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Commissioner's Foreword

A year has passed since I was appointed as the Commissioner of Inland Revenue in June 2013. I am very delighted to report the performance of the Inland Revenue Department in the year 2013-14.

The total revenue collected in the year 2013-14 was \$243.5 billion, with a slight year-on-year increase of \$1.4 billion. It is a record high. The increase mainly came from salaries tax and betting duty. On the other hand, profits tax and stamp duty collections fell slightly.

Due to the influence of external factors, there was a slowdown in Hong Kong's economic growth in the year of assessment 2012-13. As a result, the growth in assessable profits of business enterprises was further narrowed. For salaries tax, the lowering of the maximum amount of tax reduction for the year of assessment 2012-13 as compared with the previous year, and continued growth in wages and earnings, have brought about a substantial increase in assessable income.

Following the introduction of various demand-side management measures for property market, the number of property transactions has decreased significantly in the year 2013-14, resulting in an overall drop in the stamp duty collections from property transactions.

As an international financial centre, and a member of The Global Forum on Transparency and Exchange of Information for Tax Purposes ("Global Forum"), Hong Kong should not deviate from the international standard. On top of striving to enter into more comprehensive double taxation agreements ("CDTA"), we are committed to enhancing tax transparency. The peer review assessment criteria of the Global Forum require the assessed jurisdiction to have both CDTA and standalone Tax Information Exchange Agreements ("TIEA") in place. To fulfill such requirement, the Hong Kong Government amended the Inland Revenue Ordinance in July 2013 to put in place a legislative framework for TIEA. As Hong Kong has been on par with the international standard on tax transparency and co-operation, it passed the Phase 2 review. The review report was formally adopted in the Global Forum meeting held in November 2013. On 25 March 2014, Hong Kong signed the first TIEA with the United States. Notwithstanding that, as a business facilitation measure, the conclusion of CDTA remains Hong Kong's priority.

Islamic finance is amongst the fastest growing segments in the global financial system. To enable the Islamic bond market





to prosper in Hong Kong, 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.

To prevent the risk of a property market bubble, the Administration has since 2012 taken a series of counter measures through: (1) increasing the rates of Special Stamp Duty and extending the property holding period; (2) introducing Buyer's Stamp Duty for residential property transactions undertaken by non-Hong Kong permanent residents; and (3) increasing the rates of ad valorem stamp duty on both residential and non-residential property transactions. The two bills for these measures were introduced in the 2012-13 legislative session for screening by the Legislative Council. The Stamp Duty (Amendment) Bill 2012, covering measures (1) and (2), was passed in February 2014 and the Stamp Duty (Amendment) Bill 2013, covering measure (3), was passed in July 2014.

We are committed to providing convenient service to the public. In April 2013, the Department further enhanced the e-filing services to provide a convenient means for employers to submit employer's returns of remuneration and pensions. Employers can now upload, through eTAX, employees' remuneration records that were prepared by software approved or provided by the Department. Besides, the revamped IRD Homepage adopting web accessibility design was launched in June 2013 together with a new mobile version. It facilitates citizens to access to tax information more easily.

We recognise the importance of continuous learning. Every year, we provide a variety of training courses to our staff and send them to participate in overseas training programmes. This helps our staff broaden their horizons, acquire knowledge in various aspects and share the best practice with their counter-parts in different countries. In December 2013, the Department hosted jointly with the Centre for Tax Policy and Administration of the Organisation for Economic Co-operation and Development a workshop on Transfer Pricing Dispute Resolution and Avoidance in Hong Kong. Three experts from overseas conducted the workshop. Our colleagues and invited participants from overseas tax jurisdictions who attended the workshop all benefited a lot.

The Inland Revenue Department has achieved all the performance targets, and exceeded many, in its performance pledges in the year 2013-14. The accomplishments are attributed to my colleagues' hard work. I want to express my most heartfelt thanks to them. I would also like to express my appreciation to our partners at work, both inside and outside the Government, for their support and assistance. As we always do, we are committed to facing challenges ahead with professionalism and positive attitude and providing quality service to the taxpaying public.

WONG Kuen-fai
Commissioner of Inland Revenue