

Press release

LCQ11: Competitiveness of Hong Kong's taxation regime

Wednesday, May 12, 2010

Following is a question by the Hon Chan Kin-por and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (May 12):

Question:

It was reported that when the Group of Twenty (G20), which mainly comprises European and American countries, convened a meeting in April last year to discuss measures against tax havens, it had proposed to put Hong Kong on the list of tax havens, but as a result of China's opposition, Hong Kong was finally not put on the list; according to the consensus reached by G20, different tax jurisdictions are required to enhance their tax transparency before March this year pursuant to the requirements of the Organisation for Economic Co-operation and Development (OECD), and to sign avoidance of double taxation agreements with 12 jurisdictions, so as to enable exchange of taxpayers' information among jurisdictions. Yet, as Hong Kong has not yet met such requirements at present, G20 members may impose sanctions on Hong Kong, which will seriously affect Hong Kong's economic development and reputation. In this connection, will the Government inform this Council:

- (a) whether it will formulate new measures to meet the aforesaid requirements of OECD, so as to prevent Hong Kong from being put on OECD's list of tax havens; if it will, of the contents of the measures; if not, the reasons for that;
- (b) given that it was reported that Singapore, which is Hong Kong's major competitor, has signed avoidance of double taxation agreements with more than 60 countries, and has an edge over Hong Kong in international tax relations, what measures the Government will take to maintain Hong Kong's competitiveness; and
- (c) how it will assess the possibility of Hong Kong being put on the list of tax havens by OECD in the medium or long term, and of its impact on Hong Kong's economic development?

Reply:

President,

My answers to parts (a) to (c) of the question are set out below:

Hong Kong has been very supportive of efforts by the international community to promote transparency in tax administration. As early as in 2005, Hong Kong endorsed openly the principles of tax transparency of the Organisation for Economic Co-operation and Development (OECD) at its Global Forum on Taxation. In an article published in May 2009, the Director of the OECD's Centre for Tax Policy and Administration commended Hong Kong's efforts to comply with the international standards on tax transparency and exchange of information (EoI) while pointing out that Hong Kong is not a tax haven according to the OECD criteria. Subsequently, in its September 2009 report, the OECD vindicated again that Hong Kong is not a tax haven and recognised Hong Kong's commitments to the OECD standards.

In fact, since 1998, the Government has been seeking to conclude comprehensive avoidance of double taxation agreements (CDTAs) with our major trading partners as a business facilitation initiative. In the past, Hong Kong could not adopt the OECD latest version of EoI provision due to the legal constraint on the information gathering power of the Inland Revenue Department (IRD). This was a major obstacle in our CDTA discussions.

In view of this, we consulted the business and professional sectors on the liberalisation of EoI under CDTAs in 2005 and 2008. In the 2008 consultation, the trade generally agreed that Hong Kong should align its EoI arrangements with international standards so that we could enter into more CDTAs. The Financial Secretary soon announced in the 2009-10 Budget the Government's plan to put forward legislative proposals to align Hong Kong's EoI arrangements with international standards and to expand our CDTA network. The Government then carried out the legislative amendment exercise swiftly. The Inland Revenue (Amendment) Ordinance 2010 took effect in March 2010, allowing IRD to collect and disclose a taxpayer's information in response to requests made by our treaty partners even when the information is not required for domestic tax purposes. In other words, we can adopt the prevailing OECD EoI standard in our CDTAs.

After the coming into effect of the Inland Revenue (Amendment) Ordinance 2010, we have been actively conducting CDTA negotiations with our trading partners. In March this year, we signed CDTAs with Brunei Darussalam, the Netherlands and Indonesia respectively. Moreover, we have reached agreement on CDTAs with seven countries (including Austria, France, Hungary, Ireland, Japan, Switzerland and Liechtenstein). At the same time, we are also conducting CDTA negotiations with a number of other countries and discussing with existing treaty partners (including Mainland China, Vietnam, Belgium and Luxembourg) to upgrade the EoI article to the OECD latest version.

As pointed out by the Financial Secretary in the 2009-10 Budget, CDTAs with major economies would help reduce tax burdens on individuals and enterprises and eliminate uncertainties over tax liabilities. This would improve business environment and facilitate flows of trade, investment and talent between Hong Kong and the rest of the world, thereby enhancing Hong Kong's position as an international business and financial centre. Hong Kong has never been a tax haven. We will continue to expand our CDTA network with a view to enhancing Hong Kong's position as an international financial and business centre.

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