1 Commissioner's Foreword

It is my pleasure to present the 2016-17 Annual Report to you. In this report, apart from the revenue statistics, you will have a glimpse of the on-going work that the IRD has been embarking upon.

The total revenue collection of the Inland Revenue Department in 2016-17 was $290.2 billion, the third highest record over the years. It was $1.1 billion lower than the collection of last year, only a meagre drop of 0.4%. Due to the wavier of business registration fees for 2016-17, business registration fees decreased by $2.4 billion, representing a significant drop of 91% when compared to last year. The collections of different major tax types were similar to those of last year. Profits Tax decreased by 0.7%; Salaries Tax grew by 2.1% whilst Stamp Duty dropped by 1.2%.

To address the overheated residential property market, the Government announced on 4 November 2016 a new round of demand-side management measure, i.e. to raise the ad valorem stamp duty (AVD) rate of residential property transactions to a flat rate at 15%, in lieu of the existing AVD rates at scale 1 set out in the Stamp Duty Ordinance (commonly known as "doubled ad valorem stamp duty"), with effect from 5 November 2016. The Government introduced the Stamp Duty (Amendment) Bill 2017 (the Bill), which seeks to implement the new residential stamp duty (NRSD), into the Legislative Council in February 2017.

Subsequent to the introduction of the NRSD, some Hong Kong Permanent Resident (HKPR) buyers acquired multiple residential properties under a single instrument to avoid payment of NRSD, thereby undermining the intended effect of the measure. In view of this, the Government announced on 11 April 2017 the tightening of the prevailing exemption arrangement for HKPRs under the NRSD regime. With effect from 12 April 2017, if a HKPR-buyer acquires more than one residential property under a single instrument, the transaction will no longer be exempted and will be subject to the NRSD rate of 15%. The Government introduced the Stamp Duty (Amendment) (No.2) Bill 2017 (the No.2 Bill) into the Legislative Council in June 2017. By the end of the 2016-17 legislative session, both the Bill and the No.2 Bill were still being scrutinised.

To prepare for the implementation of the new international standard for automatic exchange of financial account information in tax matters (AEOI) as promulgated by the Organisation for Economic Cooperation and Development (OECD), the Government amended the Inland Revenue Ordinance to provide relevant legislative framework. The Inland Revenue (Amendment) (No.3) Ordinance 2016 (the Amendment Ordinance) was gazetted on 30 June 2016, and came into effect on the same date. Under the AEOI standard, a financial institution (FI) is required to identify financial accounts held by tax residents of reportable jurisdictions in accordance with the OECD due diligence procedures. FIs are required to collect the reportable information of these accounts and furnish such information to the Department. The Department will exchange the information with the tax authorities of the AEOI partner jurisdictions on an annual basis.

To help FIs fulfil their obligations, the Department provides an AEOI Portal for FIs to submit notifications and file financial account information returns electronically. In 2016-17, system development and user acceptance testing of the AEOI Portal were carried out. The Department invited FIs to participate in the trial run. The AEOI Portal was officially launched on 3 July 2017.

To implement AEOI more effectively, the Government introduced the Inland Revenue (Amendment) (No. 3) Bill in March 2017 to the Legislative Council to expand the list of "reportable jurisdictions" with effect from 1 July 2017. The No.3 Bill was passed in June 2017 and became the Inland Revenue (Amendment) (No.2) Ordinance 2017.

The international tax landscape evolves rapidly. The OECD released a package of 15 action plans in October 2015 to counter base erosion and profit shifting (BEPS) by multinational enterprises. As a responsible member of the international community, Hong Kong indicated its commitment to implementing the BEPS package in June 2016. The Government conducted a consultation exercise from October to December 2016 on the legislative proposals to implement the BEPS package to collect views from stakeholders and released the consultation report in July 2017. Hong Kong will focus on the four minimum standards, i.e. countering harmful tax practices, preventing treaty abuse, imposing country-by-country reporting requirement and improving the cross-border dispute resolution regime, whilst maintaining our simple and low tax regime. The Government is pressing ahead with the preparatory work in relation to the legislative exercise. The target is to introduce an amendment bill into the Legislative Council by the end of 2017.

2016-17 was a busy and productive year. Besides making tax assessments and collecting taxes, colleagues of IRD were actively participating in various kinds of work relating to NRSD, AEOI and BEPS package. I am very grateful that colleagues had made an all-out effort to strive for meeting different targets. I am confident that we can work together to achieve satisfactory results in all aspects.

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Commissioner of Inland Revenue