

# Speech by FS at 2020 Hong Kong Chartered Tax Adviser Conference (English only)

Following is the speech by the Financial Secretary, Mr Paul Chan, at the 2020 Hong Kong Chartered Tax Adviser Conference today (December 7):

Webster (President of the Taxation Institute of Hong Kong, Mr Webster Ng), distinguished guests, ladies and gentlemen,

Good morning.

It's a pleasure to be speaking to you today at the Hong Kong Chartered Tax Adviser Conference. My thanks to the organiser, the Taxation Institute of Hong Kong, for giving me this welcome opportunity to talk about tax. Look up "tax" in your Concise Oxford, and you find that it is, and I quote, "a compulsory contribution..."

I'm not sure "contribution" is quite the right word. But, as the Government's Principal Official trying now to pull together the 2021-22 Budget – and do so following a long year of negative economic growth – I understand well the "compulsory" aspect. I'm fully briefed on, and have long internalised, the myriad reasons behind those essential "contributions".

So has the OECD (Organisation for Economic Co-operation and Development), I believe, from the global perspective. Which is why this year's Conference theme, "Tax is more than BEPS – Ways to strengthen business competitiveness", is particularly timely.

Tax is certainly more than BEPS (base erosion and profit shifting), more than compliance. The Hong Kong SAR Government deploys tax as a strategic tool to strengthen the competitiveness of our economy and to enable our community to flourish.

That's certainly true of the two-tiered profits tax, in effect since April 2018. It was designed to reduce the tax burden on companies, especially SMEs and start-ups. And, in doing so, build a more favourable business environment.

We also see value in using tax concessions to help specific economic sectors.

Earlier this year, we secured the Legislative Council's support in providing tax incentives for qualifying ship lessors and leasing managers, as well as insurance businesses.

In this year's Budget, I also announced a proposal to provide tax

concessions for carried interest payable by private equity funds in Hong Kong.

The goal is to attract capital and talent, so as to boost Hong Kong's status as an international asset- and wealth-management hub, while creating business opportunities in professional services.

Let me return now to that far-reaching, four-letter acronym: BEPS. Policymakers worldwide have good reasons to be concerned about base erosion and profit shifting. Digitalisation has revolutionised the way business works, creating challenges to align taxation with value creation.

BEPS 2.0 is built on two pillars. The first is a digital tax. It allows markets, or user jurisdictions, to tax digital businesses and consumer-facing businesses that lack a physical presence.

The second pillar is commonly known as the global minimum tax. This seeks to ensure that multinational corporations pay a minimum level of tax on their profits. It hopes, too, to stop jurisdictions racing to the bottom with their corporate tax rates.

The OECD released its blueprints for the two pillars in October, detailing key policies and identifying issues still in need of agreement.

The OECD now hopes to reach a political agreement among the participating jurisdictions by the middle of next year. At that point, we should have a clearer idea as to how and when BEPS 2.0 will be implemented globally.

Given our small and open economy, Hong Kong will inevitably be affected by this international development. The imposition of a global minimum tax rate is likely to mean an additional tax burden, and compliance costs, to some multinationals operating in Hong Kong.

It would also have an impact on the overall competitiveness of Hong Kong, given our long-established simple, low and territorial-based tax regime.

Our tax system has served us well over the years. As you all well know. And we need to ensure that it remains attractive to global businesses and investors.

That said, I don't believe we need to be overly pessimistic. As today's theme underlines, tax is more than BEPS. When tax becomes a less important consideration for companies in determining where to locate, other factors will emerge. These will play a larger role in the post-BEPS 2.0 era.

I'm speaking of our "one country, two systems" framework and our formidable institutional strengths. They include our rule of law, independent judiciary, free and open society, unfettered flow of capital, people and information, advanced market infrastructure and regulatory framework, as well

as the multicultural talent pool we are blessed with.

Then there are major national strategies, the Guangdong-Hong Kong-Macao Greater Bay Area development and the Belt and Road Initiative. They will offer boundless opportunities for our businesses, investors and professional service providers long down the road.

In short, ladies and gentlemen, if we can maintain our fundamentals, our longstanding strengths, if we can continue to respond to challenges with the determination we have long demonstrated as an economy, and a community, Hong Kong will remain a business-friendly, internationally competitive economy.

It was with that in mind that I set up an Advisory Panel on BEPS 2.0, earlier this year. The Panel includes scholars, tax experts and members of the business community. They are now reviewing BEPS 2.0 and its potential impact on Hong Kong's business competitiveness, and I look forward to their recommendations.

We have also held a number of sessions with varying business sectors to get their views on how Hong Kong can best respond.

And, of course, the Government will continue to participate in the OECD's discussions.

The OECD, let me add, is now conducting a public consultation regarding the two pillars. I encourage you to get involved, to make your views known. The OECD's public consultation continues to December 14.

Very soon after that, the year 2020 will, thankfully, be done with. I'm sure most of us can't wait to say goodbye to this extraordinarily difficult and troubling year. The pandemic has derailed our economy, and our community has suffered terribly.

But we are endlessly adaptable and resilient people. And that indomitable spirit, the spirit of Hong Kong, will see us past the pandemic and the post-pandemic economic malaise, too. Of that I am confident.

I, for one, look forward to the time when taxes – considering them, presenting them and getting them – are all that I need worry about.

I wish you all a rewarding Conference and the best of business, and health, in the coming year.

Thank you.