

Tax Policies in Hong Kong, China

The Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong) maintains a simple and low tax system based on the territorial source principle. In administering the tax system, the Inland Revenue Department (IRD) is committed to collecting revenue timely and effectively, providing efficient and professional services, and promoting tax compliance through rigorous enforcement of law. Policies to this end include the following:

Transparency and certainty

To enhance transparency of tax administration, the IRD makes use of its [website](#) to disseminate tax information and guidance to the public. The published information includes [Departmental Interpretation and Practice Notes](#) (DIPNs) which are regularly issued by the IRD to set out its interpretation of the applicable tax law and practices adopted in relation to important tax issues. The DIPNs help taxpayers better understand the IRD's stance, thereby facilitating them to comply with their tax obligations.

Hong Kong has in place an [advance ruling](#) system under which a person may apply to the IRD for a ruling on how the tax law applies to the person or the arrangement specified in the person's application. Such advance ruling service provides taxpayers with a degree of certainty about the application of the tax law to their contemplated arrangements, promotes consistency in the application of the tax law, and minimises tax disputes between the IRD and taxpayers which can be a lengthy and costly process.

Compliance and enforcement

To promote compliance and encourage voluntary disclosure of non-compliance, the IRD publishes [penalty policy](#) on its website to make penal actions transparent to taxpayers. [Press announcements](#) of successfully prosecuted court cases are also posted on the website of the IRD to alert taxpayers of the serious consequences of non-compliance.

To ensure timely collection of taxes, the IRD publicises the [consequences of not paying tax on time](#) and takes immediate actions to secure tax payment and [recover tax in default](#). The relevant recovery actions include the imposition of surcharges on tax in default, the issue of recovery notice to third parties including the employer, banker, tenant, debtor and customer etc. who owe or hold money due to the defaulting taxpayer. The IRD may also institute civil jurisdiction action against tax defaulter in respect of the overdue tax.

International tax co-operation

Hong Kong strives to expand its network of [comprehensive avoidance of double taxation agreements](#) with its trading and investment partners. The agreements are conducive to reducing tax burdens on individuals and enterprises and eliminating uncertainties over tax liabilities resulting from their cross-border activities.

Hong Kong has all along been supportive of international efforts to enhance tax transparency and combat cross-border tax evasion. Hong Kong has in recent years implemented a number of international tax initiatives including the automatic exchange of financial account information in tax matters and the package of measures to counter Base Erosion and Profit Shifting (BEPS), both promulgated by the Organisation for Economic Cooperation and Development (OECD).

As to the two-pillar solution to address the tax challenges arising from the digitalisation of the economy announced by the OECD (commonly referred to as BEPS 2.0 package), Hong Kong is actively participating in the OECD's discussions of the detailed rules. It is anticipated that legislative amendments will have to be pursued to provide a legal framework for implementing the BEPS 2.0 package. While the appropriate response measures for Hong Kong are yet to be decided, the general direction formulated is as follows:

- to implement the BEPS 2.0 package according to international consensus;
- to minimise the impact on local small and medium enterprises where possible and strive to maintain the simplicity, certainty and fairness of the tax regime of Hong Kong;
- to safeguard the taxing rights of Hong Kong and at the same time minimise the compliance burden on affected corporations;
- to improve the business environment and enhance the competitiveness of Hong Kong, with a view to attracting multinational corporations to invest and operate in Hong Kong.

COVID-19 pandemic

The COVID-19 pandemic poses challenges to the IRD's work in revenue collection as the financial capability of many taxpayers has been adversely affected by the economic

downturn brought by the pandemic. That said, to assist taxpayers to get through this difficult time, legislation has been enacted to grant [tax exemption](#) in respect of financial assistance or relief provided under the Anti-epidemic Fund to individuals and businesses. The IRD has also implemented the relief measure of [waiving surcharges](#) on instalment plans approved for settlement of the relevant tax demand notes, subject to certain conditions, to ease the financial burden and cash flow of taxpayers.