Speech

Speech by SFST at Asia-Oceania Tax Consultants' Association International Tax Conference cum Hong Kong Certified Tax Advisors Conference 2016 (English only)

Thursday, October 6, 2016

Following is the speech by the Secretary for Financial Services and the Treasury, Professor K C Chan, at the Asia-Oceania Tax Consultants' Association International Tax Conference cum Hong Kong Certified Tax Advisors Conference 2016 today (October 6):

Mr Ikeda (President of the Asia-Oceania Tax Consultants' Association, Mr Toshihiro Ikeda), Karmen (President of the Taxation Institute of Hong Kong, Ms Karmen Yeung), distinguished guests, ladies and gentlemen,

Good afternoon.

I am pleased to join you all today at the Asia-Oceania Tax Consultants' Association (AOTCA) International Tax Conference cum Hong Kong Certified Tax Advisors Conference. I would like to welcome representatives from various tax jurisdictions for joining us in Hong Kong.

Founded in 1992, the AOTCA embraces 21 professional bodies of tax practitioners and accountants from 15 tax jurisdictions in Asia and Oceania, including Hong Kong. It is one of the renowned associations for the tax profession in the region. Hong Kong is most privileged to host the AOTCA international tax conference again, 10 years after it was last held here in 2006.

Over the past decade, the world economy has undergone significant ups and downs, and the financial tsunami in 2008 was a particularly testing time. Despite all the challenges, Hong Kong remains a vibrant business hub and an international financial centre. Our economic freedom and competitiveness have earned us high regards from the international community. The report released by the Fraser Institute last month ranked Hong Kong as the world's freest economy once again. The same top ranking on economic freedom was accorded by the Heritage Foundation for 22 consecutive years. The 2016 World Competitiveness Yearbook released this June by the International Institute for Management Development also honoured Hong Kong as the most competitive economy.

One key cornerstone of Hong Kong's success and competitiveness is no doubt our simple and low tax regime. Hong Kong practises an independent taxation system and enacts tax laws on its own, as guaranteed by the Basic Law, our mini-constitution after our return to China. The profits tax rate for corporations is only 16.5 per cent, which is one of the lowest in the region. We are pleased to note that the World Bank's Doing Business 2016 Report ranked Hong Kong as the fourth friendliest place in terms of "paying taxes", among the 189 economies covered by the study.

The past decade also witnessed a sweeping growth in international aspiration for closer co-operation to enhance tax transparency and combat cross-border tax evasion. Hong Kong, as an international financial centre and a responsible member of the international community, has been making continued efforts to move forward with the rapidly evolving international landscape of tax co-operation.

When AOTCA hosted its international tax conference here in 2006, we had only signed three comprehensive avoidance of double taxation agreements (CDTAs). By now, the number reaches 35, including the two agreements signed earlier this year with Russia and Latvia respectively. The rising figure testifies to our strong commitment over these years to expand the tax treaty network with our major trading and investment partners, as well as emerging economies. All CDTAs signed embody a mechanism for exchange of information with our treaty partners, in line with the international standards.

For friends from Korea, you may notice the latest news that the CDTA with Korea came into force last week upon completion of ratification procedures on both sides. The HKSAR Government will continue to make its best endeavour to expand Hong Kong's CDTA network, in particular with economies along the Belt and Road corridors. This would put Hong Kong in a more strategic position to foster ties with those economies and tap the enormous business opportunities arising from the visionary initiative of Belt and Road.

Aside from CDTAs, we amended our tax law in 2013 so that we can enter into tax information exchange agreements (TIEAs) with other jurisdictions, in the light of the international requirement for a jurisdiction to make available both CDTAs and TIEAs as instruments for exchange of information. By now, Hong Kong has signed a total of seven TIEAs.

Our efforts are well recognised by the 120-strong Global Forum on Transparency and Exchange of Information. The peer review by the Global Forum, with Phase 1 and Phase 2 completed in 2011 and 2013 respectively, duly recognised Hong Kong's commitment to meeting the international standards on tax transparency.

The international discussion on tax transparency keeps on moving ahead and the standards on exchange of information continue to evolve. One of our key priorities over the past two years is the implementation of automatic exchange of financial account information in tax matters, or AEOI in short.

Shortly after OECD's release of the AEOI standard, Hong Kong pledged our support in September 2014 for implementing the new global standard on a reciprocal basis with appropriate partners, with a view to commencing the first automatic exchanges by the end of 2018. We are pleased to have secured the passage of the local legislation this June, so as to put in place the legal framework required.

We have approached a few of our CDTA partners for AEOI negotiation, and aim to publish the first batch of reportable jurisdictions for AEOI purposes by the end of this month. Subject to vetting of the list by our Legislative Council, financial institutions will start conducting the due diligence procedures to identify and collect information of the financial accounts in 2017. They will furnish the information to the Inland Revenue Department in 2018 for transmission to the AEOI partners concerned.

Timely implementation of AEOI is important for Hong Kong to meet the international standard and uphold our reputation as an international financial centre. We are fully aware of the international aspiration to move towards a widespread automatic exchange of information, and are mapping out a comprehensive programme for AEOI negotiation from 2017 onwards.

Much has been said about AEOI. Things are also moving quickly on other fronts. The term "BEPS", or "base erosion and profits shifting" in full, has become a hot item on the agenda of international tax co-operation over the past few years. According to OECD's conservative estimate, BEPS give rise to a loss of anywhere from 4 to 10 per cent of global corporate income tax revenues, i.e. US$100 billion to US$240 billion annually.

The concerns raised by the international community on BEPS are not unwarranted. The conventional set of international tax rules has become increasingly inadequate to cope with the challenges on taxation arising from rapid globalisation and other new developments such as proliferation of e-commerce. The need to tackle the situation is more imminent at a time when many governments are struggling with budget deficits and working hard to make ends meet. BEPS calls for a global solution with joint efforts by various jurisdictions.

The BEPS package developed by OECD was endorsed by the Group of Twenty (G20) in November 2015. It is revolutionary in both depth and width. Covering a total of 15 areas, the BEPS package seeks to ensure that multinational corporations pay a fair share of taxes in respect of their profits, and to plug the loophole of "double non-taxation" among jurisdictions.

The BEPS package has set in motion the wheels to tighten the screws of the international tax rules. All jurisdictions are expected to implement the BEPS package. Hong Kong is prepared to join this drive.

We have been keeping a close watch on the developments. This June, Hong Kong joined, in the name of "Hong Kong, China", as an Associate in the inclusive framework for implementation of the BEPS package. As an Associate, Hong Kong has become a member of the BEPS Project and is working on an equal footing with OECD, G20 and many other countries and jurisdictions to implement the BEPS package and to develop standards.

Hong Kong has committed to the comprehensive BEPS package, including its minimum standards and its consistent implementation. These minimum standards cover the four areas of treaty shopping, country-by-country reporting, dispute resolution and harmful tax practices. The HKSAR Government has been conducting analysis on the BEPS package, with a view to mapping out our work priorities. We will consult the industry shortly on the strategy for implementing the relevant proposals and prepare for taking forward the necessary legislative amendments.

Meanwhile, Hong Kong is also taking part, as an observer, in the Ad Hoc Group tasked to develop a multilateral instrument for implementing the BEPS treaty-related measures and amending bilateral tax treaties. The instrument aims to provide an efficient and effective mechanism to implement the tax-treaty related measures resulting from the BEPS Project. The Ad Hoc Group aims to conclude its work and open the multilateral instrument for signature by December 31, 2016.

For a jurisdiction like Hong Kong, which has been maintaining a simple tax regime, implementation of the BEPS package will give rise to new rules and regulations, thus inevitably complicating our tax regime. How to strike a balance between compliance with international standards and minimising compliance burdens of taxpayers is a crucial issue close to our heart. In taking forward the exercise, we would listen to the views of the stakeholders, make reference to the overseas practices, and handle the implementation issues carefully.

We also need to compete with time, as we have to amend the tax law in time. Noting the timing of implementation may vary to reflect the level of development of countries and jurisdictions, Hong Kong's commitment to implement the BEPS package is subject to timely passage of the necessary legislative amendments. In coming up with the timelines for implementation, we will take into account relevant factors such as the characteristics of the domestic tax regime, the envisaged magnitude of legislative changes involved and the practical need to prioritise amongst the BEPS measures.

Opportunities come with challenges for the post-BEPS world. With fairer tax rules on the international plane, they can help ensure that profits are taxed where economic activities take place and value is created. This is in line with our ongoing efforts to preserve the revenue base. Moreover, global efforts to combat harmful tax practices can provide Hong Kong with better safeguards against harmful tax practices, and a more level playing field for all.

We also hope that the measures in the BEPS package can plug the loopholes of tax treaty abuse and hence encourage more jurisdictions to take a more forthcoming approach in pursuing CDTA discussions with other jurisdictions. This will in turn support our efforts to expand the CDTA network, as I mentioned earlier.

With the recent setting up of the inclusive framework for BEPS implementation, it is most timely for the tax professions of different places to exchange views, share insights, and learn from the experience of others in the post-BEPS world. Looking ahead, the engine of international tax co-operation would not stop with BEPS. Following AEOI and BEPS, new acronyms coining new international initiatives will not be far away. Foresight and wisdom from the profession would be most valuable.

This conference provides the most appropriate platform for exchange and cross-fertilisation of innovative ideas. I would like to thank the Taxation Institute of Hong Kong for organising the event. I wish you all a fruitful conference.

Thank you.

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