1 Commissioner's Foreword

The year 2014-15 was a fruitful year. The revenue collection of the Inland Revenue Department showed a notable increase. We collected $301.9 billion which was $58.4 billion above that of last year. It was a record high. The increase mainly came from stamp duty and profits tax.

Stamp duty collections surged by $33.3 billion to $74.8 billion, representing an increase of 80%. The bulk of the increase is made up of buyer's stamp duty and doubled ad valorem stamp duty introduced under the Government's demand-side management measures for property market. For profits tax, the banking sector had shown a significant growth in the year of assessment 2013-14, with an increase in the assessable profits of nearly 30%. As a result, profits tax collections increased by $17 billion to $137.8 billion.

To promote the development, management and trading of Exchange Traded Fund (ETF) in Hong Kong, the Government proposed in the 2014-15 Budget to waive the stamp duty for the transfer of all ETF shares or units, so that the transaction costs of all ETFs with their registers of holders maintained in Hong Kong, regardless of their weight of Hong Kong stocks in their portfolios, can be reduced. The relevant Stamp Duty Amendment Ordinance was published in the Gazette on 13 February 2015. Starting from that day, stamp duty is waived for the transfer of shares or units of all ETFs. The ETF stamp duty waiver will be conducive to fostering Hong Kong's position as an asset management centre and the development of our financial services sector as a whole, offering new business opportunities for market practitioners and a greater range of products for investors.

All along, cross-border tax evasion and avoidance attract the attention of the international community. To counteract such activities, in July 2014, the Organisation for Economic Cooperation and Development (OECD) released the "Standard for Automatic Exchange of Financial Account Information in Tax Matters (AEOI)". The Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) was mandated by the G20 to monitor and review the implementation of the standard. The Global Forum has invited all its members, including Hong Kong, to commit to implementing the global standard. In mid-September 2014, Hong Kong indicated to the Global Forum its support for implementing the new standard on AEOI on a reciprocal basis with a view to commencing the first information exchange by the end of 2018, on the condition that Hong Kong will put in place necessary domestic legislation by 2017.

In order to allow time for the financial institutions in Hong Kong to collect information for reporting to the Department in 2018, we plan to introduce an amendment bill into the Legislative Council in early 2016 and strive for its passage as early as possible.

For the purpose of providing better business and employment opportunities to Hong Kong enterprises and residents, the Government takes positive steps to conclude and update comprehensive double taxation agreements with our trading and investment partners. Since the signing of the Arrangement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income between the Mainland and Hong Kong (the Arrangement) in 2006, the tax authorities of the two sides have been revising the Arrangement, by means of protocols, with a view to optimising the terms and clarifying the details of the implementation. The Mainland and Hong Kong signed the Fourth Protocol to the Arrangement (the Fourth Protocol) on 1 April 2015 to facilitate the clear implementation of the Arrangement.

The Fourth Protocol clarifies the conditions under which an investment fund would be qualified for Hong Kong resident status, thus giving certainty to investment funds' application of the tax avoidance arrangements. This will be conducive to the actively promoted asset management businesses in Hong Kong, and will in turn help strengthen Hong Kong's status as an international financial centre.

The Fourth Protocol also reduces the tax liability of aircraft and ship leasing business receiving royalties. The cap of the Mainland withholding tax on royalties paid to aircraft and ship leasing business will be reduced from 7% to 5%. This will be conducive to the promotion of aerospace financing business in Hong Kong. Furthermore, the Fourth Protocol also expands the coverage of tax types under the EoI article of the Arrangement, so as to fulfil Hong Kong's international obligation to meet global standards for enhancing tax transparency. The Fourth Protocol will come into force after the completion of ratification procedures and notification by both sides.

We recognise the importance of providing opportunities of continuous learning to our staff. Besides the routine courses, seminars and overseas training programmes, we also grasp the chance to organise local workshop to allow staff to exchange ideas with overseas counterparts. In July 2014, we organised a joint seminar with the Centre for Tax Policy and Administration of the OECD in Hong Kong. An update on international trend on tax transparency and Hong Kong's treaty network was provided to our professional officers, representatives of Chambers of Commerce, professional bodies and institutions.

The Department has achieved all the performance targets, and exceeded many, in its performance pledges in the year 2014-15. Looking ahead, the development on tax transparency and other international tax issues would bring about lots of new challenges in our work. As we always do, we will work hard to meet the challenges for the purposes of accomplishing all targets and providing quality service to the taxpaying public.

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