



I am very delighted to present the Annual Report 2012-13 on behalf of the Inland Revenue Department and write this Foreword.

Reviewing our work in 2012-13, we have achieved remarkable performance on different fronts under the leadership of my predecessor, Mr CHU Yam-yuen. To name just a few, taxes were assessed and collected timely; all performance targets were met with targets in some areas surpassed; good progress was made in tax law amendments; more tax treaties were concluded and the functions of electronic filing of Employer's Return were enhanced.

Assessment and collection of tax

The amount of revenue collected in 2012-13 has scored a new record of \$242.1 billion. The increase mainly came from collections of profits tax and stamp duty for property transactions.

Compared with last year, the growth in revenue collections for 2012-13 declined considerably from 14% to 2%. The decline was partly attributable to the concessionary revenue measures introduced during the year. Besides, reflecting the slowdown in economic growth, the increase in assessable profits of business enterprises and assessable income of employees for the year of assessment 2011-12 both narrowed significantly.

As for stamp duty, the exuberant property market in 2012-13 had brought in more stamp duty collections from property transactions. On the other hand, the decrease in the turnover of the stock market caused a relatively big reduction in the stamp duty collections from share transfers.

Tax law amendments

In the era of economic globalization, business activities of local enterprises are no longer confined in Hong Kong and their modes of operation have changed. To keep in pace with the development of the local economy and the international trend, and also to address the overheated property market, the Administration had introduced six revenue-related bills in the 2012-13 legislative session. This was the highest number of bills ever handled by the Department in one single legislative session.

The following four ordinances were enacted in the 2012-13 legislative session:

- Inland Revenue (Amendment) Ordinance 2013: effecting the concessionary revenue measures introduced in the 2013-14 Budget
- Inland Revenue (Amendment) (No. 2) Ordinance 2013: providing a legal framework for Hong Kong to enter into standalone tax information exchange agreements (“TIEAs”)
- Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013: providing a taxation framework for some common types of Islamic bonds on par with that for conventional bonds
- Betting Duty (Amendment) Ordinance 2013: facilitating a two-way commingled pool arrangement to reinforce Hong Kong’s international position in horse racing

The remaining two bills, Stamp Duty (Amendment) Bill 2012 and Stamp Duty (Amendment) Bill 2013, relating to the measures for cooling down the overheated property, are still being scrutinised by the Legislative Council.

Enhancing tax transparency

The Global Forum on Transparency and Exchange of Information for Tax Purposes (“Global Forum”) has set up a peer review group to assess the members’ compliance with the international exchange of information (“Eol”) standard. Hong Kong is a member of the Global Forum and is required to undergo the peer review in two phases. Phase 1 of the review on Hong Kong was completed in October 2011. In its report, the Global Forum recommended Hong Kong to establish a legal framework for entering into TIEAs to comply with the latest international standard.

Phase 2 of the review on Hong Kong to evaluate its implementation of the Eol standard was launched in December 2012. As advised by the Global Forum, whether Hong Kong could pass it would largely hinge on the availability of a legal framework for TIEAs.

The report of the Phase 2 review will be published in the fourth quarter this year. To meet the timeframe, the Administration and the legislature through concerted effort successfully put in place a legal framework for TIEAs in July this year. Hong Kong is now on par with the international standard on tax transparency and co-operation. I look forward to seeing Hong Kong passing the Phase 2 peer review and gaining the international recognition as a highly tax transparent jurisdiction.

Strengthening electronic services

We are committed to improving our work efficiency and reducing taxpayers' compliance cost. Targeted at the small and medium enterprises, we strengthened the functions of electronic filing of Employer's Return during the year. Now, employers can upload and submit the details of employee's remuneration via the Internet using the approved Employer's Software. In addition, the maximum number of forms for filing of employees' remuneration under eTAX has been increased to cater for the need of more employers. The electronic data so provided will be transmitted to our computer system for direct processing. The data will be pre-filled onto the respective employees' electronic tax returns on the next day. It brings convenience to the employers, employees and the Department. Besides, we have upgraded our system server and workstation infrastructure during the year to achieve greater efficiency.

Moving forward together

In closing, I want to express my most heartfelt thanks to my colleagues for their contributions. Our accomplishments in 2012-13 are attributed to their dedication, determination and positive attitude facing challenges. I would also like to express my appreciation to our partners at work, both inside and outside the Government, for their support and assistance.

I am very honoured to succeed Mr CHU Yam-yuen as the Commissioner of Inland Revenue, and I consider myself even more honoured to be able to work with an outstanding team of professionals and a pool of committed and zealous staff of the Department. Looking ahead, there will be a lot of tasks and challenges to surmount. United as one, I am confident that we can rise to the challenges that come about and deliver high quality service to the public.

WONG Kuen-fai
Commissioner of Inland Revenue