

Commissioner's Overview

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In September 2006, IRD was awarded a 10-year Grand Award by the Ombudsman in recognition of its continuously outstanding performance in complaint-handling over the past decade. As a commendation, we were presented with the phrase "Fair and Unflinching" in Chinese calligraphy. This award, together with the Ombudsman Awards received in 1997, 1998, 2001 and 2005, exemplified our commitment to providing quality customer service to the public. My colleagues and I will keep up our achievement and strive to serve the community in a fair, open, responsive yet responsible manner.

Last year marked an important page in the history of Hong Kong taxation. Total IRD collections reached a record high of \$145 billion. Passage of the Revenue (Abolition of Estate Duty) Ordinance 2005 in the Legislative Council in November 2005 brought an end to a century-long Estate Duty regime. The abolition of Estate Duty is a worldwide trend. The measure further promotes the development of Hong Kong as an important asset management centre, which will bring sustainable benefits to our economy in the long run.

A favourable tax regime enhances economic development. Our tax policy is kept under constant review in order to cope with the ever-changing economic and social conditions. Apart from the abolition of Estate Duty, we saw the passage of the Revenue (Profits Tax Exemption for Offshore Funds) Ordinance 2006 in March 2006. With a tax treatment on offshore funds now tallying with major international financial centres like New York and London, Hong Kong's status as an international financial centre is further strengthened.

On the international front, Hong Kong signed its first comprehensive agreement on the avoidance of double taxation with an Asia-Pacific country during the year. Our agreement with Thailand was signed in September 2005. Towards the end of the year, we had also successfully negotiated a comprehensive arrangement on the avoidance of double taxation with the Mainland. Signing of the new arrangement with the Mainland was completed in August 2006. These arrangements will foster closer economic ties between Hong Kong and the two places and provide added incentives for bilateral investment and trade.

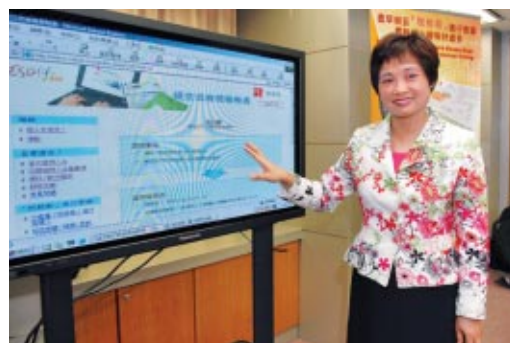


A reform on the duty system for horse race betting was also conducted. Starting from the racing year 2006-07, betting duty is no longer charged on the turnover of betting. Instead, a single set of rates applies progressively to gross profits. The reform serves to rationalise the regulatory system for horse race betting and to maintain betting duty revenue at a steady level.

Generally speaking, tax revenue accounts for some 60% of the total government general revenue. A steady inflow of tax revenue enhances the stability of the overall fiscal system and provides the necessary fuel for long-term policies. Hong Kong's existing tax base is very narrow by international standards. We rely heavily on revenues from direct taxes such as salaries tax and profits tax, which are sensitive to economic cycles. To address the problem, the Government set up an advisory committee in 2000 to consider the suitability of new types of broad-based taxes for introduction in Hong Kong. Following the recommendations made by the advisory committee, detailed studies were made on the feasibility of introducing a Goods and Services Tax (GST) in Hong Kong. A public consultation on tax reform was commenced in July 2006 and would last for 9 months.

Tax policies must be kept in pace with time, and so does tax administration. To cope with the social and economic developments, the IRD commits to self-enhancement programmes, makes use of information technology, perfects our system, and assists our staff in keeping up their professional standards.

In the recent years, the IRD is offering more services in the electronic mode. Our e-service menu includes e-filing, e-enquiry, e-payment, e-stamping and the enquiry of business registration particulars on the web. In 2005-06, continuous efforts were made to identify and develop more convenient and user-friendly features for our e-services. As a further step to enhance easy compliance, we are going to launch a Taxpayer Portal in 2008. Taxpayers will, by then, be able to have easy access to a complete range of personalised e-services via a single entry point on the Internet, including the issue of electronic tax returns and assessment notices, electronic lodgement of objections and applications as well as value-added services like e-alert messages on the filing or payment deadlines etc.



Alongside our e-services, in-house developments were made to upload our training material and information to a Technical Resources Database on the IRD Intranet. A rich technical resources database enables staff to keep abreast of new developments and refresh what they have learnt. This will help cultivate a continuous self-learning culture among the staff and enhance their professional standards. Our staff shone outside the office as well. They participated in a number of volunteer activities, manifesting love and care to those in need. In recognition of the care and volunteering spirit demonstrated by our colleagues, the IRD was awarded the Caring Organisation Logo for 2005-06 by the Hong Kong Council of Social Service.

Our accomplishments during the year are surely attributed to the collective efforts, dedication and co-operation of the Department's staff. I take this opportunity to thank my colleagues for their hard work and dedication over the year. In addition, I must express my gratitude to our partners, both inside and outside the government, for their unfailing support and assistance.

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Commissioner of Inland Revenue