

## **Press Release**

### **LCQ11: Arrangements for payment of salaries tax**

Wednesday, October 23, 2013

Following is a question by the Hon Jeffrey Lam and a written reply by the Acting Secretary for Financial Services and the Treasury, Ms Julia Leung, in the Legislative Council today (October 23):

Question:

Under normal circumstances, the Inland Revenue Department will request taxpayers to pay salaries tax by two instalments in the ninth and twelfth months of each financial year. The tax amount in the first instalment is the balance of the salaries tax payable for the preceding year (i.e. the salaries tax payable less the provisional salaries tax (PST) which had been paid for that year) plus 75 per cent of PST for the current year. The tax amount in the second instalment is 25 per cent of PST for the current year. There is a view that the proportion of PST payable in the first instalment is so high that some taxpayers are under financial pressure as they are required to pay a tax of an amount equivalent to one month's salary. In this connection, will the Government inform this Council:

- (a) of the number of taxpayers who paid salaries tax using Tax Reserve Certificates in the past three years and the total amount of tax income involved;
- (b) whether it has assessed the respective impacts on public finance (e.g. cash flow and interest income, etc.) of lowering and even reducing to zero the proportion of PST payable in the first instalment, given the Government's large fiscal reserve at present; whether it has gauged the views of the public and the business sector on the arrangements of lowering the aforesaid proportion or reducing it to zero; if it has, of the channels through which it gauged their views and the views collected;
- (c) whether it has assessed the merits of and the improvements which can be made to the existing arrangement for payment of salaries tax; if it has, of the outcome; and
- (d) whether it has examined adopting other arrangements for payment of salaries tax (e.g. paying the tax by three or more instalments) for taxpayers to

choose; if it has, of the arrangements that the Government has considered and the reasons for not adopting such arrangements?

Reply:

President,

Hong Kong adopts a provisional tax system under its tax regime. As far as salaries tax is concerned, the amount of salaries tax for the current year of assessment is provisionally charged by reference to taxpayers' income and family conditions in the previous year of assessment. After the end of the current year of assessment, the Inland Revenue Department (IRD) will adjust the salaries tax payable according to the taxpayers' actual income and family conditions in the year.

Taking the year of assessment 2012/13 as an example, a taxpayer would pay salaries tax for his/her income earned in that year is set out in Table 1 of Annex.

My reply to the four parts of the question is set out below:

(a) In the past three financial years, the number of taxpayers who redeemed tax reserve certificates (TRCs) to pay their salaries tax and the amount of salaries tax so paid are tabulated in Table 2 of Annex.

(b) and (c) Different from most countries, Hong Kong does not practise the so-called "Pay As You Earn", whereby income tax is withheld and paid at the time the remuneration is received. IRD makes tax assessments and issues tax demand notes to taxpayers after taxpayers have reported their income. As such, the amount of final tax payable is only determined after taxpayers have earned their income. To ensure that tax is collected in the year the income is earned as far as possible, we have to implement the provisional tax system. Provisional tax is computed on the basis of the income in the previous year of assessment.

The present arrangement for payment of salaries tax has the following merits:

(i) Every year, taxpayers only need to file tax returns once and pay their salaries tax by two installments, whereas IRD only makes one assessment and

collects two payments for each case. Employers do not need to withhold and pay the salaries tax to IRD on behalf of their employees every time they pay remuneration to their employees. The relevant arrangement is convenient for taxpayers and employers;

(ii) Taxpayers are only required to pay 75 per cent of their provisional salaries tax for a year after they have earned the income for at least nine months in the same year, and the remaining 25 per cent is paid after they have earned the income for the whole year. Comparing to "Pay As You Earn", Hong Kong taxpayers have more time to prepare for their tax payment; and

(iii) A holdover mechanism is provided under the provisional tax system so as to relieve the financial pressure for taxpayers with genuine needs. Besides, taxpayers have the flexibility to save for tax payment by purchasing TRCs anytime. Taxpayers will earn interest when they redeem their TRCs to pay tax.

(d) The Inland Revenue Ordinance already provides for flexible arrangements to cater for changes in taxpayers' income. If a taxpayer anticipates that his/her income for the current year would reduce by more than 10 per cent as compared to his/her income in the preceding year, he/she could apply to IRD for corresponding holdover, wholly or partially, of his/her provisional tax 28 days before the due date for payment of the provisional tax. In addition, taxpayers who have financial difficulties in settling their tax bills on time may apply to IRD for payment of tax by installments. In short, the present arrangement for salaries tax payment is in line with the principle that tax is paid after the relevant income has been earned. The arrangement is effective and easy to administer to all relevant parties. We have no plan to explore other salaries tax payment arrangements.

Ends