Amendments to the Inland Revenue Ordinance for Enhancing Hong Kong's Administrative Framework for the Automatic Exchange of Information in Tax Matters

Frequently Asked Questions

1. What is automatic exchange of information in tax matters ("AEOI")?

AEOI is initiated by the Organisation for Economic Co-operation and Development ("OECD") to enhance international tax transparency and combat cross-border tax evasion. Under the existing mechanism, reporting financial institutions ("RFIs") in Hong Kong (mainly referring to banks, securities firms, insurance companies and investment funds) are required to collect account information of financial account holders who are residents of foreign tax jurisdictions and report such information to the Inland Revenue Department ("IRD") under the Common Reporting Standard ("CRS") developed by OECD. Each year, IRD will conduct AEOI with partner jurisdictions on a reciprocal basis and on the premise of data confidentiality and security, so as to assist relevant tax authorities in detecting and combating tax evasion in relation to their tax residents.

"Automatic exchange" does not imply that the tax information will be circulated freely across tax jurisdictions. IRD will only transmit data to the jurisdiction of residence of the relevant tax resident. If a financial account holder is solely a Hong Kong tax resident, the resident's account information will not be reported to IRD for exchange purposes.

2. What is the objective of this amendment exercise?

Since 2024, OECD has conducted a peer review on the effectiveness of the implementation of existing AEOI regime in Hong Kong. OECD considered that Hong Kong should strengthen the identification of RFIs and enhance penalties to increase deterrence.

The Inland Revenue (Amendment) (Automatic Exchange of Information) Bill 2026 ("the Bill") was introduced into the Legislative Council ("LegCo") on 1 April 2026 to enhance Hong Kong's existing AEOI administrative framework with a view to responding in a timely manner to the comments made by OECD and maintaining a favourable rating in the peer review. If we cannot obtain a favourable rating, Hong Kong may be listed as an uncooperative tax jurisdiction by other jurisdictions. In that case, Hong Kong-based enterprises may be subject to greater reporting / compliance burden or higher withholding tax rate imposed by other jurisdictions.

3. What are the legislative proposals under the Bill? Who are the stakeholders that will be affected by the proposals?

Our proposals for amending the Inland Revenue Ordinance (Cap. 112) ("IRO") include –

- Introducing a mandatory registration requirement: Regardless of whether an RFI has financial account information to report to IRD, RFIs must register with IRD to enable IRD to ascertain the total number of RFIs in Hong Kong. The proposal will not broaden or change the scope of RFIs.

- Optimising the requirements for maintaining due diligence-related records: All RFIs must maintain adequate records for at least 6 years, regardless of whether the relevant entity has been dissolved or remains an RFI. There are similar requirements under the Companies Ordinance (Cap. 622).

- Enhancing penalties: Introducing penalties for new offences (e.g. failure to register, provision of incorrect or incomplete information, and failure to notify IRD within a specified time limit of specific circumstances); introducing penalties calculated on the basis of the number of financial accounts involved for certain existing offences (e.g. failure to comply with due diligence requirements); and putting in place an "administrative penalty" mechanism in lieu of prosecution to enhance the efficiency of case handling.

4. **What is the "administrative penalty" mechanism? How will it be implemented? How will the rights of RFIs and relevant persons be protected?**

   To improve the timeliness and cost-effectiveness of penalty actions, we will put in place an "administrative penalty" mechanism as an alternative to prosecution, modelling upon the current "additional tax" mechanism under IRO. Where an RFI commits certain offences without reasonable excuse, it can be liable to an administrative penalty in lieu of prosecution in respect of the same facts for which no prosecution has been initiated. The amount of the administrative penalty will not exceed the fine that would have been imposed had prosecution been instituted for such an offence. An assessment of administrative penalty can only be made by the Commissioner of Inland Revenue or a Deputy Commissioner of Inland Revenue. The person concerned has the right to submit written representation to explain his or her case before an assessment of administrative penalty is made and has the right to appeal to the independent Board of Review on the assessment. After the person concerned has been imposed an administrative penalty, the Government will not initiate prosecution in respect of the same facts.

5. **Can RFIs engage other service providers to carry out their obligations under the AEOI regime?**

   Under the existing provisions, RFIs can engage service providers to carry out various obligations on their behalf, including due diligence and return filing obligations. Our proposal will also allow service providers to register an AEOI account with IRD on behalf of RFIs.

   Under the new recording keeping requirement, every person who was a director (or a trustee or person who was responsible for the management) of the RFI immediately before its dissolution (i.e. specified officer) is required to ensure that sufficient records of the RFI are kept until the end of the retention period. The specified officer can also appoint a third-party custodian to keep the relevant records. Such arrangements, however, will not transfer the compliance obligations to the service providers or custodians. The RFIs or the specified officers remain responsible for the relevant requirements.

6. How will RFIs and/or their service providers be penalised for non-compliance of the registration and record keeping requirements?

Offences	Penalties
Failure to register an account with IRD without reasonable excuse	**RFIs**: Liable to a fine at level 3 ($10,000), and a further fine of $500 for each day of continuing offence after conviction (new penalty) **Service providers** (e.g. fail to register in accordance with the instruction of an RFI): Liable to a fine at level 3 ($10,000) (new penalty)
Failure to keep sufficient records for a specified period without reasonable excuse	**RFIs:** Liable to a fine at level 3 ($10,000) (existing penalty – unchanged) **Dissolved RFIs:** Directors (or trustees or persons who were responsible for the management) of RFIs immediately before dissolution (i.e. specified officers) will be liable to a fine at level 3 ($10,000) (new penalty, the obligation solely falls on specified officers)

7. When are RFIs required to fulfil the new requirements?

If passed by LegCo, the Bill will be implemented starting from 1 January 2027. Regarding the mandatory registration requirement, existing RFIs are required to register with IRD by 31 March 2027. Financial institutions becoming RFIs from 1 January 2027 onwards are required to register with IRD by 31 January of the year following the year in which they first become RFIs.

8. How will IRD assist the industry in fulfilling the new requirements?

To assist the industry in adapting to the new requirements, IRD will issue and update relevant guidelines and frequently asked questions as appropriate, provide technical support to the industry and answer enquiries. IRD will also provide a self-assessment tool on its website to assist different entities in determining whether they meet the definition of an RFI under IRO and whether they are required to fulfil the relevant obligations.

IRD will also enhance the current login mechanism of the AEOI Portal to provide simplified arrangements, such that RFIs that do not maintain any reportable accounts or their service providers can access the AEOI Portal by logging in to the New Tax Portals of IRD, thereby relieving them of the need to make another account registration.

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