

chapter 1

Commissioner's Foreword

In the past financial year, Hong Kong's economy and labour market had continued to suffer from the impacts of the unstable local epidemic situation and political uncertainties worldwide. Despite these adversities, the overall revenue collections of the Department in 2021-22 recorded growth. The total amount of revenue collected was \$378.5 billion, representing an increase of \$47.7 billion. The increase mainly came from profits tax and stamp duty collections, which grew by 23.5% and 11.9% respectively. Salaries tax collections only increased by 0.7%.

Hong Kong adopts a provisional tax system. Revenue collections from profits tax, salaries tax and property tax in 2021-22 mainly came from net final tax assessed for the year of assessment 2020-21, which was calculated based on taxpayers' assessable profits and income for that year and after deducting the provisional tax paid in the previous year, and the provisional tax charged for the year of assessment 2021-22. In 2020-21, a number of businesses anticipated an economic downturn and drop in earnings due to the epidemic situation. They applied for and were allowed holding over of part of the provisional tax for the year of assessment 2020-21. However, subsequent assessment statistics showed that the extent of reduction in assessable profits of businesses for that year was less than expected. The total amount of net final tax collected in 2021-22 was therefore higher than the previous year's. In addition, in 2021-22, there were fewer applications from businesses for holding over of provisional tax than last year. Hence, the profits tax collections in 2021-22 increased although there was not any growth in overall assessable profits for the year of assessment 2020-21.

For stamp duty collections, the stamp duty rate for stock transactions has increased from 0.1% to 0.13% with effect from 1 August 2021. Besides, the numbers of buyer's stamp duty cases and stamped instruments relating to non-



residential property transactions both increased. Coupled with the higher average amount of ad valorem stamp duty per residential property transaction, the total amount of stamp duty collected in 2021-22 increased as compared to that of last year.

To consolidate Hong Kong's status as an international asset and wealth management centre, and to refine some existing tax treatments, the following amendment ordinances were enacted in 2021-22:

- The Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Ordinance 2021 provided tax concessions for carried interest distributed by eligible private equity funds operating in Hong Kong. The concessionary tax treatment is applicable to eligible carried interest received by, or accrued to, qualifying carried interest recipients on or after 1 April 2020.
- The Inland Revenue (Amendment) (Miscellaneous Provisions) Ordinance 2021 implemented several areas of amendments to the Inland Revenue Ordinance, including prescribing the tax treatments for amalgamation of companies under the court-free procedures as provided for under the Companies Ordinance and for the transfer or succession of specified assets under certain circumstances; refining the statutory framework for the furnishing of tax returns; and enhancing the foreign tax deduction regime.
- The Securities and Futures (Amendment) Ordinance 2021 and Limited Partnership Fund and Business Registration Legislation (Amendment) Ordinance 2021 established new fund re-domiciliation mechanisms for existing funds set up in corporate or limited partnership form outside Hong Kong to re-locate their registration and operation to Hong Kong and to be registered as open-ended fund companies or limited partnership funds respectively. The re-domiciliation mechanisms have come into operation with effect from 1 November 2021. Consequential amendments relating to business registration were also introduced by the amendment ordinances.

The year 2021-22 has seen major development in international taxation. In October 2021, Hong Kong together with over 130 members of the Inclusive Framework on Base Erosion and Profit Shifting reached a historic agreement on a two-pillar solution to reform international tax framework to address the tax challenges arising from the digitalisation and globalisation of the economy. The Organisation for Economic Co-operation and Development subsequently released the Global Anti-Base Erosion Model Rules under Pillar Two in December 2021, followed by its commentary published in March 2022. Technical details of the building blocks under Pillar One are also in the pipeline. The Financial Services and the Treasury Bureau has collected views from stakeholders on the implementation of the two-pillar solution and is closely watching the latest progress of other jurisdictions in the implementation of global minimum tax rate. The Government is pressing ahead with the preparatory work in relation to the consultation and legislative exercises. The target is to introduce an amendment bill into the Legislative Council in 2023 to implement the global minimum tax rate and other relevant requirements in accordance with international consensus.

Hong Kong has also engaged in active dialogue with the European Union (EU) to address its concern over Hong Kong's foreign source income exemption regime. In response to the EU's inclusion of Hong Kong in its watchlist on tax co-operation, and under the premise of supporting the combating of cross-border tax evasion, the Government introduced the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Bill 2022 into the Legislative Council to refine Hong Kong's foreign source income exemption regime for specified passive income.

Apart from the above, Hong Kong has continued the efforts to expand its tax treaty network and has conducted negotiations of tax treaties with Cyprus, the Kyrgyz Republic, Mauritius, Nigeria and Ukraine during the year 2021-22.

The Department has to keep pace with the rapid development of information technology. In 2021-22, a number of new electronic services were launched. A real time interactive service, a Chatbot named “Iris”, has been available on our website since April 2021 to provide round-the-clock instant service in answering general enquiries relating to tax matters of individuals. Through the Internet, employers can now apply for preparation of IR56 Forms in accordance with the Department’s specifications by using self-developed software. Besides, the online service for applications for duplicate of valid business registration certificates via GovHK has been enhanced. Applicants can download the duplicates instantly after completing the applications online. The Department is now implementing development and enhancement for the database, management systems and electronic service platforms with a view to further improving work efficiency and quality of services, as well as facilitating the assessing work in relation to the upcoming new international tax standards and rules.

This year is the 75th anniversary of the Department’s establishment. With the development of society and changes in the business environment, the Department has continuously reviewed internal operations, streamlined work processes and made good use of information technology as so to carry out tax administration duties efficiently and cost-effectively. The achievement of the Department today is attributable to my colleagues’ devotion to work, striving for success and navigating challenges over the years. I would like to express my heartfelt thanks to all my colleagues. I am also very grateful to all working parties and those involved in taxation work for their unfailing support, assistance and contributions provided to the Department throughout the years.



The Department’s offices will be relocated to the Inland Revenue Centre in Kai Tak, Kowloon, by phases from late 2022 to early 2023. To celebrate the Department’s 75th anniversary, an exhibition will be held in the new office building to allow colleagues and the public to review the Department’s history and evolution of electronic services as well as to introduce our future development.

We look forward to continuing provision of quality services to taxpayers and members of the public in the new environment.

TAM Tai-pang
Commissioner of Inland Revenue