

SARG welcomes consensus largely reached on BEPS 2.0 framework

With a view to addressing the base erosion and profit shifting (BEPS) risks arising from the digitalisation of economy, the Organisation for Economic Co-operation and Development (OECD) announced yesterday (July 1) the framework for international tax reform (commonly referred to as BEPS 2.0) to ensure a fairer distribution of taxing rights in respect of profits of large multinational enterprises (MNEs) and to set a global minimum tax rate. A total of 130 jurisdictions globally (including Hong Kong) have indicated acceptance of the package.

The Financial Secretary, Mr Paul Chan, said, "As an international financial and commercial centre, Hong Kong has all along supported international efforts to enhance tax transparency and combat tax evasion, and has adopted corresponding measures. We welcome the consensus largely reached by the international community on the key principles of the BEPS 2.0 package."

Mr Chan stressed that, "Small and medium-sized enterprises in Hong Kong would not be affected by the BEPS 2.0 package. Insofar as the large MNEs to be covered by the package are concerned, the Government will endeavour to maintain Hong Kong's simple, transparent and low tax regime and minimise their compliance burden."

The BEPS 2.0 package consists of two parts. The first part targets large MNE groups (including digital enterprises) 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 profits of these enterprises to the market jurisdictions. The second part is the global minimum tax, which targets large MNE groups with global turnover above 750 million euros. If the jurisdictional effective tax rate of an MNE group is below the global minimum tax rate (which will be at least 15 per cent), its parent or subsidiary companies will be required to pay top-up tax in the jurisdictions they are located in respect of the shortfall. The OECD aims at finalising the technical details of the BEPS 2.0 package by October this year and implementing the package in 2023.

To formulate response measures, the Government set up an Advisory Panel back in June 2020 to review the possible impact of the BEPS 2.0 package on the competitiveness of the business environment of Hong Kong, and to make recommendations on the response measures. The Financial Secretary presented in the 2021-22 Budget in February this year the direction of the Government's response measures, indicating that Hong Kong would actively implement the BEPS 2.0 package according to international consensus while striving to maintain the key advantages of Hong Kong's tax regime in terms of simplicity, certainty and fairness; minimise the compliance burden on the affected enterprises; and continue to improve the business environment and competitiveness of Hong Kong.

The Advisory Panel on BEPS 2.0 will submit a report to the Government as soon as possible after the OECD finalises the technical details of the BEPS 2.0 package. The Government will carefully study the recommendations in the report and consult stakeholders on the specific response measures, with a view to rolling out the relevant legislative exercise.