Bills Committee on Inland Revenue (Amendment) (No. 6) Bill 2017
Follow-up to the meeting on 21 March 2018

At the meeting on 21 March 2018, the Government was requested to consider –

(a) whether it would further relax the proposed threshold on total annual revenue from $300 million to $500 million for the purposes of exemption from transfer pricing documentation (i.e. master file and local file) requirements based on the size of business, while keeping the thresholds on total assets and staff size at $300 million and 100 respectively, and explain its considerations with reference to (i) the number of taxpaying enterprises and their contributions to profits tax in Hong Kong, (ii) the estimated number of enterprises to be relieved from the documentation requirements if the threshold is further relaxed or not, and (iii) the relevant exemption criteria and threshold levels set by other comparable tax jurisdictions (such as Singapore) for transfer pricing ("TP") documentation;

(b) the justifications, with reference to the relevant parts of the transfer pricing guidelines or other document(s) of the Organisation for Economic Co-operation and Development ("OECD"), for introducing the proposed section 15F (sums derived from intellectual property ("IP") by non-Hong Kong resident associates) to the Inland Revenue Ordinance (Cap. 112) ("IRO"); and

(c) the justifications for introducing the proposed section 15BA (changes in trading stock) to the IRO; and the application of section 15BA, including its interaction with (i) case law in Hong Kong relating to the tax timing of trading stock from which profits have not yet been earned or realized and (ii) existing section 15C (valuation of trading stock on cessation of business).

Exemption thresholds for preparing master file and local file

2. In respect of Members' request to further relax the threshold on total annual revenue in respect of the exemption requirements for preparing master file and local file based on size of business from $300 million to $500 million, we consider it important to strike an

appropriate balance between maintaining the overall effectiveness of TP documentation requirements and minimising the compliance burden on the business sector. We need to **ensure that our TP documentation regime is credible and reasonable in overall terms** lest it might draw concerns from the international community on Hong Kong's commitment to putting in place a robust framework for combating base erosion and profit shifting.

3. Taking into account the considerations set out in paragraphs 4 to 9 below, we consider it **appropriate** to set the exemption threshold on total annual revenue at $300 million, which has been raised from $200 million as reported in the Government's reply to the Bills Committee on the issues raised at the meeting on 6 March 2018 (LC Paper No. CB(1)702/17-18(02)).

Impact analysis

4. The impact analysis of raising the threshold on total annual revenue is shown in the table below –

Total annual revenue exceeding ($ million)	Number of enterprises required to prepare master file and local file	Average amount of profits tax charged for each enterprise ($ million)
300	2 650	25
400	1 390	39
500	540	68

Remarks:

(1) The analysis is based on figures for the year of assessment 2015/16.

(2) The exemption thresholds on total value of assets and average number of employees remain at $300 million and 100 respectively.

(3) The Inland Revenue Department ("IRD") does not have data on the value of assets held by enterprises. The actual number of enterprises required to prepare master file and local file will be **smaller** because enterprises will be exempt from the obligation of preparing master file and local file if they fulfil two of the three exemption thresholds on asset, revenue and average number of employees.

5. **Some 2 650 enterprises** will be required to prepare the master file and local file, subject to various other exemptions currently available under the Inland Revenue (Amendment) (No. 6) Bill 2017 ("the Bill") and to be proposed by the Government[1]. Roughly speaking, less than 2% of the enterprises which pay profits tax will be affected.

[1] There are two other exemptions for master file and local file, namely exemption based on the nature and value of related party transactions, as well as the exemptions for domestic transactions between associated persons.

It would be reasonable to deduce that it is mainly those enterprises better equipped with expertise and resources which will be subject to the TP documentation requirements. We believe that the impact on the business sector has been kept to a minimum. If the threshold on total annual revenue is further raised to $500 million, only a negligible number of enterprises will need to prepare master file and local file. This would undermine the purpose of putting in place the TP documentation requirements.

6. From time to time, other jurisdictions may lodge requests to Hong Kong for exchange of information ("EoI"), which cover TP documentation, where it is foreseeably relevant to the administration and enforcement of their domestic tax laws. In the absence of a robust TP documentation regime to give IRD access to the information on material related party transactions conducted by enterprises in a timely manner, IRD will have difficulties in responding to these EoI requests within the 90-day response timeframe as stipulated by the OECD. Timely handling of EoI requests is one of the key assessment criteria for tax transparency prescribed by the OECD and the European Union. A less than satisfactory performance in handling EoI requests will raise the risk of Hong Kong being labelled by the OECD and the European Union as a non-cooperative tax jurisdiction.

Exemptions in other jurisdictions

7. Our proposed exemptions for TP documentation requirements are generally **on par with those of other tax jurisdictions in the region** (e.g. the Mainland and Singapore). Regarding master file, the Mainland has an exemption threshold of RMB 1 billion per year based on the value of related party transactions. However, such exemption does not apply in case the Mainland enterprise concerned undertakes cross-border related party transactions in the year concerned (irrespective of the value of such related party transactions) and the ultimate parent entity of the group to which the enterprise belongs also needs to prepare a master file. As regards the exemption thresholds for local file based on the nature and value of related party transactions, our proposed thresholds make reference to those adopted by the Mainland given Hong Kong's close economic relationship with the Mainland. A comparison of the exemption thresholds for local file adopted by Hong Kong and the Mainland is shown in the table below.

Nature of Related Party Transactions	Hong Kong's Proposed Thresholds (HK$ million)	Mainland's Thresholds (RMB million)
Transfer of properties (excluding financial assets and intangibles)	220	200
Transactions in respect of financial assets	110	100
Transfers of intangibles	110	100
Other transactions	44	40

8. Singapore will from the year of assessment 2019 onwards introduce statutory requirements for preparing TP documentation with exemptions based on the gross revenue of enterprises and the nature and value of related party transactions. The exemption threshold on gross revenue is set at S$10 million (approximately HK$60 million), which is lower than Hong Kong's proposed exemption threshold on total annual revenue of HK$300 million, and the exemption will not be available to an enterprise which needs to prepare TP documentation in the preceding year of assessment[2]. As for the exemption from TP documentation for specified related party transactions, Singapore's thresholds vary from S$1 million to S$15 million (approximately HK$6 million to HK$90 million) based on the nature of transactions involved such as sale and purchase of goods, provision of services, loans, grant of a right to use movable property, lease, guarantee, etc. Since the exemption mechanisms of Hong Kong[3] and Singapore are different, it is not appropriate to draw direct comparison between the two. However, we believe that our proposed exemption mechanism is simple in design and clear for the taxpayers of Hong Kong.

9. We would like to stress that different jurisdictions set their own TP documentation requirements and exemption thresholds having regard to their own circumstances. There are no hard and fast rules. We have all along been responsive to the concerns of the business sector of Hong Kong and have already introduced additional exemptions to minimise the compliance burden on the business sector, particularly small and medium enterprises.

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[2] However, if the enterprise's gross revenue is below S$10 million for three consecutive years of assessment, it will be eligible for the exemption though TP documentation is required in the preceding year of assessment.

[3] Hong Kong's exemption thresholds for four types of related party transactions vary from HK$44 million to HK$220 million, as set out in the table under paragraph 7 above.

Introduction of specific TP provisions on revenue from intellectual property

10. The proposed section 15F seeks to give effect to the guidance in Chapter VI of the *OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* published in July 2017 ("TPG 2017"). An extract of paragraphs 6.42 and 6.59 of the TPG 2017, which is relevant to section 15F, is at **Annex A**. Such guidance is developed by the OECD to ensure that profits associated with the transfer and use of intangibles are appropriately allocated among members of a multinational enterprise ("MNE") group on the basis of their contribution to value creation. The provisions in the proposed section 15F, which align taxation of income from IP with value creation contributions in Hong Kong, are consistent with the relevant requirements in TPG 2017.

11. According to TPG 2017, legal ownership of intangibles, by itself, does not confer any right to retain returns derived by the MNE group from exploiting the intangible, even though such returns may accrue to the legal owner as a result of its legal or contractual right to exploit the intangible. For example, in the case of an internally developed intangible, if the legal owner performs no relevant functions, uses no relevant assets, and assumes no relevant risks, but acts solely as a title holding entity, the legal owner will not ultimately be entitled to any portion of the return derived by the MNE group from the exploitation of the intangible other than the arm's length compensation, if any, for holding title.

12. Given the OECD's guidance above, we consider it appropriate to add the proposed section 15F to the IRO. The effect is that a person who has contributed in Hong Kong to the development, enhancement, maintenance, protection or exploitation ("relevant functions") of an IP is to be taxed on such part of the income derived from the IP as is attributable to that person's contribution in carrying out the relevant functions even if the income accrues to the person's overseas associate (i.e. the legal owner of the IP).

Application of the proposed Section 15BA

13. It is a well-accepted principle that tax computation needs to be adjusted to reflect the market value of an asset with respect to which a change of intention occurs ("market value principle"): see *Sharkey v Wernher* [1956] AC 58 and *Simmons v IRC* [1980] 1 WLR 1196[4]. This principle also applies where a trading stock is appropriated for non-trade purpose or acquired/disposed of other than in the course of trade. In Hong Kong, the market value principle has all along been applied in determining profits or loss from trading of assets for profits tax purposes. The application of this principle is accepted by the Board of Review and the courts. The decision of the Court of Final Appeal in *Church Body of the Hong Kong Sheng Kung Hui & Anor v CIR* (2016) 19 HKCFAR 54[5] is a recent example.

14. The proposed section 15BA seeks to codify the market value principle as reflected in Hong Kong's jurisprudence and the long standing tax treatments for trading of assets. No new policy is being introduced.

15. If there is a change of intention of an asset, the proposed section 15BA follows the case law to require the application of the market value principle when the change occurs. This is because when a capital asset is converted into a trading stock, the market value at the time of change needs to be taken into account for computing any balancing adjustment on the capital allowance of the asset and will serve as the cost for determining the profits or loss of the trading stock upon disposal.

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4 In *Sharkey v Wernher* [1956] AC 58, the taxpayer transferred five horses from stud farm to racing stables. The House of Lords held that where a person carrying on a trade disposes of part of his stock in trade not by way of sale in the course of trade but for his own use, enjoyment, or recreation, he must bring into his trading account for income tax purposes the market value of that stock in trade at the time of such disposition. Hence, the amount to be credited to the stud farm accounts on the transfer of the horses was their market value and not the cost of breeding them. In *Simmons v IRC* [1980] 1 WLR 1196, a group of property development companies sold various properties at profits. The House of Lords held that trading required an intention to trade and such intention might be changed. A shift of an asset from investment to trading would involve changes in the company's accounts and possibly a liability to tax. In that case, there was no evidence of a trading intention on the part of the group at any stage of the transactions. The profits arising from the transactions were not assessable to income tax.

5 In *Church Body of the Hong Kong Sheng Kung Hui & Anor v CIR* (2016) 19 HKCFAR 54, the taxpayer, a religious institution, had acquired certain lots of land on which it had run an orphanage. The taxpayer subsequently decided to redevelop the lots and sell these at a profit. The Court of Final Appeal held that the taxpayer had changed its intention from holding the lots as capital assets to embarking upon a trade when it decided to redevelop the lots into a residential development for resale. The taxpayer was therefore chargeable to tax in respect of the profits derived from the disposal of the lots, taking into account the value of the lots at the time of change of intention.

Likewise, when trading stock is appropriated as a capital asset, it is necessary to account for the market value upon appropriation so that any change (including diminution) in valuation of the trading stock can be recognised and the adjusted value can be adopted for computing the capital allowance of the asset afterwards.

16. The situations to which the proposed section 15BA applies may be distinguished from that in *Nice Cheer Investment Ltd v CIR* (2013) 16 HKCFAR 813. In the *Nice Cheer* case, the issue in dispute is whether the gains resulting from revaluation of trading securities held at the end of the accounting period as required by fair value accounting should be included in the tax computation. The Court of Final Appeal held that such revaluation gains are not chargeable to profits tax but the case does not involve any change of intention of the asset concerned. Section 15BA only deals with change of intention towards assets and acquisition or disposal of assets other than in the course of trade. It has no application where there is neither change of intention nor non-trade acquisition or disposal. In other words, even with the introduction of the proposed section 15BA, any gains arising from year-end revaluation of a landed property (classified as "investment property") will remain not taxable in accordance with the *Nice Cheer* case.

17. On the interface between the proposed section 15BA and the existing section 15C, we would like to stress that section 15BA is not intended to affect the application of section 15C(a). For example, a property developer may purchase old property units through some special purpose companies ("Acquiring Companies") in a redevelopment project. After all the old property units are acquired, the Acquiring Companies will cease their business and transfer the property units to a new company set up for the purposes of development ("Developer Company"). In such case, the Acquiring Companies can continue to transfer the property units at the cost of acquisition to the Developer Company, and will not be regarded as deriving any gain from the transfers by virtue of section 15C(a). Section 15BA will not be invoked to bring the market value of the property units into the Acquiring Companies' tax computations. We plan to move a committee stage amendment ("CSA") to clarify this policy intent. IRD will also provide further elaborations in its Departmental Interpretation and Practice Note after the Bill is passed by the Legislative Council.

Summary of proposed CSAs to be moved by the Government

18. Having regard to the comments of the Bills Committee and the deputations as well as the need to introduce certain technical amendments in response to the suggestions from the OECD, the Government plans to move certain CSAs to amend the Bill. A summary of the proposed CSAs is at **Annex B**. We will submit the detailed CSAs to the Bills Committee for consideration in due course.

Financial Services and the Treasury Bureau
Inland Revenue Department
April 2018

Annex A

Extract of the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations published in July 2017

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6.42 While determining legal ownership and contractual arrangements is an important first step in the analysis, these determinations are separate and distinct from the question of remuneration under the arm's length principle. For transfer pricing purposes, legal ownership of intangibles, by itself, does not confer any right ultimately to retain returns derived by the MNE group from exploiting the intangible, even though such returns may initially accrue to the legal owner as a result of its legal or contractual right to exploit the intangible. The return ultimately retained by or attributed to the legal owner depends upon the functions it performs, the assets it uses, and the risks it assumes, and upon the contributions made by other MNE group members through their functions performed, assets used, and risks assumed. For example, in the case of an internally developed intangible, if the legal owner performs no relevant functions, uses no relevant assets, and assumes no relevant risks, but acts solely as a title holding entity, the legal owner will not ultimately be entitled to any portion of the return derived by the MNE group from the exploitation of the intangible other than arm's length compensation, if any, for holding title.

6.59 Group members that use assets in the development, enhancement, maintenance, protection, and exploitation of an intangible should receive appropriate compensation for doing so. Such assets may include, without limitation, intangibles used in research, development or marketing (e.g. know-how, customer relationships, etc.), physical assets, or funding. One member of an MNE group may fund some or all of the development, enhancement, maintenance, and protection of an intangible, while one or more other members perform all of the relevant functions. When assessing the appropriate anticipated return to funding in such circumstances, it should be recognised that in arm's length transactions, a party that provides funding, but does not control the risks or perform other functions associated with the funded activity or asset, generally does not receive anticipated returns equivalent to those received by an otherwise similarly-situated investor who also performs and controls important functions and controls important risks associated with the funded activity. The nature and amount of compensation attributable to an entity that bears intangible-related costs, without more, must be determined on the basis of all the relevant facts, and should be consistent with similar funding arrangements among independent entities where such arrangements can be identified……

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<u>Annex B</u>

Inland Revenue (Amendment) (No. 6) Bill 2017 ("the Bill")

Summary of Proposed Committee Stage Amendments ("CSAs") to be Moved by the Government

Item	Clause	Provision	Proposed CSAs	Remarks
1.	3 to 10	Sections 8(1A)(c), 16(1)(c), 48A, 49(1C), 50 and 50AA, 50AAB, 50AAC, 50AAD, 50AAN, 50AAO and 50AAU and Schedule 17G	To amend the relevant provisions so that – (a) under sections 49(1C) and 50AAB, the term "DTA territory" covers all the territories with which Hong Kong has entered into all types of double taxation agreements ("DTAs") under the Inland Revenue Ordinance (Cap. 112) ("IRO"), including air services income and shipping income agreements; (b) relief under sections 8(1A)(c) and 16(1)(c) will not apply to the territories with which Hong Kong has entered into DTAs that provide for relief by way of tax credit; and (c) for the purposes of sections 50AAD, 50AAN, 50AAO and 50AAU and Schedule 17G, the term "DTA territory" should only cover the territories with which Hong Kong has entered into DTAs that contain the business profits article, the associated enterprise article and the mutual agreement procedure article, i.e.	• This CSA seeks to **clarify the scope of the term "DTA territory"** under different sections of the Bill. • We have committed to moving this CSA (see **item D1** of the Annex to the Administration's paper (LC Paper No. CB(1)657/17-18(02)) ("the First Administration's Paper").

Item	Clause	Provision	Proposed CSAs	Remarks
			air services income and shipping income agreements are excluded.	
2.	N/A	N/A	To repeal existing section 20 of the IRO.	• This section is **no longer necessary** following the introduction of the new section 50AAF. • We have committed to moving this CSA (see **item A8** of the Annex to the First Administration's Paper).
3.	9	Section 50AAE(1)	To amend "This Division" to "This Part".	• This CSA seeks to clarify that **the whole Part 8AA (not just Division 2 thereof)** should be read in a way that best secures its consistency with the rules promulgated by the Organisation for Economic Co-operation and Development ("OECD"). • We have committed to moving this CSA (see **paragraph 7** of the Administration's reply to the Assistant Legal Adviser of the Legislative Council (LC Paper No. CB(1)657/17-18(03)).
4.	9	Section 50AAE(3)	To update the version of the Model Tax Convention ("MTC") to that approved by the OECD on 21 November 2017.	• This CSA seeks to incorporate into the Bill the **latest MTC promulgated by the OECD**.

Item	Clause	Provision	Proposed CSAs	Remarks
5.	9	New note to section 50AAF	To clarify that the arm's length provision is to be determined in accordance with the OECD rules and that application of the OECD rules may not produce an exact figure but may produce a range of figures each of which are equally reliable to establish the arm's length amount.	• This CSA seeks to address the deputations' concerns about the computation of arm's length amount. • We have committed to moving this CSA (see **item A2** of the Annex to the First Administration's Paper).
6.	9	Sections 50AAF(6), 50AAK(10) and 50AAM(10)	To amend "more reliable measure" to "equally reliable, or more reliable, measure".	• This CSA seeks to clarify that a taxpayer would be accepted as having substantiated his reported/claimed amount if such amount is **within the arm's length range**. • We have committed to moving this CSA (see **item A3** of the Annex to the First Administration's Paper).
7.	9	Section 50AAF	To provide that section 50AAF will not apply where section 15C is applicable.	• This CSA seeks to **clarify the application** of the new section 50AAF and the existing section 15C under the IRO as far as valuation of trading stock on cessation of business is concerned.
8.	9	Section 50AAJ	To provide that an actual provision is not taken to confer a potential advantage in relation to Hong Kong tax on either of the persons as between whom the actual provision is made or imposed if certain conditions are satisfied.	• This CSA seeks to **reflect the policy intent** that, insofar as domestic transactions between associated persons do not give rise to actual tax difference, the relevant person will **not** be obliged to compute the income or loss arising from these transactions on the basis of the arm's length provision

Item	Clause	Provision	Proposed CSAs	Remarks
				in their tax returns and **no** corresponding assessment on that basis will be made by the Inland Revenue Department ("IRD"). In particular, the aforementioned domestic transactions generally cover interest-free loans which are not granted in the ordinary course of money lending or intra-group financing business. • We have committed to moving this CSA (see **paragraph 7** of the Administration's paper (LC Paper No. CB(1)702/17-18(02)) ("the Second Administration's Paper").
9.	10	Section 7 of Schedule 17H	To provide that the fees payable in respect of an advance pricing arrangement ("APA") application under subsection (9)(a) (i.e. service fees charged on the basis of time spent by IRD officers) must not exceed $500,000.	• This CSA seeks to **impose a cap on the amount of fees to be charged by IRD** in respect of APA applications, excluding the direct costs of engaging external advisors and travelling costs which will be fully reimbursed by APA applicants. • We have committed to moving this CSA (see **item A5** of the Annex to the First Administration's Paper).

Item	Clause	Provision	Proposed CSAs	Remarks
10.	13	Section 15BA	To provide that section 15BA will not apply where section 15C is applicable.	• This CSA seeks to **clarify the application** of the new section 15BA and the existing section 15C under the IRO as far as valuation of trading stock on cessation of business is concerned.
11.	13	Section 15BA	To amend the provision so as to cover trading stock of a "trade or business".	• This CSA seeks to **ensure consistency** with the existing section 15C of the IRO.
12.	16	Section 58B(2) (definition of "CbCR documents")	To update the version of the "Guidance on the Implementation of Country-by-Country Reporting – BEPS Action 13" referred to in paragraph (b) to that published by the OECD in 2018.	• This CSA seeks to incorporate into the Bill the **latest guidance** on country-by-country ("CbC") reporting promulgated by the OECD.
13.	16	Section 58C(2)(a)	To amend "6 months" to "9 months".	• This CSA seeks to **extend the preparation period of master file and local file** so as to tally with the deadline of filing tax returns. • We have committed to moving this CSA (see **paragraph 13** of the First Administration's Paper).
14.	16	Section 58D(4)	To remove paragraph (c) (i.e. jurisdiction U requires the filing of a CbC report in respect of period P by a multinational enterprise group that has a total consolidated group revenue for period P-1 of at least jurisdiction U's threshold amount).	• This is a **technical CSA** in response to the OECD's suggestion for better alignment with the requirements of the CbC reporting regime. The purpose is to cater for a multinational enterprise group whose ultimate parent entity's

Item	Clause	Provision	Proposed CSAs	Remarks
				jurisdiction does not implement the CbC reporting regime.
15.	16	Section 58D(5)	To amend the definition of "jurisdiction U's threshold amount" so that – • for a case where jurisdiction U requires the filing of a country-by-country report in respect of period P by a multinational enterprise group that has a total consolidated group revenue for period P-1 of at least a threshold amount and that amount is specified under the laws or regulations of Jurisdiction U—jurisdiction U's threshold amount means the threshold amount so specified; • for any other cases—jurisdiction U's threshold amount means an amount, in currency U, that is equivalent to EUR 750 million as at January 2015".	• This is a **technical CSA** in response to the OECD's suggestion for better alignment with the requirements of the CbC reporting regime. The purpose is to cater for a multinational enterprise group whose ultimate parent entity's jurisdiction does not implement the CbC reporting regime.
16.	16	Section 58H(1)(b)(iv) and (c)(iii)	To amend "the date on which" to "whether".	• This is a **technical CSA** in response to the OECD's suggestion for better alignment with the requirements of the CbC reporting regime. A notification will need to state only whether a CbC report is filed in the ultimate parent entity's jurisdiction or the surrogate parent entity's jurisdiction, but not the date of filing.

Item	Clause	Provision	Proposed CSAs	Remarks
17.	16	Section 58I(3)(b)	To delete the clause "when a condition precedent for Jurisdiction S to require a jurisdiction S entity of a reportable group that is not the ultimate parent entity to file a CbC report is met within the meaning of subsection (1)".	• This is a **technical CSA** in response to the OECD's suggestion for better alignment with the requirements of the CbC reporting regime. A prerequisite for appointing surrogate parent entity in a jurisdiction will be removed.
18.	16	Section 58I(5)(c)	To cater for the case where the surrogate parent entity's jurisdiction has a later filing deadline than Hong Kong.	• This is a **technical CSA** in response to the OECD's suggestion for better alignment with the requirements of the CbC reporting regime.
19.	16	Section 2 of Schedule 17I	To amend the definition of "controlled transactions" to carve out domestic transactions with associated persons.	• This CSA seeks to **waive the requirement to prepare master file and local file for domestic transactions between associated persons**. • We have committed to moving this CSA (see **paragraph 13** of the First Administration's Paper).
20.	17	Section 3 of Schedule 17I	To amend the thresholds of the total amount of revenue and the total value of assets from $200 million to $300 million.	• This CSA seeks to **further relax the exemption based on size of business** in the context of preparation of master file and local file. • We have committed to moving this CSA (see **paragraphs 8 to 10** of the Second Administration's Paper).

Item	Clause	Provision	Proposed CSAs	Remarks
21.	32	Section 26AB(2)	To amend the provisions to the effect that the threshold requirements under section 26AB are relevant only for the purpose of determining whether profits producing activities are carried out in Hong Kong in the context of granting profits tax concessions.	• This is a **technical CSA** proposed for clarifying our policy intent. If the thresholds on substantial activities requirement are not met, the tax concessions available under the relevant preferential tax regimes will not apply.
22.	34	Schedule 42	To renumber "Schedule 42" as "Schedule 43".	• This is a **technical CSA**. As the Inland Revenue (Amendment) (No. 7) Bill ("No. 7 Bill") has been enacted before the present Bill, "Schedule 43" in the No. 7 Bill has been renumbered as "Schedule 42" and corresponding change is required under the present Bill.
23.	34	Section 4 of Schedule 42	To provide that the following provisions will apply in relation to a year of assessment beginning on or after **1 April 2019 –** (a) section 15F; and (b) section 50AAK.	• This CSA seeks to **give taxpayers a longer lead time to make necessary preparation** for the implementation of the proposed sections 15F (taxation of intellectual property income) and 50AAK (application of Authorised OECD Approach for attributing income or loss to permanent establishments of non-Hong Kong resident persons). • We have committed to moving this CSA (see **paragraphs 16 and 20** of the First Administration's Paper).