

HKSAR Government welcomes OECD's announcement of BEPS 2.0 implementation plan

A Government spokesman said today (October 9) that the Government welcomed the Organisation for Economic Co-operation and Development (OECD)'s announcement of the framework for international tax reform on base erosion and profit shifting (BEPS) (commonly known as BEPS 2.0) and its implementation plan yesterday (October 8). As an international financial and commercial centre, Hong Kong will actively participate in and implement this BEPS 2.0 package.

The BEPS 2.0 package consists of two pillars. The first pillar targets large multinational enterprise (MNE) groups with global turnover above 20 billion Euros and profitability above 10 per cent, and distributes the taxing rights in respect of a certain portion of the residual profit (residual profit is defined as profit in excess of 10% of revenue) of these enterprises to the market jurisdictions. The second pillar is the implementation of the global minimum effective tax rate, which targets large MNE groups with global turnover above 750 million Euros. If the effective tax rate of an MNE group in a jurisdiction is below 15 per cent, its parent or subsidiary companies will be required to pay top-up tax in respect of the shortfall in the jurisdictions where they are located. So far, a total of 136 jurisdictions (including Hong Kong) around the world have indicated acceptance of the package.

The OECD aims at completing the drafting of the BEPS 2.0 model rules by the end of this year to early next year to enable participating jurisdictions to roll out their domestic legislative exercises in 2022 and implement the package from 2023.

The Government spokesman said, "The BEPS 2.0 package targets primarily large MNE groups that meet the above-mentioned specified conditions, and will not affect small and medium-sized enterprises in Hong Kong. The headline tax rate of Hong Kong's profits tax at 16.5 per cent is competitive internationally, and our simple and transparent tax regime is well received by investors. Following the implementation of the BEPS 2.0 reform framework, the effective tax rates of the above-mentioned large MNE groups in each jurisdiction will have to be at least 15 per cent. This will reduce the effectiveness for tax jurisdictions to introduce tax exemption or extremely low preferential tax rate as a means to increase their competitiveness in future. We believe that Hong Kong will be able to reinforce its competitive advantages under a more level playing field in terms of taxation."

The Financial Secretary appointed in June 2020 the Advisory Panel on BEPS 2.0, which comprises scholars, experts and members of the business community who are experienced in the fields of international taxation and

economic development, to follow up on and study the OECD's discussions on the BEPS 2.0 international tax reform. The Advisory Panel will submit to the Government specific recommendations on how Hong Kong should comply with the BEPS 2.0 requirements after the OECD finalises the model rules.

The Government spokesman added, "The Government will carefully study the recommendations of the Advisory Panel on BEPS 2.0 and, in consultation with stakeholders, undertake the domestic legislative exercise to implement the tax measures under BEPS 2.0 based on the BEPS 2.0 model rules to be finalised by the OECD. At the same time, we will maintain the strengths of Hong Kong's tax system and endeavour to minimise the compliance burden of the above-mentioned large MNE groups."