

Bills Committee on Inland Revenue (Amendment) (No. 6) Bill 2017

**List of follow-up actions arising from the discussion
at the meeting on 21 March 2018**

1. The Administration is requested to provide a written response on the following:

- (a) whether it would consider further relaxing the proposed threshold on total annual revenue from \$300 million to \$500 million for the purpose of exemption from transfer pricing documentation (i.e. master file and local file) requirements based on the size of business, while keeping the threshold on total assets and staff size at \$300 million and 100 respectively, and explain its considerations with reference to (i) the number of taxpaying enterprises and their contributions to profits tax in Hong Kong, (ii) the estimated number of enterprises to be relieved from the documentation requirements if the threshold is further relaxed or not, and (iii) the relevant exemption criteria and threshold levels set by other comparable tax jurisdictions (such as Singapore) for transfer pricing documentation;
- (b) the justifications, with reference to the relevant parts of the transfer pricing guidelines or other document(s) of the Organisation for Economic Co-operation and Development, for introducing the proposed section 15F (sums derived from intellectual property by non-Hong Kong resident associates) to the Inland Revenue Ordinance (Cap. 112) ("IRO"); and
- (c) the justifications for introducing the proposed section 15BA (changes in trading stock) to IRO; and the application of section 15BA, including its interaction with (i) case law in Hong Kong relating to the tax timing of trading stock from which profits have not yet been earned or realized and (ii) existing section 15C (valuation of trading stock on cessation of business).

2. The Administration is also requested to provide when appropriate, for the Panel on Financial Affairs' reference/consideration, the draft/updated Departmental Interpretation and Practice Notes to be issued by the Inland Revenue Department on matters relating to the transfer pricing regulatory regime.