

## **Press release**

### **LCQ7: Depreciation allowance for machinery**

Wednesday, October 20, 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 (October 20):

Question:

Regarding the reply given by the Secretary for Financial Services and the Treasury on July 7 this year to my question on the "depreciation allowance for machinery and plants", will the Government inform this Council:

(a) of the specific scope and timetable of the study conducted by the Joint Liaison Committee on Taxation on whether Hong Kong manufacturers might continue to be entitled to depreciation allowance in Hong Kong for their machinery after restructuring their business from "contract processing" to "import processing" on the Mainland (including when the study is expected to be completed and submitted to the Government);

(b) whether it knows the number of Hong Kong manufacturers who were not entitled to depreciation allowance for their machinery after restructuring their business to "import processing" on the Mainland in each of the past three years; and

(c) whether the authorities will formulate new measures to assist Hong Kong manufacturers in solving their problem of not being entitled to depreciation allowance for their machinery after upgrading and restructuring their business on the Mainland?

Reply:

President,

(a) and (c) 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 replies to written questions raised by the Legislative Council on March 17 and July 7, 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) The Inland Revenue Department does not have such data.

Ends