

Press Conference 2 May 2014

The Gist of CIR's Speech

I shall speak mainly on 5 topics: matters relating to this year's individuals tax returns, exchange of tax information, development of an Islamic bond market, property demand-side management measures and the revenue collections in 2013-14.

2013-14 Tax Returns for Individuals

Today, the IRD is sending out 2.37 million individuals tax returns for the year of assessment 2013-14.

In the Budget for this year, the Financial Secretary has proposed to increase the dependent parent allowance, dependent grandparent allowance, the additional allowance for residing with each of these parents or grandparents continuously throughout the year and the deduction ceiling for elderly residential care expenses. Besides, he has proposed a one-off reduction of 75% of the profits tax, salaries tax and tax under personal assessment for the year 2013-14, subject to a ceiling of \$10,000 per case.

The Government has started the legislative amendment exercise for these proposals. After enactment of the relevant legislation, the IRD will effect the 2013-14 tax reduction in this year's tax bills, and will automatically apply the new allowances and deduction ceiling, if applicable, in calculating the 2014-15 provisional tax. Taxpayers should complete their tax returns as usual. No application is required for the proposed tax reduction.

A one-month period is allowed for filing individuals tax returns. The deadline is 3 June 2014, because 2 June is a public holiday. For sole proprietors of unincorporated businesses, a three-month period is allowed, i.e. the filing deadline is 2 August 2014. For on-line filing via eTAX, all taxpayers will get an automatic extension of 1 month.

Now, I will report the progress of some major work of the Department.

Exchange of Tax Information (“EoI”)

Last year, the peer review group of the OECD Global Forum on Transparency and Exchange of Information for Tax Purposes (“Global Forum”) completed the Phase 2 review on Hong Kong. Hong Kong was assessed with an overall rating of “Largely Compliant” with the exchange of information standards. The review report was formally adopted in the Global Forum meeting held in November 2013.

That Hong Kong could pass the Phase 2 review was largely attributable to the timely amendment of the Inland Revenue Ordinance in July last year allowing Hong Kong to conclude standalone Tax Information Exchange Agreements (“TIEA”). On 25 March 2014, Hong Kong signed its first TIEA with the United States.

Notwithstanding the development of the legal framework for TIEA, extending the comprehensive tax treaty network remains Hong Kong’s priority because it would bring in more benefits to investors. To stand a better chance of persuading other jurisdictions to commence negotiations of comprehensive double taxation agreements (“CDTAs”) with Hong Kong, we have also made legislative amendments to enhance the EoI arrangements under CDTAs.

The global EoI standard is rising. In February 2014, the G20 finance ministers endorsed the common reporting standard for automatic exchange of tax information. The Global Forum has been mandated to monitor and review implementation of the standard. The Government will continue to engage local stakeholders with a view to developing a sustainable model of EoI for Hong Kong.

Developing an Islamic Bond Market

Islamic finance is amongst the fastest growing segments in the international financial system. To promote an Islamic bond market in Hong Kong as a first step in developing Islamic finance, the Administration amended the Inland Revenue Ordinance and Stamp Duty Ordinance in July 2013 to ensure that financial instruments of similar economic substance are accorded similar tax treatment. Hong Kong's financial platform is now ready for issuance of Islamic Bonds. To play a lead-off role for this market, the relevant authority is actively preparing for the inaugural issuance of government Islamic bonds under the Government Bond Programme.

Property Demand-side Management Measures

During the past two years, to prevent the risk of a property market bubble, the Administration has taken a series of counter measures through enhancing the Special Stamp Duty and introducing Buyer's Stamp Duty, increasing the rates of stamp duty on both residential and non-residential property transactions, and advancing the time of charging stamp duty for non-residential property transactions.

The legislation for the enhanced Special Stamp Duty and Buyer's Stamp Duty was gazetted on 28 February 2014. The law provides for exemption of Buyer's Stamp Duty for residential property transactions where the purchasers are Hong Kong Permanent Residents (HKPRs) acting on their own behalf in acquiring the property. The Department has received over 50,000 applications for this exemption in the past two months. The applicants are required to produce a statutory declaration in support of their applications. It should be made in front of a notary, Justice of the Peace, solicitor or Commissioner for Oaths. The IRD also provides the oath and affirmation service by appointment at telephone no. 2594 3250 or 2594 3067.

IRD Revenue Collections

Finally, I will round up by giving an account of the revenue

collections by the IRD in the year 2013-14, and the forecast collection for the coming year.

In the year 2013-14, the IRD collected \$243.5 billion. It represents an increase of \$1.4 billion. Profits tax collection was reduced by 4% to \$120.9 billion, while salaries tax collection increased by 10% to \$55.6 billion. Stamp duty also dropped by 3% to \$41.5 billion. In the coming year, the forecast total revenue collection by the IRD is \$242.7 billion.

Hope you will find the information sheets on revenue collections and completion of tax returns helpful.

Thank you.