

Press release

LCQ13: Prevention of tax base erosion and profit shifting

Wednesday, November 20, 2013

Following is a question by the Hon Kenneth Leung and a written reply by the Secretary for Financial Services and the Treasury, Professor K C Chan, in the Legislative Council today (November 20):

Question:

In July 2013, the Organisation for Economic Co-operation and Development launched an Action Plan on Base Erosion and Profit Shifting, identifying 15 specific actions needed to tackle aggressive tax planning in respect of profits being shifted to locations where there is little or no real activity but the taxes are low, resulting in little or no overall corporate tax being paid. The Action Plan was endorsed by the Finance Ministers of the Group of Twenty (G20) at their July 2013 meeting in Moscow as well as the G20 heads of state at their meeting in Saint Petersburg in September 2013. In this connection, will the Government inform this Council:

- (a) what actions it has taken to complement the Action Plan; and
- (b) whether it has imminent plans to introduce a more comprehensive transfer pricing regime into the Inland Revenue Ordinance (Cap. 112) to replace the current departmental practice note 46 issued by the Inland Revenue Department?

Reply:

President,

(a) Hong Kong has been closely monitoring the latest development in respect of the Action Plan on Base Erosion and Profit Shifting initiated by the Organisation for Economic Co-operation and Development (OECD). In the light of development, we will embark on studies and engage local stakeholders for appropriate follow-up actions in due course.

(b) Currently, the Inland Revenue Department (IRD) has set out in its Departmental Interpretation and Practice Notes No. 46 the methodologies and practices adopted for dealing with transfer pricing issues. The basis of operation generally follows the guiding principles provided in the OECD Transfer Pricing Guidelines. The regime has

been operating well since implementation in 2009. IRD has no plan at this juncture to change the current practices. Nonetheless, IRD will closely monitor international development in this respect, including OECD's discussions, with a view to assessing the need for introducing corresponding measures. We will consult local stakeholders in due course.

Ends