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SECRETARY FOR FINANCIAL
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24/F, Central Government Offices
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Dear all,

Latest update on implementation of the Organisation for Economic Co-operation and Development (OECD)'s international tax reform package to tackle base erosion and profit shifting in the context of the digitalisation of the economy (BEPS 2.0)

I am writing to provide you with an update on the latest progress of our work to implement Pillar Two of BEPS 2.0, which seeks to introduce a global minimum effective tax through the Income Inclusion Rule (IIR) and the Undertaxed Payment Rule (UTPR), and the work ahead in the coming months.

According to its statement in October 2021, the OECD's original timeline for implementing Pillar Two of BEPS 2.0 was for jurisdictions to bring the global minimum effective tax into law in 2022 to be effective in 2023, with the UTPR coming into effect in 2024. However, in its recent report to G20 finance ministers and central bank governors on 11 July 2022, the OECD acknowledges that there is a slight delay in the implementation of Pillar Two, with most jurisdictions now planning for an entry into force of Pillar Two in 2024.

Hong Kong has all along been fully committed to implementing Pillar Two of BEPS 2.0. This is epitomised by our earlier plan as announced in the 2022-23 Budget to submit a legislative proposal to the Legislative Council in the second half of 2022 to implement the global minimum tax rate and other relevant requirements in accordance with international consensus, and to consider introducing a domestic minimum top-up tax (DMT) starting from the year of assessment 2024/25 to ensure that the effective tax rates of in-scope multinational enterprises (MNEs) reach the global minimum effective tax rate. At the same time, we also attach great importance to preserving the competitiveness of Hong Kong's tax regime in terms of its simplicity, transparency and certainty.

In this regard, I chaired a series of engagement sessions in early 2022 to tap the views of MNEs and business chambers on the implementation of Pillar Two in Hong Kong. During these engagement sessions, overwhelming feedback received was that Hong Kong's MNEs might be put at a disadvantaged position if we implement the global minimum tax rate ahead of other jurisdictions.

Having regard to the views collected and the latest progress of other jurisdictions in implementing Pillar Two, we now decide to defer the implementation of the IIR to 2024 at the earliest, with the necessary legislative proposal to be introduced to the Legislative Council in 2023. As for the implementation of the UTPR and by extension the proposed DMT, we will review our own plan with reference to the implementation targets of other jurisdictions.

In the coming months, we will continue to closely monitor the OECD's latest timetable on the implementation of BEPS 2.0 and the implementation plans of other jurisdictions, and keep stakeholders closely informed of our progress in bringing the BEPS 2.0 rules into effect in Hong Kong. In charting the way forward, we shall accord importance to upholding the competitiveness of Hong Kong's tax regime, and have due regard to the need for allowing sufficient time for in-scope MNEs to take steps to ensure compliance with the new tax rules. With the benefit of the Implementation Framework for the Global Anti-Base Erosion Rules under Pillar Two of BEPS 2.0, which is scheduled to be released by the OECD later this year, it is our plan to launch a consultation exercise towards the end of 2022 to gauge your views on how best to translate the

OECD rules into domestic legislation and relevant requirements for the purpose of implementing BEPS 2.0 in Hong Kong.

We look forward to continuing to work closely with you to pave way for the smooth implementation of Pillar Two in Hong Kong.

Yours sincerely,

(Christopher HUI)
Secretary for Financial Services and the Treasury