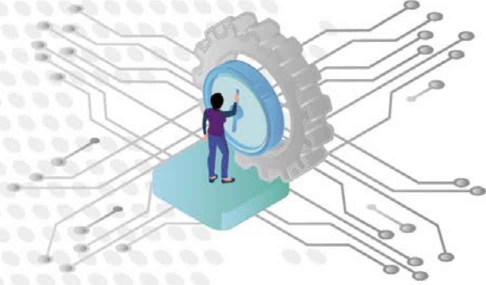
1 Commissioner's Foreword

The year 2020-21 was another challenging year. The global economy continued to be affected by the COVID-19 pandemic. Though the local pandemic situation gradually stablised, global and local economic activities as well as employment situation had not returned to their pre-pandemic levels. Against such a backdrop, the Department collected tax revenue of $330.8 billion, which was $27.2 billion above that of last year. However, major tax yields varied. While salaries tax and stamp duty increased by 48.8% and 32.5% respectively, profits tax saw a drop of 13.1%.

For salaries tax, the increase in unemployment rate and the introduction of three kinds of tax deductions from the year of assessment 2019-20 onwards, namely qualifying premiums paid in respect of certified plans under Voluntary Health Insurance Scheme, qualifying annuity premiums paid under qualifying deferred annuity policies and tax deductible Mandatory Provident Fund voluntary contributions paid, led to a reduction in the amount of tax assessed. On the other hand, in the year 2019-20, the Department issued salaries tax assessments for the year of assessment 2018-19 later than originally planned. The tax payment due dates of some of those assessments were deferred to the financial year 2020-21, leading to an overall increase in salaries tax collected.

The growth of stamp duty collection was attributable to the increase in stamp duty collected from share transactions resulted from the active stock market during the year. In the midst of the economic downturn and uncertainties surrounding the pandemic, prices and transactions for non-residential properties had noticeably dropped and market demand for those properties had shrunk for a period of time. Further, the Doubled Ad Valorem Stamp Duty on non-residential property transactions was abolished with effect from 26 November 2020 and the relevant ad valorem stamp duty rates were reverted to the Scale 2 rates, i.e. the lower rates. Therefore, Doubled Ad Valorem Stamp Duty collected from non-residential properties transactions decreased by 40%.



Coupled with the reduction in Buyer's Stamp Duty and New Residential Stamp Duty on residential properties, the overall stamp duty collected from property transactions recorded a drop of 11% when compared with the previous year.

To strengthen and reinforce Hong Kong's position as an international maritime and financial centre, a number of revenue-related legislative amendments were made in 2020-21, including the following:

- The Inland Revenue Ordinance (Amendment of Section 50A) Notice 2020 expanded the definition of "controlling person" under section 50A of the Inland Revenue Ordinance by removing the 25% threshold previously applicable to partnerships and trusts. The Inland Revenue Ordinance (Amendment of Schedule 17D) Notice 2020 concerned a specific requirement in relation to the determination of controlling persons by financial institutions. These amendments brought the legislative framework of Hong Kong's automatic exchange of financial account information in tax matters (AEOI) into line with the prevailing international standard.

- The Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Ordinance 2020 provided profits tax concessions to qualifying ship lessors and qualifying ship leasing managers in respect of qualifying profits derived from ship leasing and management activities.

- The Limited Partnership Fund Ordinance established a limited partnership fund regime which enabled funds to be registered in the form of limited partnerships in Hong Kong and made consequential amendments to various enactments, including the Inland Revenue Ordinance, Business Registration Ordinance and Business Registration Regulations.

- The Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Ordinance 2020 provided profits tax concessions for general reinsurance business, selected general insurance business of direct insurers and selected insurance brokerage business of licensed insurance broker companies.

- The Stamp Duty Ordinance (Amendment of Schedule 8) Regulation 2020 waived the stamp duty on stock transfers involving the activities of exchange traded fund (ETF) market makers in the course of allotting and redeeming ETF units listed in Hong Kong.

In terms of international tax cooperation, Hong Kong has continued to engage a number of jurisdictions in negotiating comprehensive avoidance of double taxation agreements or arrangements (CDTAs). During the year 2020-21, Hong Kong entered into CDTAs with Serbia and Georgia and those agreements will become effective from the years of assessment 2021-22 and 2022-23 respectively. Besides, Hong Kong smoothly completed the third round of AEOI with other jurisdictions through the Organisation for Economic Cooperation and Development (OECD) Common Transmission System in 2020.

In October 2021, the OECD announced the framework for international tax reform to address base erosion and profits shifting (BEPS), commonly referred to as BEPS 2.0. The BEPS 2.0 package consists of two pillars. Pillar One targets multinational enterprise (MNE) groups with global turnover above 20 billion Euros and profitability above 10% and seeks to reallocate a portion of the residual profits (i.e. profits in excess of 10% of revenue) to market jurisdictions. Pillar Two introduces a global minimum corporate tax rate of 15%, which will apply to MNE groups with global revenue above 750 million Euros. Hong Kong, together with over 130 jurisdictions, has indicated acceptance of the package. The OECD is developing the detailed rules for the two Pillars, and aims at bringing them into effect in 2023. Implementation of the package will have profound impact on the tax environment of Hong Kong for large MNEs. The Department will continue to participate in the OECD's meetings and work closely with the relevant bureau to ensure effective implementation of the package in accordance with international standard.

Smooth accomplishments of various tasks during the year are undoubtedly attributable to the dedication, selfless devotion and collective effort of the Department's staff. In early 2021, some of my colleagues signed up or were nominated by the Department to assist in anti-epidemic operations whilst other colleagues in the office shared out the duties of those deployed to perform the ad hoc work. I would like to take this opportunity to express my most heartfelt gratitude to all my colleagues for their hard work, unfailing support and contributions throughout the year.

Despite challenges ahead, we will continue to work collectively to achieve the Department's missions and to embrace our core values in delivering high quality, professional and effective services to the public and taxpayers.

TAM Tai-pang
Commissioner of Inland Revenue