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OFFICE OF THE
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The Hon Tam Heung-man
Room 425, West Wing
Central Government Offices
11 Ice House Street
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2 March 2005

Dear *Mandy*,

I refer to your letter of 8 February 2005 to the accountancy constituency seeking their views on the Inland Revenue Ordinance (Cap. 112) ("IRO").

As we have explained at our meeting on 12 November 2004 and subsequently in our reply to your oral question raised at the LegCo sitting on 5 January 2005, since the last comprehensive review of the IRO in 1976, the Administration has kept the various tax items under constant review in the context of the annual budget exercises and other policy review exercises. On a more technical level, the various provisions of the IRO are also reviewed regularly to make sure that our taxation system is competitive in the global context and that enhancements are introduced to meet the ever-changing social and economic environment. The Administration consults the Joint Liaison Committee on Taxation (JLCT) invariably on all major amendments to the IRO and other taxation legislation before submitting the relevant bills to LegCo in order to make sure that the views of the industry and business community are duly reflected in our legislative proposals. In this regard, we note that JLCT has invited you to join the Committee and we look forward to receiving your valuable advice on taxation matters through this channel.

As explained, we consider that the present approach of keeping various tax items under constant review in annual budget exercises and other policy review exercises, and reviewing various provisions of the IRO regularly with inputs from the industry and the business community through the various consultative channels including the JLCT, is effective and efficient. As such, we do not see any genuine need for conducting an overall review of the IRO.

At the meeting on 12 November 2004, you preferred focussing the discussion on the need for a comprehensive tax review to exchanging views on the specific issues you raised in your letter to the Chairman of the Panel on Financial Affairs on 28 October 2004. As diverse views on the operation of the existing tax legislation had been expressed at the meeting, you indicated that you and your advisors would put more thought into the matter and make a further submission. We look forward to hearing from you and your advisors on this.

You may wish to note that some of your proposals have been raised by taxation institutions/professionals before and the Administration has considered them in the context of our internal reviews. On the proposals to allow double deductions, and to change the base of computing commercial and industrial building allowances, our views are that these proposals are all prone to abuses which need to be guarded against by carefully designed mechanisms. These mechanisms will nevertheless complicate our taxation system, which is reputed for its simplicity. Besides, all these proposals as well as the proposals to allow carrying back of tax losses and separate taxation under personal assessment (which is a pre-requisite of introducing automatic personal assessment as suggested by you) will all have significant impacts on tax revenue collection and on the balance of the Government's fiscal accounts. Given our low tax rate and the very narrow tax base of the territorial source and scheduler income tax system we adopt, we may not be able to afford to implement such tax concessions as are provided in jurisdictions that adopt higher tax rates and a wider array of income as well as indirect taxes. That said, we welcome views from JLCT and the public on all taxation-related matters.

As we have reported to the Panel on Financial Affairs on 6 January 2005, we have referred the issues to the JLCT for comments/study and will report again to the Panel where appropriate.

Yours sincerely,



(Mrs LAU MAK Yee-ming, Alice)
Commissioner of Inland Revenue

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