

LCQ18: Two-tiered profits tax rates regime

Following is a question by the Hon Jeffrey Lam and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (May 20):

Question:

The Government proposed amendments to the Inland Revenue Ordinance (Cap. 112) at the end of 2017 to implement a two-tiered profits tax rates regime (the two-tiered regime), so that the profits tax rates applicable to the first \$2 million of assessable profits for corporations and unincorporated businesses could be reduced by 50 per cent. The Government's proposed legislative amendments aimed to reduce the tax burden on enterprises (especially small and medium enterprises and startups), foster a favourable business environment, drive economic growth, create job opportunities and enhance Hong Kong's competitiveness. The Government projected at that time that the tax revenue would be reduced by about \$5.8 billion per year as a result of the implementation of the two-tiered regime. The two-tiered regime has come into operation and is applicable to any year of assessment commencing on or after April 1, 2018. In this connection, will the Government inform this Council:

(1) of the amount of profits tax revenue forgone resulting from the implementation of the two-tiered regime and the percentage of such amount in the total tax revenue, in each of the past two financial years;

(2) whether it has assessed the effectiveness and the relevant data of the two-tiered regime, including a comparison of (i) the amounts of profits tax payable by companies of different sizes, (ii) the numbers of local and non-local enterprises and (iii) the scales of enterprises' investments in Hong Kong, before and after the implementation of the two-tiered regime; and

(3) whether, since the implementation of the two-tiered regime, the Government has gained an understanding of the views and suggestions of various stakeholders in respect of the regime; whether it will conduct a review of the two-tiered regime in the light of the social changes, the successive implementation of a number of tax measures, as well as the recommendations and requirements put forth by the Organisation for Economic Co-operation and Development in respect of global taxation matters, in recent years?

Reply:

President,

My reply to the various parts of the question is as follows:

The Government amended the Inland Revenue Ordinance (Cap. 112) in early 2018 to implement the two-tiered profits tax rates regime (the two-tiered regime), under which the profits tax rates for the first \$2 million assessable profits of corporations and unincorporated businesses are lowered to 8.25 per cent and 7.5 per cent respectively while the remaining profits will continue to be subject to the respective rates of 16.5 per cent and 15 per cent. The two-tiered regime has been implemented from the year of assessment (YA) 2018/19.

The impact of the two-tiered regime on government revenue was first reflected in the financial year of 2019-20. According to the information of the Inland Revenue Department, the profits tax revenue for YA 2018/19 was about \$156 billion. Amongst some 146 000 profits tax payers, around 89 000 had their tax assessed at the two-tiered tax rates, accounting for about 61 per cent of the total. The Government's profits tax revenue forgone arising from the two-tiered regime in the financial year of 2019-20 amounted to about \$6 billion, or around 4 per cent of the total profits tax revenue. This is comparable to our earlier estimation of the profits tax revenue forgone arising from the implementation of the two-tiered regime.

Before the implementation of the two-tiered regime, we briefed professional bodies and chambers of commerce on the new initiative. The business sector generally welcomed the initiative and considered that it could help reduce the tax burden on enterprises and foster a favourable business environment. As the two-tiered regime has just been implemented for two years and the profits tax assessment for YA 2019/20 is still underway, we will continue to closely monitor its implementation and currently have no plan to review it.