

# LCQ10: Electronic Tax Reserve Certificates Scheme

Following is a question by the Hon Chan Yuet-ming and a written reply by the Secretary for Financial Services and the Treasury, Mr Christopher Hui, in the Legislative Council today (October 30):

Question:

The Inland Revenue Department has implemented the Tax Reserve Certificates system for many years to help taxpayers save up and earn interest for tax payment, and introduced the Electronic Tax Reserve Certificates Scheme (the Scheme) in 1999. In this connection, will the Government inform this Council:

(1) of the effectiveness of the Scheme at present, and set out in a table (i) the total amount of sales, (ii) the number of purchasers, (iii) the amount of sales per capita, (iv) the distribution of sales by age groups, and (v) the amount of redemptions under the Scheme in each of the past five years;

(2) as there are views that, under the influence of external factors, the time deposit rates of banks in Hong Kong are still at a high level, whether the Government has assessed if such a situation will affect the sale of the Scheme; and

(3) as the latest per annum interest rate announced in the Tax Reserve Certificates (Rate of Interest) (Consolidation) Notice has been changed from the previous rate of 0.8833 per cent to 0.8 per cent, and the Scheme will earn interest for a period of 36 months only, its return is much lower than that of the time deposit schemes of banks in Hong Kong in recent years as well as that of other medium and low-risk wealth management products, whether the Government will conduct a review of the contents of the Scheme or step up the publicity work, so as to enhance the effectiveness of the Scheme?

Reply:

President,

At present, the Inland Revenue Department (IRD) issues two types of Tax Reserve Certificate (TRCs), namely ordinary TRCs that are purchased by taxpayers who wish to prepare for tax payment in future, and TRCs for "Conditional Standover Order" ("conditional TRCs") that the Commissioner of Inland Revenue requires taxpayers who have objected to their tax assessments to purchase in order to cover the total amount or part of the tax in dispute. An ordinary TRC will bear the interest rate prevailing at the date of purchase and will earn interest only when the holder pays for the tax. For a conditional TRC, interest is payable from the date of its issue to the date of final determination of the objection or appeal. The interest rate is

calculated based on the rates in force from time to time over the tenure of the TRC. Upon final determination of the objection to or appeal against the tax assessment, IRD will pay the interest on the part of the capital sum eventually repaid to the taxpayer.

The interest rate on TRCs is reviewed every month based on the average of the prevailing interest rate for the twelve-month time deposits for \$100,000 to \$499,999 offered by the three note-issuing banks. With effect from October 7, 2024, the interest rate on TRCs is 0.8 per cent per annum and applies to all ordinary TRCs issued on or after the above date until further notice.

IRD has launched the Electronic TRCs Scheme since 1999 to replace paper version of ordinary TRCs and provide TRC users with a full range of electronic services, including a variety of electronic channels for purchasing TRCs (monthly bank autopay, telephone, internet and ATM), auto tax payment service, etc. The objective of the Electronic TRCs Scheme is to facilitate the purchase of TRCs by taxpayers and increase the flexibility by allowing them to choose the time, method of buying TRCs, etc. Users of the Electronic TRCs Scheme may also enjoy auto tax payment service to ensure that tax payments are always made on time and avoid any late payment penalty.

My reply to Hon Chan Yuet-ming's question is as follows:

(1) Since a taxpayer may purchase more than one TRC in each financial year, IRD does not maintain record on the number of purchasers of TRCs, average amount of each purchaser and the age profile of purchasers. The total sales amount, number of certificates sold, average amount per certificate and the total redemption amount of ordinary TRCs for the last five financial years are tabulated below:

Table 1

Year	Total sales amount (\$'000)	No. of certificates sold	Average amount per certificate (\$)	Total redemption amount (\$'000)
2019-20	467,041	86 766	5,383	461,016
2020-21	452,352	89 944	5,029	443,812
2021-22	430,415	84 122	5,117	466,587
2022-23	423,404	80 951	5,230	448,218
2023-24	409,765	79 672	5,143	416,804

The total sales amount, number of certificates sold, average amount per certificate and the total redemption amount of conditional TRCs for the last five financial years are tabulated below:

Table 2

Year	Total sales amount (\$'000)	No. of certificates sold	Average amount per certificate (\$)	Total redemption amount (\$'000)
2019-20	2,514,175	1 196	2,102,153	2,401,318
2020-21	2,896,920	1 344	2,155,446	2,781,430
2021-22	3,133,413	1 092	2,869,426	3,486,200
2022-23	2,413,492	946	2,551,260	3,028,070
2023-24	3,008,748	1 058	2,843,807	3,093,966

(2) Since the rate hike cycle in 2022, the total sales amount of ordinary TRCs slightly fell from \$430 million in 2021-22 to \$409 million in 2023-24, representing a decrease of 4.8 per cent. The number of certificates sold slightly fell from 84 122 in 2021-22 to 79 672 in 2023-24, representing a decrease of 5.3 per cent. It can therefore be seen that the overall sales of TRCs have not changed significantly due to external factors or interest rates.

As for conditional TRCs, they are purchased by taxpayers at the request of the Commissioner of Inland Revenue and therefore their sales are not related to changes in interest rates.

(3) The existing mechanism for determining the TRC rate has already ensured that changes in interest rate of time deposits offered by the note-issuing banks are timely reflected in TRCs. Since the two types of TRCs have their stated purpose and are not intended as a tool to provide investment returns, we do not consider it appropriate to adjust the interest rate on TRCs by making reference to the interest rates of wealth management products. The Government has no intention of setting a target for the sale of TRCs. We respect the choice of taxpayers to purchase ordinary TRCs.

On publicity, an application form for Electronic TRCs Scheme is available on the IRD's website for members of the public to download. The Brief Guide to Taxes of IRD and the websites of GovHK and Cross-boundary Public Services also include information on the Electronic TRCs Scheme. IRD will add a new link on the Electronic TRCs Scheme at a prominent position on its website to facilitate members of the public to search for relevant information.