Examination of Estimates of Expenditure 2026-27

Reply Serial No.

FSTB(Tsy)040

CONTROLLING OFFICER'S REPLY

(Question Serial No. 2054)

Head: (76) Inland Revenue Department

Subhead (No. & title): ()

Programme: Not Specified

Controlling Officer: Commissioner of Inland Revenue (Benjamin CHAN)

Director of Bureau: Secretary for Financial Services and the Treasury

Question:

It is announced in paragraph 129 of the Budget that an Advisory Committee on Tax Policy will be established, so that tax policy can reinforce economic development. The industrial sector has long pointed out that section 39E of the Inland Revenue Ordinance imposes restrictions on the use of machinery and equipment by Hong Kong enterprises outside Hong Kong, preventing them from claiming depreciation allowances and thereby hindering the upgrading and transformation of the industry. In this connection, will the Government inform this Committee of the following:

(a) What was the number of cases involving Hong Kong-invested enterprises whose claims for depreciation allowances were rejected due to the enforcement of section 39E in the past 5 years? What was the amount of tax involved?

(b) Will the Advisory Committee on Tax Policy include reviewing section 39E in its key performance indicators for the first year, in order to facilitate the development of enterprises in line with the industry pattern of the Greater Bay Area and the Belt and Road countries? If so, what are the details? If not, what are the reasons?

Asked by: Hon WONG Wing-wai (LegCo internal reference no.: 13)

Reply:

(a) Section 39E of the Inland Revenue Ordinance aims at preventing tax avoidance by taxpayers through leasing arrangements of machinery or plant. According to that provision, depreciation allowance will not be granted if the machinery or plant owned by a taxpayer is used by other parties outside Hong Kong. The Inland Revenue Department did not maintain statistics on the rejection of claims for depreciation allowances by Hong Kong-invested enterprises due to the enforcement of section 39E.

(b) As announced in the 2026-27 Budget, the Advisory Committee on Tax Policy (ACTP) will be established and chaired by the Financial Secretary. ACTP aims to gather views from the commercial, industrial and professional sectors. On the premise of fulfilling Hong Kong's international tax obligations, ACTP will assist the Government in formulating tax policies that can reinforce economic development, including exploring possible amendments to existing tax measures, with a view to attracting more new industries and investments to Hong Kong.

The Government has commenced preparatory work for establishing ACTP. ACTP will comprise non-official members from the commercial, industrial and professional sectors, as well as relevant official members. It is expected that the first meeting will be convened in mid-2026. Relevant arrangement and discussion topics will be announced in due course.

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