

Speech

Speech by SFST at Taxation Institute of Hong Kong 2015 CTA Conference (English only)

Friday, November 20, 2015

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Taxation Institute of Hong Kong 2015 CTA Conference on "Positions of Hong Kong and China under the Global Tax Development" today (November 20):

Karmen (Yeung), distinguished guests, ladies and gentlemen,

Good morning. I am glad to join you all today at the CTA Conference 2015. Focusing on the "Positions of Hong Kong and China under the Global Tax Development", the conference has a rich and packed programme. The same also holds true for the international tax agenda. Indeed, a discussion on "global tax development" cannot be timelier these days.

The international tax landscape has been evolving very rapidly in recent years. Protection of revenue by combatting cross-border tax avoidance and tax evasion is no longer the concern of individual economies, but is high on the agenda of major international bodies such as the G20 and OECD.

In a globalised world, the wave of changes will bring challenges and opportunities to each and every member of the international community, including China and Hong Kong. For Hong Kong, as an international financial centre and a co-operative and responsible member of the international community, we can ill afford not to adapt to the rapidly evolving situation and catch up with the latest global developments.

One of the major initiatives we are working on at full steam is no doubt the implementation of the AEOI, or Automatic Exchange in Financial Account Information in Tax Matters. Last July, the new standard on the AEOI was promulgated by the OECD. Things have been moving very rapidly since then. The number of jurisdictions committed to implementing the AEOI has by now risen to over 90. And for Hong Kong, we made our own commitment in September last year.

Our commitment is to conduct the first automatic exchanges with appropriate partners by the end of 2018, provided that the local legislation can be put in place by 2017. The window for the legislation is actually narrower, as we need to leave adequate time for negotiation on competent authority agreements and due diligence by financial institutions before any automatic exchanges can actually be carried out.

With such a tight timetable, we have already conducted a round of consultation from April to June this year. We would like to thank our stakeholders, including of course the Taxation Institute of Hong Kong, for their support for our general direction, and their valuable views on our proposed framework. We are finalising our legislative proposals, taking into account the views and suggestions received, and aim to introduce the bill to the Legislative Council in early 2016. We look forward to the timely and smooth passage of the bill.

While we are still working hard on the AEOI, the international limelight has increasingly shifted to Base Erosion and Profit Shifting or BEPS. Our Financial Secretary took part, as a member of the Chinese delegation, in the G20 Leaders' Summit just held in Turkey. A major highlight of the Summit this year is the formal endorsement of the final BEPS package released by the OECD a month ago. Indeed, BEPS is the very topic of the following session of this conference, after the keynote speech, and its importance to the tax profession needs no more emphasis.

The package, which covers 15 areas, seeks to ensure that multinational corporations pay a fair share of taxes, re-align taxation with economic activities, and standardise international tax rules to eliminate double non-taxation.

Once again, in Hong Kong we cannot distance ourselves from the BEPS package. The Government has already started to analyse issues relevant to Hong Kong and to map out our priorities. We are keeping a close eye on new developments to make sure that our tax regime can catch up with global trends, and we will engage the stakeholders and prepare legislation where appropriate.

As we take forward the matter, we will not compromise our commitment to a simple and low tax regime, a cornerstone of Hong Kong's success and competitiveness.

Meanwhile, we will continue to do our best to expand our network of comprehensive avoidance of double tax agreements (CDTAs). I am glad to announce that we have just signed the 33rd CDTA this week, which is with Romania. Negotiations with some other jurisdictions are ongoing, and we look forward to the early conclusion and signing of more CDTAs.

Hong Kong will also stay vigilant against any unfounded allegation accusing us of being a "non-cooperative tax jurisdiction" or, more blatantly, a "tax haven", as such most unwelcome labels can fall on us at any time. When the European Commission (EC) published a blacklist of this kind in June 2015 and unilaterally included Hong Kong, we gave a very robust response to refute the allegation and took up the matter with the EC both in Brussels and through its representative in Hong Kong. While the EC made a technical update in October to rectify the errors in the original list, the Government will continue to follow up the matter and view any further developments closely.

We may say that international tax co-operation is on "turbo" and, looking ahead, it will continue to accelerate. New standards and new rules will be drawn up, probably more frequently, along with tighter monitoring on compliance.

Hong Kong has been practising a simple and territorial-based tax regime, and the challenges we are facing cannot be underestimated. We have to make timely and appropriate amendments to our tax law, so as to bring it up to meeting the various new requirements. In so doing, we would also need to be mindful of not causing an unnecessary compliance burden on our taxpayers.

While challenges abound, they also open doors to new opportunities. A fairer international tax environment would help enhance Hong Kong's competitiveness, and give us better safeguards against harmful tax practices.

Looking ahead, the implementation of the AEOI and BEPS measures will bring our tax regime into a new era. Along with many economies, Hong Kong has to get prepared for the ongoing dynamics of the global tax environment. The Government will be working hard, as always. We also trust that we can continue to count on the support, insight and wisdom of our tax profession, in meeting the challenges ahead and embracing the opportunities

arising.

Thank you.

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