



Commissioner's Foreword

With the fifth wave of the local epidemic gradually brought under control, and the removal of anti-epidemic measures in March 2023, Hong Kong has progressively returned to normalcy. Local economic activities have shown gradual recovery. However, the external environment has remained full of challenges, which has put pressure on the performance of some business sectors. The local stock market and property market have also weakened since 2022. Under the influence of various factors, the overall revenue collection of the Department in 2022-23 reduced by \$18.3 billion to \$360.2 billion. The decrease was mainly due to the drop in stamp duty collection. On the other hand, total earnings and profits tax collections increased by \$10.9 billion, with growth in collections from profits tax and salaries tax of 4% and 5% respectively.

To enhance the attractiveness of Hong Kong as an international investment and financial centre and to implement the measures proposed in the Budget, the Government proactively conducted consultations and commenced legislative exercises on various measures. The following amendment ordinances were enacted in 2022-23:

- The Inland Revenue (Amendment) (Tax Deductions for Domestic Rents) Ordinance 2022 provided a deduction from the year of assessment 2022-23 for domestic rents to taxpayers chargeable to salaries tax and tax under personal assessment who are not owners of domestic properties.

- The Inland Revenue (Amendment) (Tax Concessions for Certain Shipping-related Activities) Ordinance 2022 provided half-rate profits tax concessions (i.e. at a tax rate of 8.25%) to qualifying shipping commercial principals (i.e. ship agents, ship managers and ship brokers) in respect of the qualifying profits accrued to them on or after 1 April 2022.
- The Stamp Duty (Amendment) Ordinance 2023 provided exemption of stamp duty payable on certain transactions relating to dual-counter stock made by market makers.

Besides, the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 was enacted in December 2022 to provide that, with effect from 1 January 2023, certain foreign-sourced income received in Hong Kong by multinational enterprise entities is to be regarded as arising in or derived from Hong Kong. As a result of the timely legislative amendment, Hong Kong was not included in the European Union (EU)'s blacklist of non-cooperative tax jurisdictions for tax purposes. In December 2022, the EU promulgated another guidance which explicitly sets out disposal gains as one of the categories of passive income covered by the foreign-sourced income exemption (FSIE) regime. Jurisdictions with ongoing FSIE reforms are requested by the EU to further amend their tax treatments of foreign-sourced disposal gains in compliance with the updated guidance by the end of 2023 for implementation with effect from January 2024. Under the premise of supporting the combating of cross-border tax evasion, the Government introduced the Inland Revenue (Amendment) (Taxation on Foreign-sourced Disposal Gains) Bill 2023 into the Legislative Council in October 2023 to refine Hong Kong's FSIE regime for disposal gains.

Furthermore, to provide greater certainty of non-taxation of onshore gains on disposal of equity interests that are of capital nature, the Inland Revenue (Amendment) (Disposal Gain by Holder of Qualifying Equity Interests) Bill 2023 was introduced into the Legislative Council in November 2023.

Apart from the above, the Chief Executive in Council made an order to declare that the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (BEPS MLI) shall have effect in Hong Kong after the Central People's Government had deposited with the Organisation for Economic Cooperation and Development (OECD) its instrument of approval of the BEPS MLI covering Hong Kong's tax treaties on 25 May 2022. The BEPS MLI enables Hong Kong to swiftly modify its existing tax treaties to implement measures promulgated by the OECD to prevent tax treaty abuse and to improve dispute resolution mechanism.

Hong Kong has also made progress in the expansion of its tax treaty network. Hong Kong entered into a tax treaty with Mauritius in November 2022 and that treaty will become effective from the year of assessment 2024-25. Besides, after conducting the third round of negotiation, Hong Kong entered into a tax treaty with Bangladesh in August 2023. Hong Kong continues to actively engage other tax jurisdictions in negotiating comprehensive double taxation agreements/arrangements so as to expand Hong Kong's tax treaty network.

On international tax cooperation, Hong Kong together with 137 Inclusive Framework members on Base Erosion and Profit Shifting agreed the Outcome Statement in July 2023 on the two-pillar solution to address tax challenges arising from the digitalisation of the economy. In addition, the Government announced the plan to implement the global minimum effective tax rate and the domestic minimum top-up tax starting from 2025 onwards. The Government is

pressing ahead with the preparatory work in relation to the consultation and legislative exercise, with the target to introduce an amendment bill into the Legislative Council in 2024. The Department will continue to participate in the OECD-led discussions and work closely with the Financial Services and the Treasury Bureau to ensure the effective implementation of the package in accordance with international standard.

The Department has been extensively making use of advanced information technology to enhance internal management systems and electronic services with a view to improving efficiency and quality of services. In 2022-23, the Department launched a number of new electronic services. Taxpayers are allowed to keep records for deduction items, such as approved charitable donations, under salaries tax and personal assessment in their eTAX accounts in advance for subsequent automatic pre-filing in their tax returns for individuals. The uploading capacity of attachments for e-filing of applications to amend tax assessments or to holdover provisional tax through eTAX has been increased. In respect of applications for business or branch registration, users can view and download the application results online. In addition, starting from 1 April 2023, all corporations and businesses can e-file profits tax returns through eTAX for the year of assessment 2022-23 together with financial statements and profits tax computation. The Department will continue to promote tax digitalisation with a view to catering to the upcoming new international standards and assisting taxpayers in fulfilling their tax obligations.

The relocation of all offices of the Department to the Inland Revenue Centre in Kai Tak was completed in May 2023. From the preparation to the official relocation, our colleagues had to take care of both the busy daily work and relocation matters at the same time. We were able to complete the relocation exercise successfully without affecting the Department's operation and public services. I would like to express my sincere thanks to all my colleagues for their hard work and cooperation.

The official commissioning of the Inland Revenue Centre marks a new chapter for the Inland Revenue Department. We will, as always, uphold the tradition and culture of the Department - "Tax by the Law, Service from the Heart". We are committed to providing effective services to taxpayers and members of the public with professional, proactive and collaborative team spirit, and promoting the prosperity and stability of Hong Kong.

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