

**Bills Committee on Inland Revenue (Amendment) (No. 3) Bill 2017
Response to the Written Submission from Civic Party**

Purpose

Further to our written response issued on 15 May 2017 to matters raised at the meeting on 12 May 2017, we are notified by the Bills Committee on 16 May 2017 that the Civic Party (“CP”) has made a written submission. This note sets out the Government’s response.

Policy Approach

2. We are pleased to note CP’s support towards the implementation of automatic exchange of financial account information in tax matters (“AEOI”) as promulgated by the Organisation for Economic Co-operation and Development (“OECD”) in Hong Kong.

3. As mentioned in paragraphs 5 and 6 of the Legislative Council Brief issued on 22 March 2017, the international tax landscape is changing rapidly and it is necessary for Hong Kong to revise its implementation strategy on AEOI so as to cope with the latest international developments. The AEOI legal framework was introduced to the Legislative Council in January 2016 vide the Inland Revenue (Amendment) Bill 2016 and was enacted in June 2016. After that, the OECD and the European Union (“EU”) released the criteria for identifying “non-cooperative” jurisdictions in late 2016. The criteria include the implementation of AEOI, participation in the Convention on Mutual Administrative Assistance in Tax Matters (“Multilateral Convention”), as well as the implementation of exchange of information on request.

4. If Hong Kong does not take timely steps to preserve the data at least for the second half of 2017 for exchange with other jurisdictions and expand the list of reportable jurisdictions, Hong Kong would be unfavourably rated in the AEOI assessment. Furthermore, the Multilateral Convention is currently not applicable to Hong Kong.

Failure in meeting at least two of these three criteria would risk Hong Kong being listed as a “non-cooperative” jurisdiction. A listed “non-cooperative” jurisdiction would not only suffer from reputational damages, and but could also subject to counter-measures by other jurisdictions including the imposition of withholding taxes and non-deductibility of costs of transactions.

5. Given the above considerations, it is important and prudent for the Government to introduce the proposed amendment to the AEOI regime at this juncture to expand the list of reportable jurisdictions.

Preparation for First Round of Exchanges in 2018

6. To prepare for the first round of exchanges in 2018, the Inland Revenue Department (“IRD”) has organised a number of seminars to help the financial institutions (“FIs”) familiarise with the reporting requirements. IRD has also drawn up dedicated guidelines to support FIs in implementing AEOI.

7. At the same time, IRD is developing a secure platform, known as the AEOI Portal, for FIs to submit AEOI returns on required information of reportable accounts electronically. IRD is now conducting a thorough testing and trial run, with the participation of FIs, before formally launching the AEOI Portal.

8. With a view to expanding Hong Kong’s AEOI network, the Government is having bilateral negotiations on exchange agreements with more than 30 jurisdictions for first exchanges in 2018, in addition to 11 confirmed AEOI partners at the moment.

9. The Government has also introduced a number of initiatives to enhance public awareness of the new international standard and the obligations of FIs. We have launched TV and Radio Announcements in the Public Interests (“API”). We have also prepared posters and pamphlets to help FIs explain the new requirements to their customers. Upon the passage of the Inland Revenue (Amendment) (No. 3) Bill 2017, the Government will roll out a new round of publicity to highlight the key

changes. We will revise the API, posters and pamphlets to inform the public of the latest arrangements. IRD will also revise its guidelines for FIs.

Financial Services and the Treasury Bureau
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