

## **LEGISLATIVE COUNCIL BRIEF**

Inland Revenue Ordinance  
(Chapter 112)

### **INLAND REVENUE (AMENDMENT) (TAX CONCESSIONS AND TWO-TIERED STANDARD RATES) BILL 2024**

#### **INTRODUCTION**

At the meeting of the Executive Council on 28 February 2024, the Council ADVISED and the Chief Executive ORDERED that the Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Bill 2024 (“Bill”), at **Annex A**, should be introduced into the Legislative Council (“LegCo”).

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2. The Bill amends the Inland Revenue Ordinance (Cap. 112) (“IRO”) in order to implement the following tax measures proposed in the 2024-25 Budget –

- (a) introduction of a two-tiered standard rates regime for salaries tax and tax under personal assessment (“PA”) with effect from the year of assessment (“YA”) 2024/25; and
- (b) provision of one-off tax reduction measures for the YA 2023/24.

At the same time, the Bill also gives effect to the measure announced in the 2023 Policy Address to increase the deduction ceiling amounts for home loan interest and domestic rents for eligible taxpayers with effect from YA 2024/25.

## JUSTIFICATIONS

### *Two-tiered standard rates regime*

3. Currently, salaries tax is charged on an individual's net chargeable income<sup>1</sup> at progressive rates ranging from 2% to 17%, or on an individual's net income<sup>2</sup> at a standard rate of 15%, whichever is lower. In order to increase government revenue and reflect the "affordable users pay" principle, the 2024-25 Budget has proposed to introduce a two-tiered standard rates regime for salaries tax and tax under PA. Under the proposed two-tiered standard rates regime, a high-tier standard rate of 16% will be applied to the portion of net income that exceeds a threshold of \$5 million, whilst the portion of net income within the threshold will continue to be taxed at the existing standard rate of 15%.

4. The proposed two-tiered standard rates regime will not affect the progressive rates for salaries tax or tax under PA. It will only affect the taxpayers charged at standard rate with net income above \$5 million. Based on the tax data for the YA 2021/22, it is estimated that about 11 700 taxpayers, equivalent to about 0.6% of the total number of taxpayers chargeable to salaries tax or tax under PA<sup>3</sup>, will need to pay higher tax as a result of the proposal. In other words, the majority of taxpayers would not be affected by the proposed two-tiered standard rates regime.

### *One-off tax reduction measures*

5. As a one-off relief to taxpayers, the 2024-25 Budget has proposed reducing salaries tax, tax under PA and profits tax for the YA 2023/24 by 100%, subject to a ceiling of \$3,000. The reduction will be reflected in the final tax payable for the YA 2023/24. The proposal will benefit about 2.06 million taxpayers chargeable to salaries tax or tax under PA, and about 160 200 corporations and unincorporated businesses chargeable to profits tax.

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<sup>1</sup> Net chargeable income = Total income – Deductions – Allowances

<sup>2</sup> Net income = Total income – Deductions

<sup>3</sup> In the YA 2021/22, about 2.01 million individuals were assessed to salaries tax or tax under PA before the one-off tax reduction.

*Increase in the deduction ceiling amounts for home loan interest and domestic rents*

6. To encourage childbearing amid the low birth rate<sup>4</sup>, the Chief Executive has proposed in the 2023 Policy Address, amongst other initiatives, that starting from YA 2024/25, the respective deduction ceiling amounts for home loan interest and domestic rents would be raised from \$100,000 to \$120,000 (each referred to as “the Enhanced Cap”) for taxpayers where specified conditions are met in relation to their children.

7. To give effect to the initiative, we propose to amend the IRO to allow an additional deduction ceiling amount of \$20,000 for home loan interest or domestic rents, on top of the basic deduction ceiling amount of \$100,000, for a person starting from YA 2024/25, for a maximum of 19 YAs if –

- (a) the person, in the YA concerned, resides with a child of the person in Hong Kong for –
  - (i) a continuous period of not less than six months; or
  - (ii) a shorter period that the Commissioner of Inland Revenue considers reasonable in the circumstances;
- (b) the child –
  - (i) was born on or after 25 October 2023 (“the Date”); and
  - (ii) is, at any time in that YA, under the age of 18;
- (c) the qualifying amount of home loan interest/domestic rents paid is larger than the basic deduction ceiling amount of \$100,000; and
- (d) the person elects in writing to use both the basic deduction ceiling amount and the additional deduction ceiling amount for that YA.

8. The requirements set out in paragraph 7 above represent a slight relaxation as compared with the 2023 Policy Address initiative, which required that the person must reside with the first child born on or after the Date in order to claim the Enhanced Cap. The slight relaxation allows a person who may not be able to reside with his/her first child born on or

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<sup>4</sup> The total fertility rate (i.e. the average number of children in a specific year that would be born to each woman during her lifetime) decreased from 1.29 in 2012 by 40% to 0.77 in 2021, which is not only far below the natural population replenishment rate of 2.1 per woman, but also among the lowest in the world.

after the Date (e.g. the child studies abroad for years) to claim the Enhanced Cap if he/she, during a YA commencing from 1 April 2024, resides with a child (instead of the first child) born on or after the Date and aged below 18, subject to the requirement that the maximum number of YAs for the use of the additional deduction ceiling amounts is 19 and the satisfaction of all other conditions specified in the Bill. The relaxation is made having regard to the policy objective of the 2023 Policy Address initiative, which is to encourage childbearing by relieving the financial burden of the person in purchasing or renting a residential unit in Hong Kong. Since the person will still need to incur additional financial burden of purchasing or renting a residential property in respect of the second or subsequent child born or after 25 October 2023 even if the first child is not residing with the person, the relaxation is proposed to cover such persons.

## **OTHER OPTIONS**

9. Amending the IRO is the only way to give effect to the above proposals. There is no other option.

## **THE BILL**

10. The major provisions of the Bill are set out below –

- (a) Increase in the deduction ceiling amounts for home loan interest and domestic rents
  - (i) **Clause 3** amends section 26E of the IRO to provide that, if certain conditions (see paragraph 7 above) are met, an additional deduction ceiling amount (“HLI additional deduction ceiling amount”) can be used in determining the amount of deduction allowable under that section in respect of home loan interest paid. The amended section 26E also provides for the revocation of an election to use an HLI additional deduction ceiling amount and for the maximum number of YAs in which HLI additional deduction ceiling amounts can be used.
  - (ii) **Clause 6** amends section 26Y of the IRO to provide that, if certain conditions (see paragraph 7 above) are met, an additional deduction ceiling amount (“DR additional deduction ceiling amount”) can be used in determining the amount of deduction allowable under section 26X of the IRO in respect of domestic rents paid.

- (iii) **Clause 7** adds a new section 26YA to the IRO to provide for the revocation of an election to use a DR additional deduction ceiling amount.
  - (iv) **Clause 8** amends section 26ZA of the IRO to provide for the maximum number of YAs in which DR additional deduction ceiling amounts can be used.
  - (v) **Clause 9** amends section 26ZB of the IRO to provide that an election by a taxpayer to use a DR additional deduction ceiling amount is to be regarded as not having been made if the domestic rents concerned is subsequently refunded and the deduction concerned is disallowed.
  - (vi) **Clauses 15 and 16** respectively amend Schedules 3D and 3G to the IRO to set out the HLI additional deduction ceiling amount and the amount for calculating the DR additional deduction ceiling amount for YA 2024/25 and subsequent years. Both amounts are \$20,000.
- (b) One-off tax reduction measures
- (i) **Clause 18** amends Schedule 43 to the IRO such that for YA 2023/24, the salaries tax, tax under PA and profits tax payable are to be reduced by 100%, subject to a maximum of \$3,000 in each case.
- (c) Two-tiered standard rates regime
- (i) **Clause 19** amends Schedule 1 to the IRO to introduce a higher standard rate applicable to the portion of net income that exceeds \$5 million for salaries tax and tax under PA.

## LEGISLATIVE TIMETABLE

11. The legislative timetable is as follows –

Publication in the Gazette	8 March 2024
First Reading and commencement of Second Reading debate	20 March 2024

Resumption of Second Reading  
debate, committee stage and Third  
Reading

To be notified

## **IMPLICATIONS OF THE PROPOSALS**

12. The Bill is in conformity with the Basic Law, including the provisions concerning human rights. It will not affect the binding effect of the existing provisions of the IRO and its subsidiary legislation. The financial, economic, sustainability and family implications of the proposals are at **Annex B**. The proposals have no productivity, environmental, gender or civil service implications.

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## **PUBLIC CONSULTATION**

13. The proposed two-tiered standard rates regime and the proposed one-off tax concessions were formulated after taking into account views received from LegCo Members and other stakeholders during the Budget consultation process. Owing to the confidentiality of the Budget, we have not carried out prior consultation for the proposed measures. As regards the proposed increase in the deduction ceiling amount for home loan interest or domestic rents for eligible taxpayers, we have briefed the Panel on Financial Affairs on 6 November 2023 on the proposal together with other initiatives announced in the 2023 Policy Address.

## **PUBLICITY**

14. We will issue a press release on 6 March 2024. A spokesperson will be available to answer media and public enquiries.

## **BACKGROUND**

### ***Deduction ceiling amount for home loan interest or domestic rents***

15. Currently, the Government provides tax deduction for home loan interest and domestic rents under salaries tax and tax under PA, each capped at \$100,000 per YA. If a person has more than one place of residence and paid home loan interest and domestic rents for the same period in a YA, the person can only claim either the deduction for home

loan interest or domestic rents in respect of his/her principal place of residence<sup>5</sup> for that period.

### ***Salaries tax and tax under PA***

16. Salaries tax is chargeable mainly on employment income arising in or derived from Hong Kong. In 2022-23, the revenue from salaries tax and tax under PA was about \$86.2 billion. In the YA 2008/09, the Government adjusted downward the standard rate of salaries tax and tax under PA from 16% to 15%. Since then, there has been no change to the standard rate.

17. In the YA 2021/22, of the 3.67 million working population in Hong Kong, about 2.01 million individuals were assessed to salaries tax or tax under PA. After the 100% one-off reduction capped at \$10,000 as proposed in the 2022-23 Budget, only about 1.03 million individuals needed to pay salaries tax or tax under PA. Among them, about 999 000 individuals (97%) paid salaries tax or tax under PA at progressive rates whilst the remaining 30 000 individuals (3%) were standard rate taxpayers.

### **ENQUIRIES**

18. Enquiries on this Brief can be directed to Miss Josephine TSANG, Principal Assistant Secretary for Financial Services and the Treasury (Treasury), at 2810 2370.

### **Financial Services and the Treasury Bureau March 2024**

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<sup>5</sup> In some cases, a person may have a self-owned property (Property A) and a rented property (Property B) as his places of residence and the person would be allowed deduction for home loan interest or domestic rents in respect of his principal place of residence only. For example, the person's principal place of residence is Property A for a certain period in a YA (Period A), and his another principal place of residence is Property B for the remaining period in that YA (Period B). The person may claim deduction for home loan interest in respect of Property A for Period A, and deduction for domestic rents in respect of Property B for Period B but not both for the same period.

**Inland Revenue (Amendment) (Tax Concessions and  
Two-tiered Standard Rates) Bill 2024**

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**A BILL**

**To**

Amend the Inland Revenue Ordinance to increase the ceiling amounts for concessionary deductions allowable for home loan interest and domestic rents; to give effect to certain proposals in the Budget introduced by the Government for the 2024–2025 financial year concerning tax concessions and the introduction of two-tiered standard rates for salaries tax, provisional salaries tax and tax under personal assessment; and to provide for related matters.

Enacted by the Legislative Council.

**Part 1**

**Preliminary**

- 1. Short title**  
This Ordinance may be cited as the Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Ordinance 2024.
- 2. Inland Revenue Ordinance amended**  
The Inland Revenue Ordinance (Cap. 112) is amended as set out in Parts 2, 3 and 4.

## Part 2

### Increasing Ceiling Amounts for Concessionary Deductions Allowable for Home Loan Interest and Domestic Rents

#### 3. Section 26E amended (home loan interest)

(1) Section 26E(2)(a)—

**Repeal**

everything after “any year of assessment”

**Substitute**

“is to be the lesser of the paid amount and capped amount,  
where—

(i) the paid amount is—

(A) if the dwelling is used by the person exclusively  
as the person’s place of residence during the  
whole of that year of assessment—the amount  
of the home loan interest paid; or

(B) in any other case—such amount (whether  
representing the full amount of the home loan  
interest paid or any part of that full amount) as  
is reasonable in the circumstances; and

(ii) the capped amount is (regardless of whether the  
dwelling is used by the person exclusively as the  
person’s place of residence during the whole of that  
year of assessment)—

(A) if all of the conditions specified in subsection  
(2A) are met in relation to the person—the

aggregate of the HLI basic deduction ceiling  
amount and HLI additional deduction ceiling  
amount for that year of assessment; or

(B) in any other case—the HLI basic deduction  
ceiling amount for that year of assessment.”.

(2) Section 26E(2)(c)—

**Repeal**

everything after “purposes of” and before “be regarded”

**Substitute**

“this section, where a dwelling is held by a person otherwise  
than as a sole owner, the capped amount is to”.

(3) After section 26E(2)—

**Add**

“(2A) The following conditions are specified for the purposes of  
subsection (2)(a)(ii)(A)—

(a) the person resides, during the year of assessment  
concerned, with a child of the person in Hong Kong  
for—

(i) a continuous period of not less than 6 months;  
or

(ii) a shorter period that the Commissioner  
considers reasonable in the circumstances;

(b) the child—

(i) was born on or after 25 October 2023; and

(ii) is, at any time during that year of assessment,  
under the age of 18;

- (c) the paid amount is larger than the HLI basic deduction ceiling amount for that year of assessment;
  - (d) the person elects in writing in the person's claim for a deduction allowable under this section to use both an HLI basic deduction ceiling amount and an HLI additional deduction ceiling amount to determine the amount of deduction so allowable for that year of assessment.
- (2B) For the purposes of this section, an election under subsection (2A)(d) for a year of assessment applies to every home loan that is taken into account in determining the total amount of deduction allowable under this section for that year of assessment.”.
- (4) Section 26E(4)(c)—
- Repeal**  
“not;”
- Substitute**  
“not), regardless of whether any HLI additional deduction ceiling amount has been used to determine the amount of deduction for any of those 20 years;”.
- (5) Section 26E(5)—
- Repeal**  
“the person shall be deemed to have”
- Substitute**  
“unless the claim or nomination to which the deduction relates is subsequently regarded as not having been made under subsection (6)(b)(i) or section 26F(4)(b)(i), the person is to be regarded as having”.

- (6) After section 26E(5)—

**Add**

- “(5A) Without limiting subsection (4), an HLI increased deduction is not allowable to a person in respect of any home loan interest paid during a year of assessment if an increased deduction has been allowed (whether in respect of the same dwelling or domestic premises or in respect of any other dwelling or domestic premises) to the person for an aggregate of 19 years of assessment (whether continuous or not).
- (5B) For the purposes of subsection (5A), if a person makes an election under subsection (2A)(d) or section 26Y(5A)(d) (*subject election*) for a year of assessment and, as a result of the subject election, an increased deduction is taken into account in that year of assessment in ascertaining—
- (a) subject to paragraphs (b) and (c)—the net chargeable income of the person or the person's spouse;
  - (b) where the person and the person's spouse have made an election under section 10(2)—the aggregated net chargeable income of the person and the person's spouse; or
  - (c) where the person or the person's spouse, or the person and the person's spouse, have made an election under section 41—the amount of the assessment made under section 42A(1) in respect of the person or the person's spouse, or in respect of the person and the person's spouse,
- unless the subject election is subsequently regarded as not having been made under subsection (6)(b) or section 26F(4)(b), 26YA(2)(a) or 26ZB(3)(b)(ii), the person is to

be regarded as having been allowed the deduction for that year of assessment.”.

(7) After section 26E(6)(a)—

**Add**

“(ab) For the purposes of paragraph (a), when revoking a claim, a person may revoke—

- (i) if the amount of the deduction concerned was determined using only an HLI basic deduction ceiling amount—the claim in respect of the whole of the deduction; or
- (ii) if the amount of the deduction concerned was determined using both an HLI basic deduction ceiling amount and an HLI additional deduction ceiling amount—
  - (A) the claim in respect of the whole of the deduction; or
  - (B) the claim to the extent that the deduction relates to the HLI additional deduction ceiling amount.”.

(8) Section 26E(6)(b)—

**Repeal**

everything after “paragraph”

**Substitute**

“(a)—

- (i) if the claim is revoked in respect of the whole of the deduction—the claim and (if applicable) the election under subsection (2A)(d) to which the deduction relates (*specified election*) are to be regarded as not having been made; or

(ii) if the claim is revoked to the extent that the deduction relates to the HLI additional deduction ceiling amount—

- (A) the claim and specified election are to be regarded as not having been made; and
- (B) the person is to be regarded as having claimed a deduction under this section, the amount of which is determined using only the HLI basic deduction ceiling amount.”.

(9) Section 26E(6A), after “subsection (6)”—

**Add**

“(whether in respect of the whole of a claim or part of a claim)”.

(10) Section 26E(9)—

**Add in alphabetical order**

“*capped amount* (上限款額)—see subsection (2)(a)(ii);

*child* (子女), in relation to a person—

- (a) means a child of the person or of the person’s spouse or former spouse, whether or not the child was born in wedlock; and
- (b) includes the adopted or step child of either or both of the following—
  - (i) the person;
  - (ii) the person’s spouse or former spouse;

*domestic premises* (住宅處所) has the meaning given by section 26W(1);

*DR increased deduction* (住宅租金經提高的扣除) has the meaning given by section 26ZA(2);

**HLI additional deduction ceiling amount** (居貸利息額外扣除限額), in relation to a deduction allowable under this section in respect of any home loan interest paid during a year of assessment, means the amount specified in Part 2 of Schedule 3D for that year of assessment;

**HLI basic deduction ceiling amount** (居貸利息基本扣除限額), in relation to a deduction allowable under this section in respect of any home loan interest paid during a year of assessment, means the amount specified in Part 1 of Schedule 3D for that year of assessment;

**HLI increased deduction** (居貸利息經提高的扣除) means a deduction allowable under this section, the amount of which is determined using both an HLI basic deduction ceiling amount and an HLI additional deduction ceiling amount;

**increased deduction** (經提高的扣除) means—

- (a) a DR increased deduction; or
- (b) an HLI increased deduction;

**paid amount** (已付款額)—see subsection (2)(a)(i);”.

4. **Section 26F amended (nomination for purposes of section 26E)**

(1) Section 26F(2)—

**Repeal paragraph (b)**

**Substitute**

“(b) subject to subsection (4)(b)—

- (i) the person but not the spouse is, for the purposes of section 26E(4)(c) and (d), to be regarded as having been allowed the deduction under section 26E for that year of assessment; and

(ii) without limiting subparagraph (i), if the deduction is an HLI increased deduction, the person but not the spouse is, for the purposes of section 26E(5A), also to be regarded as having been allowed the deduction under section 26E for that year of assessment.”.

(2) After section 26F(4)(a)—

**Add**

“(ab) For the purposes of paragraph (a), when revoking a nomination, a person may revoke—

(i) if the amount of the deduction concerned was determined using only an HLI basic deduction ceiling amount—the nomination in respect of the whole of the deduction; or

(ii) if the amount of the deduction concerned was determined using both an HLI basic deduction ceiling amount and an HLI additional deduction ceiling amount—

(A) the nomination in respect of the whole of the deduction; or

(B) the nomination to the extent that the deduction relates to the HLI additional deduction ceiling amount.”.

(3) Section 26F(4)(b)—

**Repeal**

everything after “paragraph”

**Substitute**

“(a)—

(i) if the nomination is revoked in respect of the whole of the deduction—the nomination, claim and (if

- applicable) the election under section 26E(2A)(d) to which the deduction relates (*specified election*) are to be regarded as not having been made; or
- (ii) if the nomination is revoked to the extent that the deduction relates to the HLI additional deduction ceiling amount—
- (A) the nomination, claim and specified election are to be regarded as not having been made; and
- (B) the person is to be regarded as having nominated the person's spouse under this section to claim a deduction under section 26E, the amount of which is determined using only the HLI basic deduction ceiling amount.”.
- (4) After section 26F(4)—
- Add**
- “(5) In this section—
- HLI additional deduction ceiling amount* (居貸利息額外扣除限額) has the meaning given by section 26E(9);
- HLI basic deduction ceiling amount* (居貸利息基本扣除限額) has the meaning given by section 26E(9);
- HLI increased deduction* (居貸利息經提高的扣除) has the meaning given by section 26E(9).”.

5. **Section 26W amended (interpretation)**

Section 26W(1)—

**Add in alphabetical order**

“*child* (子女), in relation to a person—

- (a) means a child of the person or of the person's spouse or former spouse, whether or not the child was born in wedlock; and
- (b) includes the adopted or step child of either or both of the following—
- (i) the person;
- (ii) the person's spouse or former spouse;
- DR additional deduction ceiling amount* (住宅租金額外扣除限額)—see section 26Y(7A);
- DR basic deduction ceiling amount* (住宅租金基本扣除限額)—see section 26Y(7);”.

6. **Section 26Y amended (amount of deduction)**

- (1) Section 26Y(1)—
- Repeal the definition of *deduction ceiling*.**
- (2) Section 26Y(5)—
- Repeal**
- “is—”
- Substitute**
- “is to be the lesser of—”.
- (3) Section 26Y(5)(a)—
- Repeal**
- “or”
- Substitute**
- “and”.
- (4) Section 26Y(5)—
- Repeal everything after paragraph (a)**

**Substitute**

- “(b) an amount equal to—
- (i) if all of the conditions specified in subsection (5A) are met in relation to the person—the aggregate of the DR basic deduction ceiling amount and DR additional deduction ceiling amount for the tenancy for the period; or
  - (ii) in any other case—the DR basic deduction ceiling amount for the tenancy for the period.”.

(5) After section 26Y(5)—

**Add**

- “(5A) The following conditions are specified for the purposes of subsections (5)(b)(i) and (9)(c)—
- (a) the person resides, during the year of assessment concerned, with a child of the person in Hong Kong for—
    - (i) a continuous period of not less than 6 months; or
    - (ii) a shorter period that the Commissioner considers reasonable in the circumstances;
  - (b) the child—
    - (i) was born on or after 25 October 2023; and
    - (ii) is, at any time during that year of assessment, under the age of 18;
  - (c) the qualifying rental amount concerned is larger than the DR basic deduction ceiling amount concerned;
  - (d) the person elects in writing in the person’s claim for a deduction allowable under section 26X to use both

a DR basic deduction ceiling amount and a DR additional deduction ceiling amount to determine the amount of deduction so allowable for that year of assessment.

- (5B) For the purposes of this section, an election under subsection (5A)(d) for a year of assessment applies to every qualifying tenancy that is taken into account in determining the total amount of deduction allowable under section 26X for that year of assessment.”.

(6) Section 26Y(7)—

**Repeal**

“deduction ceiling” (wherever appearing)

**Substitute**

“DR basic deduction ceiling amount”.

(7) Section 26Y(7), before “Schedule 3G”—

**Add**

“Part 1 of”.

(8) After section 26Y(7)—

**Add**

- “(7A) For the purposes of subsection (5) and subject to subsections (8) and (9), the DR additional deduction ceiling amount for a qualifying tenancy for a specified period is an amount calculated in accordance with the following formula—

$$A = B \times \frac{C}{12} \div D$$

where: A means the DR additional deduction ceiling amount;

- B means the amount specified in Part 2 of Schedule 3G for the year of assessment concerned;
- C means the number of months (and pro rata for an incomplete month) during which the contractual period of the tenancy overlaps with the specified period;
- D means the number of tenants under the tenancy.”.

(9) Section 26Y(8)(a)—

**Repeal**

“and”.

(10) Section 26Y(8)(b)—

**Repeal**

“deduction ceiling”

**Substitute**

“DR basic deduction ceiling amount”.

(11) Section 26Y(8)(b)—

**Repeal the full stop**

**Substitute**

“; and”.

(12) After section 26Y(8)(b)—

**Add**

“(c) (if applicable) for determining the DR additional deduction ceiling amount for the tenancy for a particular period, the amount calculated under subsection (7A) is to be multiplied by 2.”.

(13) After section 26Y(8)—

**Add**

“(9) For the purposes of subsection (5), if—

- (a) the person is married;
- (b) either the person or the person’s spouse (but not both) makes an election under subsection (5A)(d); and
- (c) the conditions specified in subsection (5A)(a), (b) and (c) are met in relation to the person or spouse making the election,

for determining the DR additional deduction ceiling amount concerned, the amount calculated under subsection (7A) is to be divided by 2.”.

**7. Section 26YA added**

After section 26Y—

**Add**

**“26YA. Revocation of election under section 26Y(5A)(d)**

- (1) If, when making a claim for a deduction allowable under section 26X, a person makes an election under section 26Y(5A)(d), that election may only be revoked by the person by written notice to the Commissioner within 6 months after the date on which the deduction is allowed to the person under section 26X.
- (2) If an election under section 26Y(5A)(d) is revoked under subsection (1)—
  - (a) the election is to be regarded as not having been made; and



- (b) for the purposes of this Division and any additional assessment under section 60(1), section 26Y is to apply to determine the amount of deduction allowable under section 26X as if the claim were made without the election.
- (3) If a person revokes an election under subsection (1) after 6 years from the expiry of the year of assessment to which the election relates, an assessor may, within 2 years after the revocation, make an additional assessment of the tax payable in consequence of the revocation and for this purpose, section 60(1) applies to the additional assessment as if it were an assessment made under that section.”.

**8. Section 26ZA amended (deduction not allowable in certain circumstances)**

- (1) After section 26ZA(1)—

**Add**

- “(1A) Without limiting subsection (1), despite section 26X, a DR increased deduction is not allowable to a person in respect of any rents paid under a qualifying tenancy of any domestic premises in relation to a period within a year of assessment if an increased deduction has been allowed (whether in respect of the same dwelling or domestic premises or in respect of any other dwelling or domestic premises) to the person for an aggregate of 19 years of assessment (whether continuous or not).
- (1B) For the purposes of subsection (1A), if a person makes an election under section 26E(2A)(d) or 26Y(5A)(d) (*subject election*) for a year of assessment and, as a result of the

subject election, an increased deduction is taken into account in that year of assessment in ascertaining—

- (a) subject to paragraphs (b) and (c)—the net chargeable income of the person or the person’s spouse;
- (b) where the person and the person’s spouse have made an election under section 10(2)—the aggregated net chargeable income of the person and the person’s spouse; or
- (c) where the person or the person’s spouse, or the person and the person’s spouse, have made an election under section 41—the amount of the assessment made under section 42A(1) in respect of the person or the person’s spouse, or in respect of the person and the person’s spouse,

unless the subject election is subsequently regarded as not having been made under section 26E(6)(b), 26F(4)(b), 26YA(2)(a) or 26ZB(3)(b)(ii), the person is to be regarded as having been allowed the deduction for that year of assessment.”.

- (2) Section 26ZA(2)—

**Repeal the definition of *child*.**

- (3) Section 26ZA(2)—

**Add in alphabetical order**

“**DR increased deduction** (住宅租金經提高的扣除) means a deduction allowable under section 26X, the amount of which is determined using both a DR basic deduction ceiling amount and a DR additional deduction ceiling amount;

***dwelling*** (住宅) has the meaning given by section 26E(9);

*HLI increased deduction* (居貸利息經提高的扣除) has the meaning given by section 26E(9);

*increased deduction* (經提高的扣除) means—

- (a) a DR increased deduction; or
- (b) an HLI increased deduction;”.

9. **Section 26ZB amended (refund of domestic rents paid)**

Section 26ZB(3)(b)—

**Repeal**

everything after “allowed,”

**Substitute**

“then—

- (i) despite any time limit for making an additional assessment under section 60, an assessor may, having regard to the reduction, make an additional assessment on the person under that section; and
- (ii) if—
  - (A) when making the claim, the person made an election under section 26Y(5A)(d) to use both a DR basic deduction ceiling amount and a DR additional deduction ceiling amount to determine the amount of the deduction; and
  - (B) as a result of the additional assessment mentioned in subparagraph (i), the deduction is disallowed in whole or to the extent that it relates to the DR additional deduction ceiling amount,

the election is to be regarded as not having been made.”.

10. **Section 63CA amended (calculating net chargeable income for computing provisional salaries tax: meaning of certain references)**

- (1) Section 63CA(3)(b)—

**Repeal**

everything after “exceeding”

**Substitute**

“—

- (i) if the deduction allowable under that section for the year preceding the relevant year of assessment is not an HLI increased deduction—the amount specified in Part 1 of Schedule 3D for the relevant year of assessment; or
- (ii) if the deduction allowable under that section for the year preceding the relevant year of assessment is an HLI increased deduction—the aggregate of the amounts specified in Parts 1 and 2 of Schedule 3D for the relevant year of assessment;”.

- (2) Section 63CA(3)(f)—

**Repeal**

everything after “exceeding”

**Substitute**

“—

- (i) if the deduction allowable under that section for the year preceding the relevant year of assessment is not a DR increased deduction—the amount specified in Part 1 of Schedule 3G for the relevant year of assessment; or

- (ii) if the deduction allowable under that section for the year preceding the relevant year of assessment is a DR increased deduction—the aggregate of the amounts specified in Parts 1 and 2 of Schedule 3G for the relevant year of assessment.”.
- (3) Section 63CA(4)(b)—
- Repeal**  
everything after “exceeding”
- Substitute**  
“—
- (i) if the deduction allowable under that section for the year preceding the relevant year of assessment is not an HLI increased deduction—the amount specified in Part 1 of Schedule 3D for the relevant year of assessment; or
- (ii) if the deduction allowable under that section for the year preceding the relevant year of assessment is an HLI increased deduction—the aggregate of the amounts specified in Parts 1 and 2 of Schedule 3D for the relevant year of assessment;”.
- (4) Section 63CA(4)(f)—
- Repeal**  
everything after “exceeding”
- Substitute**  
“—
- (i) if the deduction allowable under that section for the year preceding the relevant year of assessment is not a DR increased deduction—the amount specified in

- Part 1 of Schedule 3G for the relevant year of assessment; or
- (ii) if the deduction allowable under that section for the year preceding the relevant year of assessment is a DR increased deduction—the aggregate of the amounts specified in Parts 1 and 2 of Schedule 3G for the relevant year of assessment.”.
- (5) After section 63CA(6)—
- Add**  
“(7) In this section—
- DR increased deduction** (住宅租金經提高的扣除) has the meaning given by section 26ZA(2);
- HLI increased deduction** (居貸利息經提高的扣除) has the meaning given by section 26E(9).”.
- 11. Section 63E amended (holding over of payment of provisional salaries tax)**
- (1) Section 63E(2)(bd)(i)(A)—
- Repeal**  
everything after “owner—”
- Substitute**  
“(if the deduction concerned is not an HLI increased deduction) the amount specified in Part 1 of Schedule 3D for the year preceding the year of assessment, or (if the deduction concerned is an HLI increased deduction) the aggregate of the amounts specified in Parts 1 and 2 of that Schedule for the year preceding the year of assessment;”.
- (2) Section 63E(2)(bd)(i)(B)—
- Repeal**

everything after “tenant—” and before “as divided”

**Substitute**

“(if the deduction concerned is not an HLI increased deduction) the amount specified in Part 1 of Schedule 3D for the year preceding the year of assessment, or (if the deduction concerned is an HLI increased deduction) the aggregate of the amounts specified in Parts 1 and 2 of that Schedule for the year preceding the year of assessment.”.

- (3) Section 63E(2)(bd)(ii)(C)—

**Repeal**

everything after “common—” and before “as multiplied”

**Substitute**

“(if the deduction concerned is not an HLI increased deduction) the amount specified in Part 1 of Schedule 3D for the year preceding the year of assessment, or (if the deduction concerned is an HLI increased deduction) the aggregate of the amounts specified in Parts 1 and 2 of that Schedule for the year preceding the year of assessment.”.

- (4) Section 63E(2)(bg)(i)—

**Repeal**

everything after “basis that”

**Substitute**

“—

- (A) (if the deduction concerned is not a DR increased deduction) the amount specified in Part 1 of Schedule 3G for the year of assessment were the same as the amount specified in Part 1 of that Schedule for the year preceding the year of assessment; or

(B) (if the deduction concerned is a DR increased deduction) the aggregate of the amounts specified in Parts 1 and 2 of Schedule 3G for the year of assessment were the same as the aggregate of the amounts specified in Parts 1 and 2 of that Schedule for the year preceding the year of assessment;”.

- (5) At the end of section 63E—

**Add**

“(6) In this section—

*DR increased deduction* (住宅租金經提高的扣除) has the meaning given by section 26ZA(2);

*HLI increased deduction* (居貸利息經提高的扣除) has the meaning given by section 26E(9).”.

**12. Section 80 amended (penalties for failure to make returns, making incorrect returns, etc.)**

After section 80(2)(cb)—

**Add**

“(cc) fails to comply with section 26ZB(3)(a);”.

**13. Section 82A amended (additional tax in certain cases)**

- (1) After section 82A(1)(cb)—

**Add**

“(cc) fails to comply with section 26ZB(3)(a); or”.

- (2) Section 82A(4)(a)(i)(A)—

**Repeal**

“26M(3)(a) or 26Q(3)(a).”

**Substitute**

“26M(3)(a), 26Q(3)(a) or 26ZB(3)(a).”.

**14. Section 89 amended (transitional provisions or other provisions having effect for purposes of amendments to this Ordinance)**

Section 89—

**Add**

“(32) Schedule 59 sets out the provisions that have effect for the purposes of the amendments to this Ordinance made by the Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Ordinance 2024 ( of 2024).”.

**15. Schedule 3D amended (home loan interest deduction)**

(1) Schedule 3D—

**Repeal**

“63E]”

**Substitute**

“63E & Sch. 59]”.

(2) Schedule 3D, after the heading—

**Add**

**“Part 1**

**HLI Basic Deduction Ceiling Amount”.**

(3) At the end of Schedule 3D—

**Add**

**“Part 2**

**HLI Additional Deduction Ceiling Amount**

Column 1 Item	Column 2 Year of assessment	Column 3 Amount
1.	For the year of assessment 2024/25 and for each year after that year	\$20,000”.

**16. Schedule 3G amended (amount specified for deductions for domestic rents)**

(1) Schedule 3G—

**Repeal**

“63E]”

**Substitute**

“63E & Sch. 59]”.

(2) Schedule 3G, after the heading—

**Add**

**“Part 1**

**Calculating DR Basic Deduction Ceiling Amount”.**

(3) At the end of Schedule 3G—

**Add**

**“Part 2**

**Calculating DR Additional Deduction Ceiling  
Amount**

Column 1 Item	Column 2 Year of assessment	Column 3 Amount
1.	For the year of assessment 2024/25 and for each year after that year	\$20,000”.

**17. Schedule 59 added**

The Ordinance—

**Add**

**“Schedule 59**

[s. 89(32)]

**Provisions for Inland Revenue (Amendment) (Tax  
Concessions and Two-tiered Standard Rates)  
Ordinance 2024**

**1. Interpretation**

In this Schedule—

*year of assessment 2024/25* (2024/25 課稅年度) means the  
year of assessment beginning on 1 April 2024.

**2. Application of amendments**

The amendments made to Divisions 4 and 8 of Part 4A, to Part 10A, to Part 14 and to Schedules 3D and 3G by the Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Ordinance 2024 ( of 2024) apply in relation to the year of assessment 2024/25 and to all subsequent years of assessment.

**3. Application for holding over payment of provisional salaries tax on additional ground**

- (1) A person who is liable to pay provisional salaries tax in respect of the year of assessment 2024/25 may apply to the Commissioner to have the payment of the whole or part of the tax held over until the person is required to pay salaries tax for the year.
- (2) An application may be made under subsection (1) if, for the year of assessment 2024/25, an increased deduction (as defined by section 26E(9)) is, or is likely to be, allowable to the person mentioned in subsection (1).
- (3) This section does not affect the operation of section 63E.

**4. Provisions supplementary to section 3 of this Schedule**

- (1) This section applies to an application under section 3 of this Schedule.
- (2) The application must be made in writing.
- (3) The application must be made not later than—
  - (a) the 28th day before the day by which the provisional salaries tax is to be paid; or
  - (b) the 14th day after the date of the notice for payment of provisional salaries tax under section 63C(6),

whichever is later.

- (4) However, the Commissioner may, if satisfied that it is appropriate, either generally or in a particular case, postpone the deadline.
- (5) On receipt of the application, the Commissioner—
  - (a) must consider the application; and
  - (b) may hold over the payment of the whole or part of the provisional salaries tax.
- (6) The Commissioner must, by written notice, inform the applicant of the Commissioner's decision.”.

### Part 3

#### Tax Concessions

##### 18. Schedule 43 amended (reduction of taxes)

At the end of Schedule 43—

**Add**

“For the year of assessment 2023/24

	Column 1 (section)	Column 2 (prescribed percentage or prescribed amount)
1. Salaries tax		
(a) section 100(1)(a)		100%
(b) section 100(1)(b)		\$3,000
2. Profits tax		
(a) section 100(2)(a)		100%
(b) section 100(2)(b)		\$3,000
3. Tax under personal assessment		
(a) section 100(4)(a)		100%
(b) section 100(4)(b)		\$3,000”.

## Part 4

### Introduction of Two-tiered Standard Rates

#### 19. Schedule 1 amended (standard rate)

Schedule 1—

##### Repeal

“For the year of assessment 2008/09 and for each year after that year — 15%.”

##### Substitute

“For the years of assessment 2008/09 to 2023/24 inclusive — 15%.

For the year of assessment 2024/25 and for each year after that year—

- (a) for salaries tax, provisional salaries tax and tax under personal assessment—
  - (i) on the first \$5,000,000 — 15%;
  - (ii) on the remainder — 16%;
- (b) for other taxes — 15%.”

## Explanatory Memorandum

The purpose of this Bill is to amend the Inland Revenue Ordinance (Cap. 112) (*principal Ordinance*)—

- (a) to increase the ceiling amounts for concessionary deductions allowable for home loan interest (*HLI*) and domestic rents (*DR*);
- (b) to give effect to certain proposals in the Budget introduced by the Government for the 2024–2025 financial year concerning—
  - (i) tax concessions; and
  - (ii) the introduction of two-tiered standard rates for salaries tax, provisional salaries tax and tax under personal assessment (*subject taxes*); and
- (c) to provide for related matters.

2. Clause 1 sets out the short title.

#### Increasing Ceiling Amounts for Concessionary Deductions Allowable for HLI and DR

3. Clause 3 amends section 26E of the principal Ordinance to provide that, if certain conditions are met, an additional deduction ceiling amount (*HLI additional deduction ceiling amount*) can be used in determining the amount of deduction allowable under that section in respect of HLI paid. The key conditions are—

- (a) that the taxpayer concerned resides, during the year of assessment concerned, with a child of the taxpayer in Hong Kong for—
  - (i) a continuous period of not less than 6 months; or



- (ii) a shorter period that the Commissioner of Inland Revenue considers reasonable in the circumstances; and
- (b) that the child—
  - (i) was born on or after 25 October 2023; and
  - (ii) is, at any time during that year of assessment, under the age of 18.
- 4. The amended section 26E also provides for the revocation of a claim where an HLI additional deduction ceiling amount is used, and for the maximum number of years of assessment in which HLI additional deduction ceiling amounts can be used.
- 5. Clause 6 amends section 26Y of the principal Ordinance to provide that, if certain conditions are met, an additional deduction ceiling amount (***DR additional deduction ceiling amount***) can be used in determining the amount of deduction allowable under section 26X of the principal Ordinance in respect of DR paid. The key conditions are the same as the ones mentioned in paragraph 3.
- 6. Clause 7 adds a new section 26YA to the principal Ordinance to provide for the revocation of an election to use a DR additional deduction ceiling amount.
- 7. Clause 8 amends section 26ZA of the principal Ordinance to provide for the maximum number of years of assessment in which DR additional deduction ceiling amounts can be used.
- 8. Clause 9 amends section 26ZB of the principal Ordinance to provide that an election by a taxpayer to use a DR additional deduction ceiling amount is to be regarded as not having been made if the DR concerned is subsequently refunded and the deduction concerned is disallowed.

- 9. Clauses 15 and 16 respectively amend Schedules 3D and 3G to the principal Ordinance to set out the HLI additional deduction ceiling amount and the amount for calculating the DR additional deduction ceiling amount for the year of assessment 2024/25 and subsequent years. Both amounts are \$20,000.
- 10. Clauses 4, 5, 10, 11, 12, 13, 14 and 17 respectively amend sections 26F, 26W, 63CA, 63E, 80, 82A and 89 of, and add a new Schedule 59 to, the principal Ordinance to provide for other matters relating to the introduction of the additional deduction ceiling amounts mentioned above (including the charging of provisional salaries tax and transitional arrangements).

#### **Tax Concessions**

- 11. Clause 18 amends Schedule 43 to the principal Ordinance to the effect that, for the year of assessment 2023/24, the salaries tax, profits tax and tax under personal assessment payable are to be reduced, in each case, by an amount equal to the lesser of the whole amount of the tax and \$3,000.

#### **Introduction of Two-tiered Standard Rates for Subject Taxes**

- 12. Clause 19 amends Schedule 1 to the principal Ordinance to introduce a higher standard rate (16%) for the subject taxes. The existing standard rate (15%) will continue to apply to the first \$5 million of the net income of a taxpayer, and the higher standard rate will apply to the portion of the income that exceeds \$5 million.

## **Implications of the Proposals**

### *Financial Implications*

The proposed increase in the deduction ceiling amount for home loan interest and domestic rents will reduce government revenue by about \$5.6 million in the first year of implementation. The revenue forgone will gradually increase to \$106 million per annum for the 19<sup>th</sup> year after implementation and beyond.

2. The one-off tax concessions will result in a non-recurrent revenue forgone of about \$5,531 million (salaries tax and tax under PA: \$5,100 million, profits tax: \$431 million).
3. On the other hand, the proposed two-tiered standard rates regime will generate about \$905 million per year.

### *Economic Implications*

4. The proposed increase in the deduction ceiling amount for home loan interest and domestic rents and the one-off tax concessions will reduce the financial burden of eligible taxpayers, enabling them to have more disposable funds and that would be conducive to economic growth.

5. The economic implication of the proposed two-tiered standard rates regime on the economy is expected to be limited. Under the proposal, Hong Kong's tax regime will continue to be simple with low tax rate, thereby remaining competitive. In addition, the proposal will only affect a small group of taxpayers.

### *Sustainability Implications*

6. The proposed increase in the deduction ceiling amount for home loan interest and domestic rents and the proposed one-off concession for salaries tax and tax under PA are expected to generate economic benefits to taxpayers through increasing their disposable incomes and to promote social harmony through alleviating their burden in meeting personal expenses. The proposed one-off reduction of profits tax will encourage businesses to make more reinvestment with a view to enhancing their competitiveness.

7. The sustainability implication of the proposed two-tiered standard rates regime is expected to be limited, because it will only affect a small group of taxpayers.

#### *Family Implications*

8. The proposed increase in the deduction ceiling amount for home loan interest and domestic rents will encourage families to consider childbearing by alleviating their financial burden on housing needs. The proposed one-off concession for salaries tax and tax under PA would relieve the tax burden and help strengthen taxpayers' capability to foster care of their family members.

9. The proposed two-tiered standard rates regime may reduce the disposable income of taxpayers with net income above \$5 million, which may affect their family expense. However, considering that the proposal will only affect a small group of taxpayers who are earning a relatively high income in society, the impact is expected to be limited.