Press Conference 4 May 2015

The Gist of CIR's Speech

I shall speak mainly on 5 topics: matters relating to this year's individuals tax returns, waiving stamp duty for the transfer of all exchange traded funds, automatic exchange of tax information, the Fourth Protocol to the Comprehensive Double Taxation Arrangement between the Mainland and Hong Kong and the revenue collections in 2014-15.

2014/15 Tax Returns for Individuals

Today, the IRD is sending out 2.48 million individuals tax returns for the year of assessment 2014/15.

In the Budget for this year, the Financial Secretary has proposed to increase the child allowance and the additional child allowance in the year of birth. Besides, he has proposed a one-off reduction of 75% of the profits tax, salaries tax and tax under personal assessment for the year of assessment 2014/15, subject to a ceiling of $20,000 per case.

The Government has started the legislative amendment exercise for these proposals. After enactment of the relevant legislation, the IRD will effect the 2014/15 tax reduction in this year's tax bills, and will automatically apply the new allowances, if applicable, in calculating the 2015/16 provisional tax. Taxpayers should complete their tax returns as usual. No application is required for the proposed tax reduction.

A one-month period is allowed for filing individuals tax returns. The deadline is 4 June 2015. For sole proprietors of unincorporated businesses, a three-month period is allowed, i.e. the filing deadline is 4 August 2015. For on-line filing via eTAX, all taxpayers will get an automatic extension of 1 month.

Now, I will report the progress of some major work of the Department.

Waiving stamp duty for transfer of all exchange traded funds (ETFs)

The ETF sector is one of the key components of the asset management industry worldwide and has been growing rapidly. Since 2010, the Government has extended the stamp duty remission to ETFs that comprised not more than 40 per cent Hong Kong stocks. The number of ETFs listed in Hong Kong increased substantially from 69 at end-2010 to 122 at end-2014.

The Government proposed in the 2014-15 Budget to waive the stamp duty for the transfer of all ETF shares or units. The ETF stamp duty waiver seeks to promote the development, management and trading of ETFs in Hong Kong. The relevant Stamp Duty Amendment Ordinance was published in the Gazette on 13 February 2015. Starting from that day, stamp duty is waived for the transfer of shares or units of all ETFs.

Latest International Development on EoI - Automatic EoI

In July 2014, the OECD released the "Standard for Automatic Exchange of Financial Account Information in Tax Matters". The OECD Global Forum on Transparency and Exchange of Information for Tax Purposes ("Global Forum") has invited all its members, including Hong Kong, to commit to implementing the global standard.

In mid-September 2014, Hong Kong indicated to the Global Forum its support for implementing the new global standard on a reciprocal basis with a view to commencing the first information exchange by the end of 2018, on the condition that Hong Kong will put in place necessary domestic legislation by 2017.

In order to allow time for the financial institutions in Hong Kong to collect information for reporting to the IRD in 2018, we plan to introduce an amendment bill in the Legislative Council in early 2016. The Government on 24 April 2015 launched a consultation exercise to gauge views on proposals to apply, with adaptations for Hong Kong, the prevailing international standards on the automatic exchange of financial account information in tax matters. The consultation will end on 30 June 2015.

Avoidance of Double Taxation

Since the signing of the Arrangement for the Avoidance of Double Taxation and Prevention of Fiscal Evasion with respect to Taxes on Income between the Mainland and Hong Kong ("the Arrangement") in 2006, the tax authorities of the two sides maintain close dialogue to resolve issues encountered in the implementation of the Arrangement.

The Mainland and Hong Kong signed the Fourth Protocol to the Arrangement ("the Fourth Protocol") on 1 April 2015 to enhance the Arrangement. The Fourth Protocol revises some of the provisions in the Arrangement:

1. Regarding the gains derived from the transfer of shares listed on the stock markets of Hong Kong and the Mainland, both sides agreed to add a new provision to clearly set out their residents' tax liabilities in the other side, which would provide certainty in the application of the Arrangement. Under this new provision, the gains derived by a Hong Kong resident from the purchase and sale of shares on the Mainland stock market shall be taxable only in Hong Kong. The Fourth Protocol also clearly defines the criteria for investment funds to obtain the status of Hong Kong resident investment funds, as well as providing that those investment funds fulfilling these criteria will be eligible for the treatment mentioned above.

2. The withholding tax rate on rent paid in respect of aircraft and ship leasing business, currently capped at seven per cent, will be further reduced to five per cent.

3. The tax types covered by the exchange of information article of the Arrangement will be expanded. This amendment brings the Arrangement in line with the international norm.

The Fourth Protocol will come into force after the completion of ratification procedures and notification by both sides.

IRD Revenue Collections

Lastly, I will give an account of the revenue collections by the IRD in the year 2014-15, and the forecast collection for the coming year.

In the year 2014-15, the IRD collected $301.9 billion which is $58.4 billion above that of last year. Profits tax collection increased by 14% to $137.8 billion, while salaries tax collection increased by 7% to $59.3 billion. Stamp duty increased by 80% to $74.8 billion.

In the coming year, the forecast total revenue collection is $267.0 billion.

Hope you will find the information sheets on revenue collections helpful.

Thank you.