

Examination of Estimates of Expenditure 2009-10
**CONTROLLING OFFICER'S REPLY TO
INITIAL WRITTEN QUESTION**

Reply Serial No.

FSTB(Tsy)053

Question Serial No.

0796

Head: 76 Inland Revenue Department Subhead (No. & title): 189 Interest on tax reserve certificates

Programme:

Controlling Officer: Commissioner of Inland Revenue

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

The estimated provision under Subhead 189 Interest on tax reserve certificates for 2009-10 is \$112,100,000, which is \$38,100,000 (51.5%) higher than the revised estimate for 2008-09.

Please explain the circumstances under which the Inland Revenue Department has to pay substantial amount of interest for the redemption of these tax reserve certificates upon the finalization of a number of tax objection/appeal cases.

Asked by: Hon. IP LAU Suk-ye, Regina

Reply:

The major portion of interest on tax reserve certificates (TRCs) is the interest on 'Conditional Standover Order Tax Reserve Certificates' (Conditional TRCs), which is paid upon settlement of objections/appeals in taxpayers' favour. The actual amount paid in a particular year depends on whether the objections/appeals could be settled within that year, whether the taxpayers would succeed in the objections/appeals, the movement of interest rates, and the length of the Conditional TRCs holding period. These factors are beyond the control of the Inland Revenue Department (IRD).

For 2008-09, the original estimate for interest on TRCs was \$134.2 million. In early 2009, after reviewing the actual expenditure position for 2008-09 and judging from the objection/appeal cases pending settlement in hand, IRD revised the estimate downwards to \$74 million. In estimating the provision for interest on TRCs of \$112.1 million for 2009-10, IRD has taken into account all the above-mentioned factors, particularly the value of Conditional TRCs in hand and the possibility of finalization of a number of objection/appeal cases in the year which entails payment of a substantial amount of interest.

Signature _____

Name in block letters Mrs LAU MAK YEE MING, ALICE

Post Title Commissioner of Inland Revenue

Date 11 March 2009