

Speech by FS at 2021 Hong Kong Chartered Tax Adviser Conference (English only)

Following is the speech by the Financial Secretary, Mr Paul Chan, this morning (December 3) at the 2021 Hong Kong Chartered Tax Adviser Conference – Post-BEPS 2.0 Era: Ways for Hong Kong to Excel Under the New Normal and After the Pandemic:

Webster (President of the Taxation Institute of Hong Kong, Mr Webster Ng), ~~æŒã%`éf`é••~~ (Deputy Director-General of the Department of Administration and Finance, the Liaison Office of the Central People's Government in the Hong Kong Special Administrative Region, Mr Steven Li), Ashley (Commissioner of Inland Revenue, Mr Tam Tai-pang), distinguished guests, ladies and gentlemen,

Good morning. It's a pleasure to join you today for the 2021 Hong Kong Chartered Tax Adviser Conference.

As Webster noted, it's great to be here, in person, among friends, colleagues and other like-minded professionals, very pleased to meet friends and tax advisers who are joining us online this morning as well.

First, allow me to welcome fellow tax advisers from all over the world. You're here to discuss the emerging new global tax landscape, how it will affect jurisdictions in this region and each and every one of you.

Talking about the emerging new global tax landscape, I have some thoughts on the coming post-BEPS 2.0 era. As you well know, it was developed by the OECD (Organisation for Economic Co-operation and Development) to address tax challenges arising from risks of base erosion and profit shifting in a globalised economy, and to end the race to the bottom in taxation.

There is, I'm pleased to note, overwhelming support for BEPS 2.0. As I understand it, that support now claims 137 jurisdictions, representing more than 90 per cent of the global GDP.

Let's take a quick tour of BEPS' two pillars. Pillar One reallocates taxing rights over the largest, most profitable multinational enterprises. What we are talking about is over 20 billion euros of global turnover, from their home countries to the markets in which they do business and earn profits. And that's regardless of whether they have a presence there or not.

Pillar Two introduces a global minimum effective corporate tax rate of 15 per cent. This will only apply to multinationals with annual group revenue exceeding 750 million euros.

These two pillars are destined to transform the international tax landscape. With the implementation of BEPS 2.0 in 2023, affected multinationals will be required to pay their fair share of tax wherever they

operate, wherever they produce profit.

Hong Kong is fully committed to implementing BEPS 2.0 in accordance with international consensus.

The multi-million dollar question is how – how Hong Kong should position itself in the post-BEPS 2.0 era.

My answer is to build on Hong Kong's inherent advantages.

That means several things. First, we must continue to uphold those advantages, including our low tax rate and the simple, fair and transparent features of our tax regime – features we are justly proud of.

After all, our headline profits tax rate is just 16.5 per cent, more than internationally competitive. And the tax and other burden of operating a business in Hong Kong will still be lower than doing business in most developed economies.

And since all jurisdictions will need to be consistent in applying the rules of BEPS 2.0, the result – a more transparent global tax environment – should level the playing field, rendering our competitive advantages more apparent.

And adding to that are our clean and efficient administration and pool of world-class tax professionals. With all these, Hong Kong should remain attractive to investors from all over the world.

In short, to us, the name of the game is not so much on the additional tax liability that may come from BEPS 2.0, but rather the additional business opportunities that Hong Kong can bring to investors.

Second, while the various preferential tax regimes that Hong Kong has put in place over the past few years to help designated sectors and business activities will lose some momentum as a result of BEPS 2.0, they will continue to support small and medium-sized enterprises (SMEs). These, of course, are not the primary focus of BEPS 2.0.

If these regimes can be applied in a measured manner in conjunction with BEPS 2.0, they can still stimulate our relevant sectors, while creating quality job opportunities and contributing to the diversification of our economy.

Third, when adapting BEPS 2.0 rules into domestic regulations, we will be mindful of the importance of not compromising the simplicity of our tax system, and not to affect SMEs.

Our tax-response measures will be drawn up, as well, with due regard to minimising the compliance costs on affected corporations in Hong Kong.

And our tax certainty and the responsiveness of our tax administration will not be undermined by the new rules and requirements.

The Advisory Panel on BEPS 2.0, which I set up a year ago in June, has kept a close watch on OECD discussions and is in close communication with our business community.

The Panel is now scrutinising the rules on Pillar Two, released by the OECD in end-November, and will soon provide me with recommendations in finalising our response.

What's clear is that the international reforms, and the jurisdictions driving them, emphatically reject global taxation's race to the bottom.

Some multinationals, of course, may consider corporate restructuring in response to the new international tax rules.

We are confident that Hong Kong will remain the most desirable location for setting up headquarters and regional offices. In that regard, our growing economic ties with the Mainland, and the far-reaching opportunities presented by the Guangdong-Hong Kong-Macao Greater Bay Area, should make all the difference – today, tomorrow and long down the taxing road.

In charting our course to the future, we count on your participation and wise counsel.

Rolling out the legislation necessary to implement the tax rules under BEPS 2.0 will need to be done under a very tight timeline. We will be consulting you in the coming year on this, and the overall framework for BEPS 2.0's implementation.

I look forward to hearing from you, to getting your thoughts on how best to maintain the singular strengths and enduring attraction of the Hong Kong tax system.

My thanks to the Taxation Institute of Hong Kong for once again organising this essential annual gathering. The Institute, let me add, turns 50 in 2022. It will, I'm sure, be a very good year – for the Institute, and for each and every one of us.

I know you will enjoy this morning's conference, as well as the Cross-Border Tax Conference, which begins right after lunch today.

Thank you.