1 Commissioner's Foreword

I am pleased to present the 2019-20 Annual Report of the Inland Revenue Department.

The year 2019-20 was full of challenges and uncertainties. Badly hit by the combined effects of local social incidents, global economic slowdown and escalated US-China trade tensions, the Hong Kong economy entered recession in the third quarter of 2019. Stepping into 2020, the Hong Kong economy turned even worse as a result of the threat of the COVID-19 epidemic on global trade and local consumption-related activities. Overall, the Department's total revenue collection fell by 11.1% ($37.9 billion) to $303.6 billion in 2019-20. The two main tax types, namely profits tax and salaries tax, together dropped over $20 billion in total.

Tax collections in 2019-20 mainly came from tax demand notes for the year of assessment 2018-19. The decrease in profits tax collection was partly attributable to the implementation of the two-tiered profits tax rates regime effective from the year of assessment 2018-19. The profits tax rate for the first $2 million of assessable profits is reduced to half of the standard rate. Besides, in the relief measure announced in August 2019, the Government further increased the tax reduction for salaries tax, tax under personal assessment and profits tax for the year of assessment 2018-19 from 75% to 100%, while retaining the ceiling of $20,000. Consequently, over a million taxpayers had left the tax net, leading to a drop in tax revenue.

Hong Kong adopts a provisional tax system. Provisional tax for the year of assessment 2019-20 was also charged in the 2018-19 tax demand notes. As affected by the worsened economic condition, some taxpayers encountered financial difficulties. Besides, the Government announced on 4 December 2019 conditional waiver of surcharges for instalment settlement of demand notes for the year of assessment 2018-19. Hence, the number of applications from taxpayers for holding over of 2019-20 provisional tax and instalment payment surged, leading to a reduction of tax collection in 2019-20.

Further, two factors had affected the progress of the Department's assessment work, which in turn had impacted the 2019-20 tax revenue. Firstly, the Inland Revenue (Amendment) (Tax Concessions) Bill 2019, the object of which was to give effect to the tax concessions for the year of assessment 2018-19, was only passed by the Legislative Council in November 2019. The Department started issuing tax demand notes from December 2019 onwards, a delay of 4 months as compared to past years.

Secondly, in order to reduce the risk of the spread of COVID-19 in the community, the Department implemented special work arrangement in February and March 2020, which to a certain extent affected the issue of assessments. Some tax demand notes were issued later than as planned, resulting in the deferral of tax payment due dates to the financial year 2020-21.

For stamp duty, decreases both in the total number of property transactions in 2019-20 and in the number of residential property transactions chargeable with buyer's stamp duty had caused a drop of $12.8 billion in the total stamp duty collection for the year 2019-20. With the waiver of business registration fees for 2019-20, the amount of business registration fees and penalties collected in 2019-20 was reduced to $189 million, representing a huge drop of 93.3%.

On the front of international tax cooperation, steady progress was attained in 2019-20. As at 31 March 2020, Hong Kong has signed comprehensive avoidance of double taxation agreements or arrangements covering various types of income with 43 jurisdictions, and signed tax information exchange agreements with 7 jurisdictions. In addition, Hong Kong smoothly completed the first and second rounds of automatic exchange of financial account information in tax matters with other jurisdictions through the Organisation for Economic Cooperation and Development (OECD) Common Transmission system in 2018 and 2019 respectively. To facilitate Hong Kong entities to comply with their reporting obligations and implementation of automatic exchange of country-by-country (CbC) reports, the Department launched the CbC Reporting Portal for submission of returns and data files in March 2018. Hong Kong has smoothly completed the automatic exchange of CbC reports for 2018 with exchange partners.

To address tax challenges arising from the digitalisation of the economy and Base Erosion and Profit Sharing issues, the OECD is developing new rules for the allocation of taxing rights for profits of digitalised businesses and the prevention of shifting of profits by multinational enterprises to no or low tax jurisdictions. Currently, the goal is to deliver a consensus-based long term solution by mid-2021. These proposals will have far-reaching implications for Hong Kong's existing tax system and tax treaties as well as multinational enterprises. The Department will continue to work with the relevant bureau to monitor the developments, make assessments and devise corresponding measures.

Under the leadership of my predecessor, Mr WONG Kuen-fai, and support from colleagues, the Department had gone through a difficult year 2019-20. With public health and safety as our foremost concern amid the COVID-19 epidemic, the Department will endeavor to continue providing services to members of the public and taxpayers. Like all Hong Kong citizens, we hope to see the epidemic fade away soon, the economy recover and life return to normal.

TAM Tai-pang
Commissioner of Inland Revenue