) of them did not need to pay any profits tax. The percentages of taxpaying/non-taxpaying registered corporations in the YA 2019/20 and the ten preceding years are tabulated below:

YA	Percentage of taxpaying registered corporations	Percentage of non-taxpaying registered corporations
2009/10	12%	88%
2010/11	12%	88%
2011/12	11%	89%
2012/13	10%	90%
2013/14	9%	91%
2014/15	9%	91%

2015/16	9%	91%
2016/17	9%	91%
2017/18	9%	91%
2018/19	9%	91%
2019/20	9%	91%

Note: The above figures reflect the position before factoring in the one-off profits tax concession offered in the Budget for a relevant year.

(2) In the YA 2019/20, the top five per cent taxpaying registered corporations (about 5 700 corporations) contributed 90 per cent of profits tax revenue.

(3) In the YA 2019/20, the distribution of taxpaying registered corporations by assessable profits is as follows:

Assessable profits (\$)	Number of registered corporations	Percentage	Average tax payment (\$)	Percentage of profits tax yield
100,000,001 & over	1 000	0.9%	98,391,520	71.8%
50,000,001 – 100,000,000	900	0.8%	11,528,090	7.4%
30,000,001 – 50,000,000	1 100	1.0%	6,312,560	4.8%
20,000,001 – 30,000,000	1 200	1.1%	3,957,990	3.5%
10,000,001 – 20,000,000	3 000	2.7%	2,212,360	4.6%
7,500,001 – 10,000,000	1 700	1.5%	1,300,110	1.6%
5,000,001 – 7,500,000	2 900	2.6%	870,330	1.8%
3,000,001 – 5,000,000	5 100	4.5%	500,130	1.8%
2,000,001 – 3,000,000	5 600	5.0%	251,840	1.0%
1,000,001 – 2,000,000	11 600	10.3%	126,380	1.0%
500,001 – 1,000,000	13 500	11.9%	54,300	0.5%
500,000 and below	65 500	57.9%	5,130	0.2%
Total	113 100	100.0% #	1,242,640	100.0%

Note: The above figures reflect the position before factoring in the one-off profits tax concession offered in the Budget for the relevant year.

# The sum slightly deviates from the total due to rounding.

(4) According to the Inland Revenue Ordinance (the Ordinance), income earned from employment in Hong Kong is chargeable to salaries tax. Taxpayers cannot treat their employment income as business income from a sole proprietorship at will and report such income under profits tax. Taxpayers who provide incorrect information or statement, or engage in any fraudulent activities, are in violation of the Ordinance and subject to criminal sanction. The Inland Revenue Department does not maintain statistics on the occurrence of the situation mentioned in the question.

(5) A simple and low tax rate regime has all along been one of the key factors underpinning Hong Kong's favourable business environment. At the same time, profits tax is one of the major sources of government revenue. When considering any proposed changes to the tax regime, the Government must take into consideration all factors, such as our economic development needs, our fiscal position, tax liability of businesses and international competitiveness. Amid the prevailing economic environment and the impact of the epidemic, businesses are generally under considerable financial pressure while the Government has to increase expenditure to cope with the epidemic and relieve people's hardship. Therefore, it is not the appropriate time to adjust the rates or tiers of profits tax. Nevertheless, we will continue to monitor the latest situation and development and ensure that the tax regime caters for the needs of the society.