chapter 1

Commissioner's Foreword

In 2023-24, Hong Kong returned to normalcy after the epidemic. Local economic activities showed improvement and the public resumed normal life. However, the complicated and uncertain external environment still affected the performance of the local economy. Coupled with the pressure on the local property and stock markets, transaction volume shrank, resulting in a decrease in revenue collection during the year. The overall revenue collection of the Department in 2023-24 was $342 billion, which was $18.2 billion lower than the previous year's collection. The decrease was mainly due to a 29.8% drop in stamp duty collection. Profits tax collections also recorded a fall of 2% while salaries tax and other tax yields increased comparing to the previous year.

With a view to creating a conducive business environment with strong competitiveness and strengthening Hong Kong's status as an international financial centre, the Government has introduced a number of tax measures. The following revenue-related amendment bills were enacted during 2023-24:

- The Stamp Duty (Amendment) (Stock Transfers) Ordinance 2023 reduced the rate of stamp duty on stock transfers to 0.1% of the consideration or value of the transfers.
- The Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Ordinance 2023 provided profits tax concessions for eligible family-owned investment holding vehicles managed by eligible single family offices in Hong Kong and family-owned special purpose entities.
- The Inland Revenue (Amendment) (Disposal Gain by Holder of Qualifying Equity Interests) Ordinance 2023 provided greater certainty of non-taxation of onshore gains on disposal of equity interests that are of capital nature.
- The Insurance (Amendment) Ordinance 2023 provided a legal framework for the implementation of a risk-based capital regime for authorized insurers, and made consequential amendments to the Inland Revenue Ordinance.
- The Inland Revenue (Amendment) (Tax Deductions for Spectrum Utilization Fees) Ordinance 2024 provided for tax deductions for spectrum utilization fees payable by mobile network operators on radio spectrum acquired.
- The Inland Revenue (Amendment) (Aircraft Leasing Tax Concessions) Ordinance 2024 enhanced the existing tax concessions regime regarding the leasing of aircraft.

Apart from the above, the Inland Revenue (Amendment) (Taxation on Foreign-sourced Disposal Gains) Ordinance 2023 was enacted in December 2023 and takes effect from 1 January 2024. The Amendment Ordinance refined Hong Kong's foreign-sourced income exemption regime (FSIE) by expanding the scope of assets in relation to foreign-sourced disposal gains to cover assets other than shares or equity interests, and brought our FSIE regime in full compliance with the Guidance on FSIE regimes updated by the European Union (EU) in December 2022. As a result of the timely legislative amendments, Hong Kong was removed from the EU's watchlist on tax co-operation.

The Government has been closely monitoring the residential property market and evaluating the demand-side management measures. In 2023-24, the Stamp Duty (Amendment) (No. 2) Ordinance 2023, Stamp Duty (Amendment) (No. 3) Ordinance 2023 and Stamp Duty (Amendment) (Residential Properties) Ordinance 2024 were enacted to adjust the value bands of ad valorem stamp duty (AVD) at Scale 2 rates chargeable on the sale and purchase or transfer of residential and non-residential properties, adjust the demand-side management measures for residential properties, including shortening the applicable period of the Special Stamp Duty (SSD) from three years to two years and reducing the respective rates of the Buyer's Stamp Duty (BSD) and AVD at Part 1 of Scale 1 from 15% to 7.5%, and to provide mechanisms for eligible incoming talents to apply for refund or suspension of the BSD and certain amount of AVD at Part 1 of Scale 1 in relation to the acquisition of their first residential property in Hong Kong. After taking into account the current economic and market conditions, the Government proposed in the Budget for the 2024-25 financial year to cancel all demand-side management measures for residential properties. With effect from 28 February 2024, all instruments for the sale and purchase or transfer of residential properties are no longer subject to the SSD and BSD, and the AVD rate of 7.5% under Part 1 of Scale 1 is amended to the same as those of AVD at Scale 2. The Stamp Duty (Amendment) Ordinance 2024 was enacted in April 2024 to give effect to the proposals.

In order to cope with tax challenges arising from the evolving local and international business environment, closely monitor the latest development in international taxation and to formulate strategies, the Department has realigned its work focus. On 1 June 2023, the Commissioner's Unit was reorganised, with a new International and Taxation Development Unit established. The Department will continue to actively participate in efforts to enhance Hong Kong's tax competitiveness and promote international tax cooperation.

With the lifting of travel restrictions, the Department's officers resumed active participation in face-to-face international tax conferences and workshops to monitor development in international taxation landscape, share experience and knowledge with counterparts and tax experts, and enhance our capacity in tax administration. It is also our great honour that Hong Kong, China, as a member jurisdiction of the Belt and Road Initiative Tax Administration Cooperation Mechanism, will host the Fifth Conference of the Belt and Road Initiative Tax Administration Cooperation Forum in late September 2024. The Conference will bring together high-level representatives from tax authorities of Belt and Road jurisdictions, international organisations, academic institutes and the business sector to hold in-depth discussions of emerging tax issues. It will help strengthen Hong Kong's position as an important functional platform for the Belt and Road Initiative and contribute to a sustainable tax environment.

In the realm of international tax collaboration, Hong Kong together with 139 Inclusive Framework members on Base Erosion and Profit Shifting approved the Outcome Statement in November 2023 on the two-pillar solution to address tax challenges arising from the digitalisation of the economy. In addition, the Government announced the plan to implement the global minimum effective tax rate and Hong Kong minimum top-up tax (HKMTT) starting from 2025. The Government has collected views from stakeholders on the implementation of the global minimum tax and HKMTT through a three-month consultation launched in December 2023 and various consultation sessions. Pressing ahead with the preparatory work for the legislative exercise, the Government plans to introduce an amendment bill into the Legislative Council in the second half of 2024. The Department will continue to participate in the discussions led by the Organisation for Economic Cooperation and Development and work closely with the Financial Services and the Treasury Bureau to ensure the effective implementation of the package in accordance with international standard.

In 2023-24, Hong Kong has made further progress on the expansion of its tax treaty network, and entered into tax treaties with Bangladesh, Croatia and Bahrain. These treaties will enter into force after the completion of ratification procedures by both jurisdictions. Besides, Hong Kong conducted negotiations of tax treaties respectively with Armenia, Azerbaijan, Cabo Verde, Jordan, Mongolia and Turkmenistan with substantive progress made. As at 31 March 2024, Hong Kong has signed comprehensive avoidance of double taxation agreements/arrangements with 49 jurisdictions. Hong Kong will continue to engage other tax jurisdictions in negotiating comprehensive avoidance of double taxation agreements so as to expand the tax treaty network.

To keep pace with the development in international tax administration and information technology, the Department is actively promoting tax digitalisation. Following the introduction of a new mode of e-filing for profits tax returns last year, the Department launched the enhanced versions of e-filing services in April this year to further facilitate taxpayers to e-file profits tax returns together with supporting documents in specified formats. The Department is also working on the development of three portals, namely Individual Tax Portal, Business Tax Portal and Tax Representative Portal, which are to be rolled out by phases in 2024-25 and 2025-26 to provide enhanced e-filing functions and other e-services for individual taxpayers, businesses and tax representatives.

In closing, I would like to express my heartfelt gratitude to all my colleagues for their dedication, diligence and positive attitude in braving challenges, which contributed to our accomplishment during the year. I would also like to express my appreciation to our working partners, both inside and outside the government, for their support, assistance and valuable advice. To cope with the rapid development of international tax administration, the Department's workload has been increasing. As long as we work collectively with team spirit and determination to do our utmost amidst difficulties, we will be able to accomplish various missions.

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