1 Commissioner's Foreword

The total revenue collection of the Inland Revenue Department in 2017-18 was $328.6 billion, which is a record high. It was $38.4 billion higher than the collection of last year, representing a rise of 13.2%. Among the different tax types, Stamp Duty and Salaries Tax reached a record high this year. Stamp Duty and Salaries Tax recorded an increase of 54% and 3% respectively whilst Profits Tax decreased slightly by 0.1%.

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In 2017-18, the Department encountered new developments in different areas of work. Below are the legislative changes in relation to Stamp Duty, Profits Tax and exchange of information.

Facing the recurrence of the overheated residential property market, the Government introduced on 5 November 2016 a new measure to raise the ad valorem stamp duty rate of residential property transactions across-the-board to a flat rate at 15% to prevent the bubble risk of the property market from deteriorating further. The Stamp Duty (Amendment) Bill 2017, which seeks to implement the new residential stamp duty (NRSD) measure, was passed by the Legislative Council (LegCo) in January 2018 to become the Stamp Duty (Amendment) Ordinance 2018. During the scrutiny of the above amendment bill, the majority of LegCo Members and members of the public expressed grave concern over the increasing trend where some Hong Kong permanent residents (HKPRs) acquired multiple residential properties under a single instrument to avoid payment of the new rate of stamp duty, thereby undermining the intended effect of the measure. In view of this, the Government announced on 11 April 2017 that it would introduce legislative amendments to tighten up the exemption arrangement for HKPRs under the NRSD regime. If a HKPR 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 tightened up exemption arrangement took effect on 12 April 2017. The Stamp Duty (Amendment) (No. 2) Bill 2017, which seeks to implement the tightened exemption arrangement, was passed by the LegCo in April 2018 to become the Stamp Duty (Amendment) (No. 2) Ordinance 2018.

To implement the two-tiered profits tax rates regime announced by the Chief Executive in the 2017 Policy Address, the Inland Revenue (Amendment) (No. 3) Ordinance 2018, which was gazetted on 29 March 2018, amended the Inland Revenue Ordinance (IRO). With effect from the year of assessment 2018-19, the profits tax rate for the first $2 million of assessable profits of corporations is lowered to 8.25%. Profits above that amount continue to be subject to the tax rate of 16.5%. For non-corporate persons, the two-tiered tax rates are correspondingly set at 7.5% and 15%.

For the purpose of enabling Hong Kong to implement more effectively the automatic exchange of financial account information in tax matters (AEOI) promulgated by the Organisation for Economic Cooperation and Development (OECD), the Inland Revenue (Amendment) (No. 2) Ordinance 2017 was gazetted on 16 June 2017 to increase, with effect from 1 July 2017, the number of "reportable jurisdictions" to 75 under the IRO. The Department has established the AEOI Portal for financial institutions to notify and file financial account information returns electronically. Notices requiring financial institutions to file financial account information returns for the year 2017 have been issued since January 2018.

On the other hand, given the continued expansion in the scope and network of tax information exchanges in the international community, Hong Kong needs to move from the established bilateral approach to the multilateral approach to implement the relevant initiatives. The Inland Revenue (Amendment) Ordinance 2018 (2018 Amendment Ordinance) was gazetted on 2 February 2018 to provide the legal framework for Hong Kong to implement multilateral tax arrangements, thereby allowing more effective implementation of AEOI and automatic exchange of country-by-country (CbC) reports and spontaneous exchange of information on tax rulings under the base erosion and profit shifting (BEPS) package.

After the passage of the 2018 Amendment Ordinance, the Central People's Government deposited the declaration for extending the application of the Convention on Mutual Administrative Assistance in Tax Matters (the Convention) to Hong Kong with the OECD in May 2018. The Convention provides a multi-party platform for participating jurisdictions to mutually agree with each other on various forms of administrative cooperation in the assessment and collection of taxes, including exchange of information. The scope of information to be exchanged under the Convention, as compared with the bilateral approach, is generally the same. In July 2018, the Chief Executive in Council made an order to declare that the Convention shall have effect in Hong Kong. The order will be tabled at the LegCo for negative vetting in October 2018.

The year 2017-18 was full of challenges. As a result of the new initiatives introduced by the Government and the rapid development of international tax standards, legislative amendments were required for various issues. The Department's workload has been increasing. I am thankful for colleagues' continuous dedication to surmount difficulties and accomplish our missions in a professional manner.

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