

(Translation)

Motion on
“Enhancing the administration of tax policy in Hong Kong”
moved by Hon Paul CHAN Mo-po
at the Legislative Council meeting commencing on
Wednesday, 7 July 2010

Motion as amended by Hon Mrs Sophie LEUNG LAU Yau-fun

That, whereas:

- (a) Hong Kong, through its membership of the Global Forum on Transparency and Exchange of Information for Tax Purposes under the Organization for Economic Co-operation and Development and the comprehensive agreements on avoidance of double taxation to be signed with many countries in the world, is increasingly involved in international taxation matters;
- (b) international organizations such as the Group of Twenty (‘G-20’) are proactively developing tax policies for implementation by the member countries and jurisdictions which are actively involved in the global economy and financial system, including Hong Kong;
- (c) with the increasingly closer economic and trade relationship between Hong Kong and the Guangdong Province under the Framework Agreement on Hong Kong/Guangdong Co-operation, the flow of passengers, goods and information will become more frequent, and complementary tax initiatives must be introduced in Hong Kong to facilitate the upgrading and transformation of small and medium enterprises and to complement the development of industries with competitive edge and the smooth transformation of the Hong Kong economy;
- (d) Hong Kong must compete with other jurisdictions, which offer tax concessions, to attract external investors to establish their regional headquarters in Hong Kong;
- (e) tax initiatives can be an effective tool in addressing the problems of economic and social inequalities in Hong Kong; and
- (f) the tax base of Hong Kong remains very narrow, posing a risk of instability in public finance,

matters relating to the tax policy in Hong Kong have therefore become increasingly complex and important, yet the Administration has so far vested such matters primarily in the Inland Revenue Department (‘IRD’) but its function should be confined to the implementation of tax laws; if IRD is required to undertake in-depth and substantial studies on tax policy, it will encounter a conflict of roles as well as resources constraints; as such, this Council urges the Administration:

- (i) to adopt a proactive approach in responding to international agreements on tax initiatives and their requirements, including the tax policies and initiatives introduced by the G-20 and other multilateral international organizations;
- (ii) to critically review the existing taxation system with a view to identifying feasible initiatives to enhance the competitiveness of Hong Kong as a regional business centre;
- (iii) to examine afresh all the taxation policies involving cross-border trade and employment, including section 39E of the Inland Revenue Ordinance and assessment of profits tax for the processing trade, and to relax the existing 183-day standard under the Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income, so as to match the trend in the economic development of Hong Kong and Guangdong and the new life pattern of the 'one-hour living sphere';
- (iv) to study the use of tax initiatives as one of the means to address the problems of social and economic inequalities;
- (v) to study afresh the identification of reasonable and sound initiatives that can broaden the tax base of Hong Kong without undermining its competitiveness; and
- (vi) to establish a specialist tax policy unit within the government structure, to be staffed by local and international tax experts with the relevant professional knowledge, technical expertise and practical experience, to assist the Administration in undertaking the tasks in (i) to (v) above, so as to ensure effective formulation of future tax policy in Hong Kong.