



**5TH IMF-JAPAN HIGH LEVEL
TAX CONFERENCE FOR ASIAN COUNTRIES**

**REFORM ISSUES AND CHALLENGES
IN TAX ADMINISTRATION**

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Characteristics of HK Tax System

- Simple regime
- Limited tax types
- Territorial source
- Low tax rates
- Limited tax incentives

Fiscal policy

Basic Law (Article 107)

- The Hong Kong Special Administrative Region shall follow the principle of keeping expenditure within the limits of revenues in drawing up its budget, and strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product.

Fiscal Policy

Basic Law (Article 108)

- The Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation.

Revenue collection

Item	Range from 1997-98 to 2013-14		Estimated revenue in 2014-15	
	% of GDP	Equivalent HK\$ (billion)	% of GDP	Equivalent HK\$ (billion)
Profits tax	2.9% - 6.2%	37.7 – 125.6	5.3%	117.6
Salaries tax	1.9% - 2.7%	25.1 – 51.8	2.4%	52.9
Stamp duty	0.6% - 3.1%	7.5 – 51.5	2.0%	43.8
Land premium	0.4% - 4.6%	5.4 – 62.5	3.2%	70.0
Investment income	0.1% - 3.3%	0.9 – 41.9	1.2%	27.0
Other revenue	4.6% - 7.0%	77.7 – 88.0	5.3%	118.8
Total revenue	13.3% - 22.6%	175.6 – 437.7	19.4%	430.1

Concerns

- Aging population
- Long term growth of expenditure is greater than revenue
- Government expenditure is inelastic
- Government revenue is narrow-based and volatile
- Fiscal reserves can be depleted faster than expected

Working Group's recommendations

- Containing expenditure growth
- Preserving, stabilizing and broadening the tax base
 - Stepping up tax enforcement
 - Reviewing the tax structure - avoiding excessive reliance on direct taxation
- Saving for the future
- Others

Challenges

- Domestic front
 - Maintaining competitiveness and sustainability
 - Enhancing predictability and consistency
 - Preserving integrity
- International front
 - Responding G20's initiatives (AEoI, BEPS)
 - Expanding tax treaty network
 - Fulfilling treaty obligations



THANK YOU