

Press release

LCQ12: Depreciation allowance for machinery and plants

Wednesday, July 7, 2010

Following is a question by the Hon Jeffrey Lam and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (July 7):

Question:

The Financial Services and the Treasury Bureau indicated earlier that it had invited the Joint Liaison Committee on Taxation to study whether Hong Kong manufacturers on the Mainland, who are required to undergo upgrading and restructuring to tie in with the national policies, might continue to be entitled to depreciation allowance in Hong Kong for their machinery after restructuring their business from "contract processing" to "import processing". In this connection, will the Government inform this Council:

(a) of the scope and timetable of the aforesaid study; and

(b) how it ensures that Hong Kong's taxation provisions tie in with the relevant national policies and actual operation of the aforesaid manufacturers, so that such provisions will not become obstacles in their operation?

Reply:

President,

(a) We understand that Hong Kong manufacturers wish to obtain depreciation allowance in Hong Kong for machinery and plants made available for use by Mainland enterprises free of charge under "import processing" arrangements. As indicated in our letter of March 10, 2010 to the Legislative Council Panel on Financial Affairs and our reply to a written question raised by the Legislative Council on March 17, 2010, we consider that the completeness of the anti-avoidance provisions in the Inland Revenue Ordinance would be affected if the relevant restriction is relaxed. There are also practical difficulties in the implementation and the provision could easily be abused. Hence, we need to consider thoroughly the feasibility of relaxing the relevant restriction, including whether there are effective measures to plug tax evasion loopholes. We would complete the study as soon as practicable.

(b) We have all along maintained a fair and neutral tax system and adopted a territorial source principle of taxation. While adhering to the established taxation principles, we examine the existing tax regime from time to time with a view to considering measures that would be conducive to the overall economic development and be able to cope with the social development trend in Hong Kong. Relevant bureaux and departments keep liaison with professional bodies and business organisations from time to time so as to understand the operations of Hong Kong businessmen in the Mainland. We welcome views from different sectors of the community on tax matters and would consider reviewing relevant tax provisions as necessary. One of the examples is the above-mentioned review on depreciation allowance for machinery and plants under "import processing" arrangements.

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