

**Subcommittee on Rating (Exemption) Order 2015
Follow-up to the Meeting on 17 March 2015
Administration's Response**

The Government's proposed rates concession arrangement

As indicated by the Government when responding to Members' questions at the meeting on 17 March 2015, one-off relief measures primarily serve counter-cyclical objectives to provide cushioning effects for the economy and alleviate imminent economic hardships. In the 2015-16 Budget, the Government introduced a \$34 billion package of relief measures, including rates concession for the first two quarters of 2015-16, subject to a ceiling of \$2,500 per tenement per quarter. The rates concession measure will result in one-off revenue forgone of about \$7.7 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. The valuation and collection of rates are based on tenements. The owner and the occupier shall both be liable for the payment of rates. Rates concession measure benefits all ratepayers, regardless of whether the ratepayer is the owner or tenant. It is also an effective way for the Government to provide one-off relief to a wide spectrum of Hong Kong people. The Government's proposed rates concession will benefit about 3.15 million properties liable to rates payment. During the two quarters with rates concession, about 86% (about 2.72 million) of ratepayers need not pay any rates for the relevant properties. 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.

Implications of extending the rates concession measure from two quarters to four quarters

3. At the meeting, some Members proposed extending the rates concession measure from two quarters to four quarters and setting the ceiling at \$5,000 in total for four quarters. If the concession ceiling of \$5,000 is spread over four quarters (i.e. \$1,250 per tenement per quarter), the Government will forgo \$11.7 billion, which is \$4 billion more when compared with the Government's original proposal. If \$5,000 is provided to each tenement regardless of its rateable value, the Government will forgo \$15.7 billion, which is \$8 billion more when compared with the Government's original proposal.

4. Apart from rates concession, the relief measures introduced by the Government in the 2015-16 Budget also include the measures of reducing salaries tax and profits tax, providing one-month rent exemption for public housing tenants, and providing extra two-month allowance to Comprehensive Social Security Assistance, Old Age Allowance, Old Age Living Allowance and Disability Allowance recipients. Rates is a broad-based and stable source of government revenue. According to the Government's revised estimate for 2014-15, rates revenue amounts to \$22.3 billion, which accounts for 4.7% of the total government revenue. The Government's proposed rates concession will already involve a financial implication of \$7.7 billion. The Government does not intend to incur additional financial commitment for this particular measure.

5. On the basis of maintaining the financial commitment at \$7.7 billion, if the rates concession arrangement were to be extended to four quarters, it would mean that the ceiling has to be adjusted downwards to a level below \$700 per quarter. This will 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. Whilst 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 \$670 per quarter, the total amount of rates concession enjoyed by private domestic properties will be reduced by 11% when compared with the Government's proposal, and the total amount of rates concession enjoyed by non-domestic properties will even be reduced by 27%. Details are set out in Annex A.

Rates payment arrangement

6. As to the arrangement of whether rates are paid by the owner or the tenant, it depends on the provisions of the tenancy agreements. Whether the rental is rates inclusive and whether the tenants are required to make rates payment through the owners are subject to the considerations of 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.

7. In fact, for ease of management, many owners of non-domestic properties act as the ratepayers, and they collect the amount for rates payment in one go when collecting rent from the tenants so as to

pay the rates on behalf of the tenants. Under such an arrangement, depending on the provisions of the tenancy agreements, the actual beneficiaries of rates concession arrangement are still the tenants themselves. According to the information on the leasing status of the relevant properties, which is collected from the Requisition for Particulars of Tenements issued by the Rating and Valuation Department (“RVD”), rates is paid by the tenants for about 54% of the leased non-domestic properties. Furthermore, 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.

Information on ratepayers enjoyed rates concession

8. For the rates concession measure introduced for the first two quarters last year (i.e. 2014-15), the ceiling was set at \$1,500 per quarter per tenement. During the first two quarters that year with rates concession, about 28% of tenements (i.e. about 0.87 million) enjoyed rates concession at the ceiling level of \$1,500.

9. As for the tenements enjoying rates concession at different percentages of the ceiling level in 2015-16, the breakdown is set out at Annex B.

Information on organisations receiving the largest amounts of rates concession

10. RVD’s billing system only maintains records of accounts of the current quarter (i.e. April to June 2015) and the past two quarters (i.e. October 2014 to March 2015; for which no rates concession was provided), and does not have records of individual accounts of the previous years. Hence, we are unable to provide information on the ratepayers who received the largest amounts of rates concession in previous years. In 2015-16, excluding organisations providing public housing, the information relating to the top 10 ratepayers who are expected to receive the largest amounts of rates concession is set out in Annex C.

Comparison of Rates Concession Proposals

Property types	No. of tenements ('000)	Amount of rates concession (\$ million)	
		Government's proposal (Ceiling at \$2,500 per quarter, 2 quarters)	The other proposal (Ceiling at \$670 per quarter, 4 quarters)
<i>All Private domestic</i>	1,742	5,189	4,631
<i>Public domestic</i>	772	1,083	1,826
All domestic ¹	2,742	6,391	6,691
All non-domestic	407	1,350	989
All properties	3,149	7,741	7,680

¹ Including car parking spaces in domestic premises.

Annex B

Number of tenements enjoying rates concession at different percentages of the ceiling level in 2015-16

Amount of concession enjoyed in the quarter with rates concession	No. of tenements ('000)	% of rateable tenements
100% of the concession ceiling (i.e. \$2,500)	433	13.7%
75% to below 100% of the concession ceiling* (i.e. \$1,875 to \$2,499)	254	8.1%
50% to below 75% of the concession ceiling* (i.e. \$1,250 to \$1,874)	544	17.3%
25% to below 50% of the concession ceiling* (i.e. \$625 to \$1,249)	1,175	37.3%
Below 25% of the concession ceiling* (i.e. \$625)	743	23.6%

* During the first two quarters with rates concession, **all** these four categories of properties need not pay any rates.

**Top 10 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	50.9	16 444
2	16.9	5 560
3	11.6	5 826
4	9.9	2 050
5	9.5	2 604
6	8.3	2 192
7	7.1	2 320
8	4.5	1 044
9	4.2	1 108
10	4.0	1 185
Total	126.9	40,333

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.