

**Subcommittee on Rating (Exemption) Order 2014
Follow-up to the Meeting on 13 March 2014
The Government's Response**

The Government's proposed rates concession arrangement

At the meeting on 13 March 2014, in response to Members' questions, the Government indicated that one-off relief measures primarily serve to help the public cope with short-term financial pressure and to achieve the counter-cyclical stimulus effect for the purpose of preserving economic stability and short-term employment. In the 2014-15 Budget, the Government introduced a \$20 billion package of one-off relief measures, including rates concession for the first two quarters of 2014-15, subject to a ceiling of \$1,500 per tenement per quarter. The rates concession measure will result in one-off revenue forgone of about \$6.1 billion. Unlike recurrent measures, one-off relief measures are necessarily subject to adjustment in the light of the fiscal and economic position of the year.

2. Under the Government's proposed rates concession measure –
 - (a) All properties currently assessed to rates payment (about 3.11 million) will benefit, among which about 1.72 million are private domestic properties, about 0.76 million are public domestic properties and 0.4 million are non-domestic properties;
 - (b) Regarding private domestic properties, the total rateable value is about \$236.4 billion; the total amount of rates payable is about \$11.8 billion; and the rates concession amount is about \$4.1 billion;
 - (c) As for public domestic properties, the total ratable value is about \$39.7 billion; the total amount of rates payable is about \$2 billion; and the rates concession amount is about \$1 billion; and
 - (d) Regarding non-domestic properties, the total rateable value is about \$275.1 billion; the total amount of rates payable is about \$13.8 billion; and the rates concession amount is about \$0.9 billion.

3. Rates concession is implemented on an equal-footing basis. All ratepayers are exempted from rates, regardless of the rateable value of the relevant properties and whether the properties are domestic or non-domestic ones. Also, the measure will not take into account whether the ratepayer is the owner of the relevant property. If the amount of rates payable equals or is below the concession ceiling, the ratepayers will have the whole amount of rates payable waived. There is in essence no question of unspent rates concession. In the first two quarters with rates concession, about 73% of ratepayers (i.e. about 2.26 million) need not pay any rates for the relevant properties¹. In fact, setting a ceiling for rates concession can already achieve a regressive effect, i.e. the higher the rateable value of the properties, the smaller the magnitude of benefit arising from the concession.

4. As to whether the rates concession can benefit the tenants, it depends on the provisions of the tenancy agreements. Whether the rental is rates inclusive and whether the tenants will be responsible for rates payment through the owners will depend on the considerations of both the owners and the tenants when drawing up the tenancy agreements. Individual tenants may stipulate separate provisions under the tenancy agreements to set out how the benefits of rates concession will be reflected, so as to protect their own interest.

Comparison of rates concession with different ceilings and for different quarters

5. In response to Members' request, the Government's proposed rates concession and details of the suggestions raised by Members at the last meeting are set out in Annex A.

6. In gist, if the rates concession measure is extended to four quarters with the ceiling set at \$600 to \$750 per quarter, this will increase the Government's financial commitment. As compared to the Government's proposal (i.e. rates concession for the first two quarters with the ceiling set at \$1,500 per quarter), proposals (a) to (d) as raised by Members will result in a further revenue forgone ranging from \$0.764 billion to \$2.116 billion to the Government.

7. As mentioned at the last meeting, when formulating the \$20 billion package of one-off relief measures (which include \$9.2 billion for reducing salaries tax, \$6.1 billion for rates concession, \$1 billion for

¹ It means that the amount of rates payable equals or is below the concession ceiling.

reducing profits tax, \$1 billion for paying one-month rent for public housing tenants, and \$2.7 billion for providing extra one-month allowance to Comprehensive Social Security Assistance, Old Age Allowance, Old Age Living Allowance and Disability Allowance recipients), the Government had already taken into consideration various factors, including the Government's financial commitment. In fact, rates concession involves significant financial implications. The Government does not intend to incur additional financial commitment for this particular measure.

8. On the basis of maintaining the financial commitment at \$6.1 billion, if the rates concession arrangement were to be extended to four quarters, this implies that the ceiling has to be further adjusted downwards to a level below \$600 per quarter. This will inevitably affect the total full-year amount of rates concession enjoyed by the private domestic properties and the non-domestic properties under the Government's original proposal. Except that the total rates concession amount enjoyed by the public domestic properties will increase, the total amount of rates concession received by all private domestic properties (including small, medium and large units) and non-domestic properties will drop. For instance, if the ceiling is set at \$500 per quarter, the total amount of rates concession enjoyed by private domestic properties will be reduced by 15% when compared to the Government's proposal, and the total amount of rates concession enjoyed by non-domestic properties will be even reduced by 19%.

9. Furthermore, if we were to extend the rates concession arrangement to four quarters, the Rating and Valuation Department ("RVD") will need to incur additional administrative expenses of about \$0.41 million for re-printing the pamphlets to be attached to the rates demand notes to explain the new rates concession arrangement.

10. In short, the Government considers that the rates concession proposal as announced in the Budget is more preferable. Hence, the Government does not intend to propose any amendments to the Rating (Exemption) Order 2014.

Information on organisations receiving the largest amounts of rates concession

11. All along, RVD will issue the Requisition for Particulars of Tenements ("the requisition forms") for the purpose of gauging information with respect to the leasing arrangement of properties.

According to the information gauged through the requisition forms, the party liable to rates payment under the tenancy agreements does not necessarily act as the ratepayer as recorded in RVD's billing system. Based on the latest information collected through the requisition forms, among the top ten ratepayers that receive the largest amounts of rates concession, over 85% of their tenancy agreements are rates exclusive, i.e. the tenants pay the rates. In other words, according to the provisions of the tenancy agreements, these tenants should benefit when there is rates concession.

12. As RVD's billing system only maintains records of accounts of which payment has yet to be settled and accounts in the past three quarters of which payment has been settled, we are unable to provide information on the ratepayers who received the largest amounts of rates concession in previous years. In 2014-15, excluding organisations providing public housing, the information relating to the top 100 ratepayers who are expected to receive the largest amounts of rates concession is set out in Annex B.

13. As for the rates concession measures implemented in 2003-04 and from 2007-08 to 2013-14, the amount of rates concession involved and administrative expenses incurred are set out in Annex C.

Financial Services and the Treasury Bureau
March 2014

Comparison of Rates Concession Proposals

Property types	No. of tenements (’000)	Rateable value (\$ million) [Rates payable (\$ million)]	Amount of rates concession (\$ million)				
			Government’s Proposal	Members’ Proposals			
				Ceiling at \$1,500 per quarter (2 quarters)	(a) Ceiling at \$600 per quarter (4 quarters)	(b) Ceiling at \$650 per quarter (4 quarters)	(c) Ceiling at \$700 per quarter (4 quarters)
<i>Private domestic</i>	1,719	236,440 [11,822]	4,068	4,132	4,455	4,769	5,072
<i>Public domestic</i>	758	39,711 [1,986]	1,013	1,643	1,726	1,800	1,863
All domestic ¹	2,709	281,950 [14,098]	5,200	6,005	6,412	6,801	7,168
All non-domestic	402	275,099 [13,755]	935	894	958	1,021	1,083
All properties	3,111	557,050 [27,853]	6,135	6,899	7,370	7,822	8,251

¹ Including car parking spaces in domestic premises.

**Top 100 ratepayers who are expected to receive
the largest amounts of rates concession**
(excluding organisations providing public housing)

Ratepayers	Amount of Rates Concession (\$ million)	No. of Rateable Properties held
1	36.0	16 974
2	8.6	4 571
3	8.2	5 995
4	6.9	3 117
5	6.1	2 534
6	6.1	2 075
7	5.6	2 200
8	3.1	1 044
9	2.9	1 291
10	2.9	1 145
11-100	85.4	37 787
Total	171.8	78 733

Note: Since it involves the information of ratepayers, according to legal advice, RVD cannot disclose the identity of individual organisations without the latter's consent.

**Rates Concession Amount and Administrative Costs for
Rates Concession Measure in Earlier Financial Years**

Financial Years	Amount of Rates Concession (\$ million)	Administrative Expenses¹ (\$)
2013-14	11,569 (estimated)	410,000
2012-13	12,522	260,000
2011-12	9,930	290,000
2010-11	8,932	285,000
2009-10	8,473	540,000
2008-09	11,260	240,000
2007-08	7,839	660,000
2003-04	1,986	140,000

¹ The administrative expenses involved are for printing pamphlets for attachment to the rates demand notes to explain the rates concession arrangement.