

TLRP – INTERNATIONAL CONFERENCE 2015

***RENOVATING THE HONG KONG REVENUE REGIME:
THE LOCAL, CROSS-BORDER &
INTERNATIONAL CONTEXTS***

SATURDAY, OCTOBER 31, 2015

**ACADEMIC CONFERENCE ROOM – FACULTY OF LAW
11/F CHENG YU TUNG TOWER
CENTENNIAL CAMPUS - HKU**

PROGRAMME

REGISTRATION: 9.00 – 9.30 AM

INTRODUCTION & WELCOME: 9.30 – 9.45 AM

OVERVIEW – WHY WE ARE HERE: 9.45 – 10.00 AM

Professor Richard Cullen (HKU)

COMPARATIVE REVIEW SESSION 1: 10.00 – 10.30 AM

Comparative Tax Reform Approaches: New Zealand & Australia
Professor Adrian Sawyer (University of Canterbury, New Zealand)

COFFEE BREAK: 10.30 – 11.00 AM

COMPARATIVE REVIEW SESSION 2: 11.00 – 11.30 AM

Tax Reform Processes: Singapore & Mainland China
Professor Nolan Sharkey (UWA)

DISCUSSION: 11.30 – 12.00 PM

LUNCH: 12.00 – 1.30 PM

THE RENOVATION AGENDA

THE LOCAL CONTEXT: 1.30 – 2.30 PM

Tax Reform Options and Expenditure Challenges
Associate Professor Wilson Chow (HKU)
Professor Richard Cullen (HKU)

COFFEE BREAK: 2.30 – 3.00 PM

THE RENOVATION AGENDA

CROSS BORDER & INTERNATIONAL CONTEXT: 3.00 – 4.30 PM

Interaction with Mainland China and International Tax System Impact
Ms Li, Xin (Haikou College of Economics) & Professor Yang, Bin (Xiamen University)
Professor Zhu, Yansheng (Xiamen University)
Dr. Doreen Qiu (Xiamen University)

PLENARY DISCUSSION & CLOSING REMARKS: 4.30 – 5.15 PM

RENOVATING THE HONG KONG REVENUE REGIME: THE LOCAL, CROSS-BORDER & INTERNATIONAL CONTEXT

(Single Full-day Conference)

OCTOBER 31, 2015

1. OVERVIEW

Hong Kong has developed, over decades, a Revenue Regime (RR) that is astonishing for its simplicity, stability and adequate resourcing of public services – not least when compared to other developed jurisdictions, most of which need to cope with entrenched, far more complex tax systems. Articles 106-108 of the Basic Law also direct that these fundamentals of the RR should be retained. The system's long history of satisfactory performance, however, does not imply or guarantee future fitness. More than ever, we need to understand the strengths and weaknesses of the RR.

Increasingly, the Hong Kong RR operates within the context of policy-shaping interaction both with the Mainland Tax System and the International Tax System. For example, there are notably increased calls, on the HKSAR, for detailed exchange of tax-related information and the Base Erosion and Profit Shifting (BEPS) Project initiated within the influential Organization of Economic Cooperation and Development (OECD) is aimed at re-setting the International Tax System agenda.

The RR in Hong Kong has historically, and especially since World War II (WWII), typically generated a yearly surplus of public revenues (over recurrent expenditure). Unlike the clear majority of developed jurisdictions (post WWII): Hong Kong has been able to operate without the need to rely on debt to finance either current expenditure or, normally, capital expenditure; and it has accumulated substantial official reserves. The RR may 'look' unusual – but no matter what challenges have been thrown at it pre-or-post-1997 including the Asian Financial Crisis which began in mid-1997 and continued to have a negative impact on Hong Kong public revenue for 6 to 7 years with Hong Kong relying on deficit financing (from official reserves) for the longest period since the end of WWII, it seems to hold steady and then bounce back.

Some fundamental features of the RR as they have applied over the last several decades include: Limited Size of Government - Government Expenditure/GDP: 15%-18% of GDP; Tax: Maximum rate on incorporated entities: typically 16.5%; Unincorporated 15% (rates subject to increases on occasions); and Salaries Tax: Maximum average tax rate on net income, typically 15%. Moreover, as noted, Hong Kong has virtually no debt – and also substantial (indeed, massive) official reserves. The RR has retained, over many decades, a basic simplicity which has: (a) kept compliance-costs for taxpayers notably lower than is the case in most comparable jurisdictions; and (b) played a significant role in keeping the RR relatively "understandable" for most taxpayers.

The HKSAR government has begun to pay notably greater attention to the need address a range of longer-term livelihood issues. Policy areas of concern include: tackling poverty and inequality; the housing (and livelihood) aspirations of Hong Kong people; ensuring proper welfare support for an ageing population and addressing an array of significant environmental (and energy) concerns. Initiatives aimed at addressing each of these challenges will require significant public expenditure backed up by a sustainable RR.

The RR will also need: to support and further develop the full span of Hong Kong's first-rate general infrastructure; to meet and respond well to the growing economic - and fiscal – interaction with Mainland China; and to respond effectively to international economic and fiscal developments – arising from the BEPS Project, for example.

2. MATTERS FOR DISCUSSION

The HKSAR, in 2015, is in the fortunate position that the RR has fostered the creation of very sound fiscal foundations. We take it as a basic principle, that the simple, low tax structure in Hong Kong has, for this reason and more generally, proved its (comparative) worth. These essential characteristics of the RR, thus, need to be sustained. A number of key RR research areas which raise particular questions (today and looking forward) have been identified in the literature. These questions relate both to the operational circumstances of the current RR and the sustainability of fundamental features of the RR in coming decades. They include:

DIRECT TAX: The Inland Revenue Ordinance (IRO) has both proved itself effective in terms of (low rate) revenue raising and low compliance (simplicity) tests. How can these features most effectively be sustained over the longer-term?

LAND-RELATED REVENUES: To what extent is the Land-Related-Revenue-System (LRRS) operating to maintain the low rate simple (IRO) Tax System? To what extent is the LRRS: amplifying the costs of doing business and maintaining social infrastructure (including housing) in the HKSAR? How might any reform of the LRRS fit with wider options for renovating the RR?

NARROW TAX BASE: How serious a problem, in the longer term, is the narrow tax base in Hong Kong.?

INDIRECT TAXES: Is there any role in the HKSAR for a modern indirect tax regime such as a Goods and Services Tax (GST) to help in addressing the narrow tax base issue – and to assist in funding existing and new public policy initiatives? What harm might the introduction of a GST do the low rate, simple principles under-pinning the RR?

GREEN TAXES: Given the significant environmental, quality of life problems confronting Hong Kong, to what extent should notably greater reliance be placed on behaviour-modifying green taxes in the future? How might any revenues thus collected be deployed?

OTHER REVENUE SOURCES: How important (and stable) as an ongoing revenue source is Stamp Duty? Is this a good tax to retain within the RR over the longer-term?

FISCAL RESERVES: Given the current and coming expenditure pressures – and given the aim of renovating the RR to prepare to cope with new expenditure patterns, what role might the Fiscal Reserves (and the income arising thereon each year) play – especially the General Fiscal Reserves (GFRs) and also the LRRS Reserves (currently earmarked just for capital expenditure)?

INTERACTION WITH INTERNATIONAL TAX RULES: In 2014, Hong Kong signed its first Tax Information Exchange Agreement (TIEA) with the US. Further TIEAs have been signed since with certain EU jurisdictions. Hong Kong, like other international financial centres, is under notable pressure to comply with these advanced Tax Exchange of Information standards (including, it would seem, from Mainland). Today, also, the BEPS Project is further shaping these interaction requirements. How can the HKSAR best respond to these new pressures and demands.

OTHER RR ISSUES: What lessons can be learned from the interaction between the Mainland and HKSAR RRs since 1997? What is working well – and where do continuing problems arise? What sorts of new challenges might be expected over the next 10-20 years?

This list provides a provisional framework for the focus of the Conference discussion.