



Commissioner's Overview



The Inland Revenue Department (IRD) collected \$179.1 billion in 2009-10, representing a 6.5% decline from the last year. The major tax yields varied quite significantly. Salaries tax made a record high of \$41.2 billion, or a growth of 5.7%. Profits tax went down by 26.4% to \$76.6 billion, while stamp duty climbed 31.8% to \$42.4 billion.

The Hong Kong economy suffered a heavy blow in the second half of 2008 from the global financial tsunami. In 2009, Hong Kong made a notable rebound during the second quarter and improved further in the rest of the year. Our trades and industries, the financial market, the property market and the working class all went through different changes during these gyrations, leading to the variances in revenue collections between different taxes. Stamp duty picked up speed promptly with the rebound and recorded a significant growth in the year. Profits tax and salaries tax collected in 2009-10

were mainly calculated based on the income for the year of assessment 2008-09. Their collections, as usual, are lagging behind during the economic recovery. Profits tax collection shrunk in the year. The case of salaries tax is rather different. The much lower tax reduction in 2008-09 compared to the previous year's had resulted in a significantly smaller amount of tax foregone. Therefore, despite a mild drop in taxpayer income in 2008-09, salaries tax collection exceeded the previous year's and once again hit a record high in 2009-10.

Acute changes in the external environment are always a challenge to the tax assessment and collection work of IRD. We have constantly been enhancing the quality of our human resources, and at the same time refining our operation mechanism through extensive use of information technology and process re-engineering. Our goal is to establish a quality staff force and an effective and flexible operation system. With these assets, we can tide over difficulties in critical moments and accomplish our mission even in the worse times.

On the other hand, new information technology has allowed the provision of new e-services. In 2008, IRD launched the eTAX, an on-line tax service portal. Since then, some 300 thousand users have opened their eTAX accounts. 250 thousand of them have used the e-filing function to file their tax returns via the Internet in 2009-10.

From 1 April 2010 onwards, our e-filing service has extended to cover small businesses, including corporations and partnerships. The director, secretary or manager of a small corporation, or the precedent partner in the case of a small partnership, can file their company's profits tax returns online via their own eTAX accounts. To

encourage more companies to use online filing, IRD has raised the annual income ceiling for small businesses to \$2 million.

On the global front, we saw much progress in our work on international tax. In 2009-10, Hong Kong made a breakthrough in tax treaty work. The Financial Secretary announced in the Budget to put forward legislative proposals to enable Hong Kong to adopt the latest international standards on exchange of information in comprehensive agreements for the avoidance of double taxation (CDTAs). The legislative exercise then commenced and the Inland Revenue (Amendment)(No.3) Bill 2009 was introduced into the Legislative Council to enable IRD to collect and transfer a taxpayer's information as legitimately requested by our CDTA partners, even if IRD has no domestic tax interest in such information. To protect taxpayers' privacy and confidentiality of the information exchanged, a set of rules was also made. The Inland Revenue (Amendment) Ordinance 2010 and the Inland Revenue (Disclosure of Information) Rules became effective from 12 March 2010.

These two pieces of legislation paved the way for our CDTA negotiations, enabling Hong Kong to align with international standards as promulgated by the Organisation for Economic Co-operation and Development (OECD) and adopt its 2004 version of the Exchange of Information Article in our CDTAs.

Since the enactment of the new laws IRD has concluded a number of CDTA negotiations with our trading partners within the shortest time. We wish to expand our treaty network which will facilitate flows of trade, investment and talent between Hong Kong and the rest of the world, and protect the tax revenue of the

contracting parties. Incidences of double taxation can be avoided and traders and investors will be better able to assess accurately their tax liabilities. At the same time, we are negotiating with our existing treaty partners to upgrade the Exchange of Information Article to the new version.

Hong Kong has all along been very supportive of efforts by the international community to promote transparency in tax administration. Our tax law is clear and unambiguous. We have effective provisions to counter tax avoidance arrangements. We never provide special tax concessions for the sake of attracting foreign capitals. We do not have laws protecting bank secrecy. Under the new laws, Hong Kong is no longer having the constraint of domestic tax interest in information exchange with treaty partners.

IRD has gone through another fruitful year. This could not be possible without the support from our taxpayers, the hard work and dedication of our staff team and the assistance from our local and international peers. I would like to express my hearty gratitude to every one of them. IRD will continue to contribute our best to serve the people of Hong Kong, and to play our part in promoting Hong Kong's prosperity and stability.

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Commissioner of Inland Revenue