1 Commissioner's Foreword

The total revenue collection of the Inland Revenue Department in 2015-16 was $291.3 billion. It was $10.6 billion lower than that of last year, yet, it is the second highest record over the years. Compared with last year, stamp duty collection recorded a significant drop. There was huge amount of stamp duty collection on one-off basis last year. The drop in number of property transactions since August 2015 also resulted in a decrease in stamp duty collection in 2015-16. In respect of salaries tax, the increase in maximum amount of tax rebate from $10,000 to $20,000 in the year of assessment 2014-15 slightly brought down the amount of salaries tax assessed. For profits tax, the slowdown of the Hong Kong economy since the second half of 2015 has triggered a sharp rise in the amount of provisional tax heldover, which in turn resulted in a smaller increase in tax collection.

2015-16 was a challenging year. Five revenue-related bills were enacted in the 2015-16 legislative session:

- Inland Revenue (Amendment) (No. 3) Ordinance 2015: enhancing the tax appeal mechanism and improving the efficiency and effectiveness of the Board of Review
- Inland Revenue (Amendment) Ordinance 2016: effecting the concessionary revenue measures introduced in the 2016-17 Budget
- Inland Revenue (Amendment) (No. 2) Ordinance 2016: enhancing the existing interest deduction rules for the intra-group financing business of corporations; introducing a concessionary profits tax rate for qualifying corporate treasury centres; and seeking to clarify profits tax and stamp duty treatments in respect of regulatory capital securities issued by banks in compliance with Basel III capital adequacy requirements
- Securities and Futures (Amendment) Ordinance 2016: introducing a new open-ended fund company (OFC) structure in Hong Kong and providing legislative framework for registration and incorporation of OFCs and regulation of such companies and their businesses
- Inland Revenue (Amendment) (No. 3) Ordinance 2016: providing a legislative framework for the implementation of automatic exchange of financial account information in tax matters (AEOI) in Hong Kong

Tax transparency and effective exchange of information has become a focus of our work agenda. As a major financial centre and a responsible member of the international community, Hong Kong has all along been a staunch supporter of international efforts to enhance tax transparency and combat cross-border tax evasion. I am pleased that the Inland Revenue (Amendment) Bill 2016 was passed to become the Inland Revenue (Amendment) (No. 3) Ordinance 2016. As a result, Hong Kong can fulfil its commitment to commence the first information exchange by the end of 2018. It also allows the Department and financial institutions to have an early kick-start of the requisite preparatory work. The Department is now working in full swing to develop an AEOI portal for financial institutions to submit electronic notices and relevant forms. The AEOI portal is safe, secure, and can ensure privacy of AEOI account holders and confidentiality of information exchanged during the process. Our target is to implement the AEOI portal before end of 2017.

Apart from gearing up for the implementation of AEOI, we kept on striving to further expand Hong Kong's network of Comprehensive Double Taxation Agreements (CDTAs). In the past year, Hong Kong has made remarkable achievements in this area. Up to 31 March 2016, Hong Kong has signed CDTAs with 34 jurisdictions.

At the same time, the Department actively participated in international meetings concerning Base Erosion and Profit Shifting (BEPS). The Group of Twenty (G20) endorsed in November 2015 the package of measures proposed by the Organisation for Economic Co-operation and Development (OECD) to tackle BEPS. The BEPS Package, covering 15 specific actions, seeks to ensure that multinational corporations pay a fair share of taxes in respect of their profits, and to plug the loophole of "double non-taxation" among jurisdictions. Implementing the BEPS Package can ensure the alignment of the local tax system with international standards, whereby maintaining a fair and transparent tax environment and Hong Kong's competitiveness. In view of this, the Government accepted the OECD's invitation on 20 June 2016 to join, in the name of "Hong Kong, China", as an Associate in the inclusive framework for implementing the BEPS Package. Hong Kong will work on an equal footing with the OECD, the G20 and many other countries and jurisdictions to implement the BEPS Package and to develop standards. The Government is conducting an analysis on the recommendations in the BEPS Package, with a view to mapping out work priorities. The Government will also consult the industry on the strategy for implementing the relevant proposals at an appropriate juncture and prepare for taking forward the necessary legislative amendments.

With the increasing number of CDTAs signed by Hong Kong, and the new tasks arising from the implementation of AEOI and BEPS Package, the Department will be facing ever-increasing workload in the years ahead. Despite the difficulties and challenges foreseen, we will, with high team spirit, strive for the best to accomplish our missions.

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