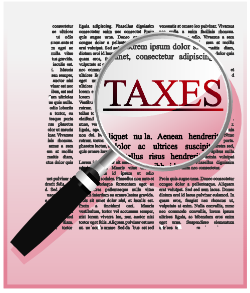

7 Current and future tax developments

Topic highlights

Tax developments in Hong Kong include a comprehensive tax system review, the budget, amendments to the IRO, and expanding its tax treaty network.

7.1 Comprehensive Tax System Review

There have been fears that Hong Kong is facing major structural problems with its public finances. In 2000, an Advisory Committee on New Broad-based Taxes ('the Committee') was formed to conduct a comprehensive review on the tax system in Hong Kong.

The Committee has completed their review on the tax system in Hong Kong. They consider Hong Kong's tax system, when compared to international standards, to be narrow on two grounds. First, the scope of the taxes it imposes is narrow. Second, some of the taxes imposed are narrow in terms of the percentage of the population that are subject to them because of high allowance levels.

A consultation paper has been issued to seek views from the public on what types of broad-based taxes may be suitable for Hong Kong. The consultation paper sets out the following options to broaden the tax base in Hong Kong:

Raising the revenue productivity of certain key existing taxes by:

- increasing the tax rates
- reducing personal allowances and concessions
- extending the scope of their coverage

Introducing new taxes:

- Good and Services Tax
- Capital gains tax
- Tax on interest
- Tax on dividends
- Tax on worldwide income
- Land and sea departures tax
- Social security taxes
- Poll tax
- General consumption tax
- Tax on mobile phones and signboards

In 2006, the Government launched a public consultation on broadening the tax base including the recommendation on introducing Goods and Services Tax (GST) in Hong Kong. A final report on the public consultation in June 2007 was issued. In view of the fact that the public was strongly against GST, the Government considered there was insufficient public support nor were the conditions right for the introduction of GST. The Government, however, decided to continue to listen to public views on other options for broadening the tax base.

The consultation documents and other information concerning the Committee and broad-based taxes can be viewed or downloaded at the following websites:

http://www.fstb.gov.hk/tb/acnbt/engindex.html; and

http://www.taxreform.gov.hk/eng/doc_and_leaflet.htm.

It is hard to predict whether any of the options suggested in the 2006 consultation paper will be implemented in Hong Kong and the likely timing of such changes in the tax system in Hong Kong. It is expected that no new tax will be introduced in the near future.

7.2 The Budget

The Financial Secretary usually submits the Budget (which often involves changes in tax rates, allowances, etc.) to the Legislative Council in February or March each year. Relevant information could be obtained from the website of **http://www.budgetgov.hk/.**

The Budget is often prepared with regard to the submissions made by various focus groups, including the Hong Kong Institute of Certified Public Accountants. The proposals made by the Hong Kong Institute of Certified Public Accountants outline the relevant factors for reviewing and updating the tax system in Hong Kong in order to respond to the changing environment. Candidates are recommended to visit the website of the Hong Kong Institute of Certified Public Accountants (**http://www.hkicpa.org.hk**) and the websites of other focus groups to identify the relevant information in connection with the future development of the tax system in Hong Kong.

7.3 Amendments to the Inland Revenue Ordinance

The Inland Revenue (Amendment) (No. 3) Ordinance 2011 was enacted on 17 June 2011, and includes the following changes:

- Reduce salaries tax and tax under personal assessment for 2010/11 by 75%, subject to a ceiling of $6,000 per case;
- Increase dependent parents / grandparents allowances by 20% for 2011/12
  - $36,000 (for parents / grandparents aged 60 or above* and not residing with taxpayers) and $72,000 (for parents / grandparents aged 60 or above* and residing with taxpayers for the whole year); and
  - $18,000 (for parents / grandparents aged 55 to 59 and not residing with taxpayers) and $36,000 (for parents / grandparents aged 55 to 59 and residing with taxpayers for the whole year).Increase both the child allowance and the additional one-off child allowance in the year of birth by 20% to $60,000.
- Increase the deduction ceiling for elderly residential care expenses by 20% for 2011/12 to $72,000.

  *(Also if the dependent parent/grandparent is eligible to claim an allowance under the Government's Disability Scheme.)

The Inland Revenue (Amendment) Ordinance 2011 (the Amendment Ordinance) was enacted on March 25, 2011.

The Amendment Ordinance mainly seeks to enhance the qualifying debt instrument (QDI) scheme through the following measures:

- extending the 50% concessionary rate of profits tax to QDIs with a maturity of less than three years; and
- replacing the 'issued to the public' criterion with a new requirement specifying that for a debt instrument to be eligible for the QDI scheme, it has to be issued in Hong Kong, at issuance, to 10 or more persons; or if fewer than 10 persons, none of whom is an associate of the issuer of the debt instrument.

Starting from 25 March 2011, the 50% tax concession further extends to cover interest income and trading profits derived from a 'short term debt instrument' issued on or after that date with a maturity of less than 3 years. The existing tax concession for a 'medium term debt instrument' and tax exemption for a 'long term debt instrument' issued before 25 March 2011 remain the same. However, the tax concession and exemption will not apply in relation to a QDI issued on or after 25 March 2011 if, at the time during which the interest income and trading profits is/are so received or accrued, the person is an associate of the issuer of the QDI.

Debt instruments that qualify for the above tax concession and exemption are specified in ss.14A(4) and 26A(2) of the Inland Revenue Ordinance respectively.

7.4 DIPN 47 – Exchange of Information

Following these legislative changes, the IRD published DIPN No. 47, which details its practice on processing EoI requests, explains the measures adopted to protect taxpayers and outlines the procedures guidelines to be followed by its officers.

Refer to chapter 12, section 4.3 for details.

7.5 Hong Kong is expanding its tax treaty network

As of 17 June 2011, Hong Kong has concluded comprehensive double taxation agreements with 21 jurisdictions including Belgium, Thailand, the Mainland of China, Luxembourg, Vietnam, Brunei, the Netherlands, Indonesia, Hungary, Kuwait, Austria, the United Kingdom, Ireland, Liechtenstein, France, Japan, New Zealand, Switzerland, Portugal, Spain and the Czech Republic.

7.6 Changes in stamp duty

(a) Increase in stamp duty rate on property transactions

Stamp duty rates on transactions of properties valued over HK$20 million would be increased from 3.75% to 4.25%. In addition, the deferred payment of stamp duty will no longer be applicable to a dutiable agreement for sale of residential properties valuing over HK$20 million. These measures became effective on 1 April 2010. Refer to chapter 8, section 3.1 for more details.

(b) Introduction of Special Stamp Duty

In November 2010, a special stamp duty (SSD) on disposal of residential properties which were acquired by the vendor on or after 20 November 2010 and resold within 24 months from the date of acquisition was proposed by the Financial Secretary in order to further discourage speculation on residential properties.

The SSD would be imposed on top of the normal stamp duty currently payable on conveyance on sale of immovable properties, with a few exemptions available.

The seller and the buyer are jointly and severally liable for paying the SSD which is calculated based on the stated consideration or market value, whichever is higher, of the resold property at the following regressive rates, with the higher rate for shorter holding periods:

Refer to chapter 8, section 1.1 for details.

Holding period	Duty rate
For residential properties held for six month or less	15%
For residential properties held for more than 6 months but for 12 months or less	10%
For residential properties held for more than 12 months but for 24 months or less	5%

The Stamp Duty (Amendment) (No.2) Bill 2010, which sets out the above changes in stamp duty, was gazetted on 3 December 2010 and deemed effective as from 20 November 2010. The Bill was enacted on 30 June 2011. Refer to chapter 8, section 1.1 for more details.