

CHAPTER 1

BACKGROUND

Globalisation of the financial sector now makes it much easier for individuals and entities to hold money and assets outside of their jurisdiction of tax residence. While the great majority comply with their tax obligations there are some who will use the availability of offshore financial structures to evade tax.

2. AEOI is about improving transparency in the fight against tax evasion and in so doing protecting the integrity of the tax systems of the participating jurisdictions. As a responsible member of the international community and a leading financial centre, Hong Kong indicated in September 2014 our commitment to implement AEOI on a reciprocal basis and commence the first information exchanges by the end of 2018. To implement AEOI, Hong Kong will sign a number of bilateral competent authority agreements designed to provide tax administrations with details of financial accounts and assets, owned by individuals and entities that are resident for tax purposes in their jurisdiction, but which are held by financial institutions in the other territory.

3. For this to work the Government of the HKSAR has introduced legislation that imposes obligations on Hong Kong financial sector to review and collect details of accounts held by persons that are tax residents of reportable jurisdictions and report this to the IRD for onward transmission under the exchange of information articles in the various treaties to which Hong Kong is a party. In return, those jurisdictions supply the IRD with similar information on Hong Kong tax resident individuals and entities holding accounts with their financial institutions.

4. Hong Kong has now legislation in place for AEOI. The Inland Revenue (Amendment) (No. 3) Ordinance 2016 has introduced the relevant provisions to the IRO, incorporating the CRS developed by the OECD.

5. The IRD is responsible for ensuring that Hong Kong financial institutions comply with their obligations under the relevant legislation. This Guidance is intended to provide Hong Kong financial institutions with an understanding of the requirements that must be fulfilled to comply with those obligations and to aid businesses that may have responsibilities to review, collect and report information under the legislation. It is also intended as a reference source for Hong Kong financial institutions, tax, compliance and legal professionals for use alongside the Commentaries to the CRS, CRS-related Frequently Asked Questions or CRS Implementation Handbook published by the OECD.

Overview of AEOI

6. The whole process of identification and reporting of reportable accounts maintained by reporting financial institutions can be broken down in five steps, which are depicted in the table below. Each of these steps is described in this Guidance.

