

# **RENOVATING THE HONG KONG REVENUE REGIME**

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# RENOVATING THE HONG KONG REVENUE REGIME



- **2015: Hong Kong is in the fortunate position that the Revenue Regime (RR) has fostered the creation of very sound fiscal foundations.**
- **The simple, low tax structure in Hong Kong has, for this reason and more generally, proved its (comparative) worth over many decades.**
- **These essential characteristics of the RR need to be sustained.**
- **A number of key RR research areas which raise particular questions These questions relate both to the operational circumstances of the current RR and the sustainability of fundamental features of the RR**

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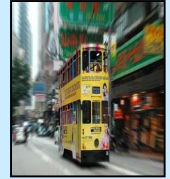
## DISCUSSION POINT:

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

**TAX**  
**BASE**

**TAX**  
**BASE**

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**Q: A NARROW TAX BASE?**

**A: SURELY YES.**

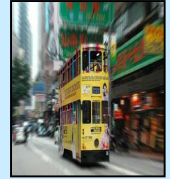
**FOR EXAMPLE:**

**ABOUT 60% OF WAGE AND SALARY EARNERS  
& MANY SMEs HAVE INCOMES LOWER THAN  
THE TAXABLE THRESHOLD.**



A 3D graphic of the number '60%' in a bright green color, set against a white background.

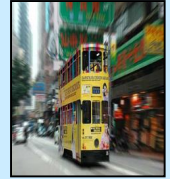
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**BUT A RATHER WIDE REVENUE BASE....**



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## THE ORIGINS OF REVENUE POLICY IN HONG KONG



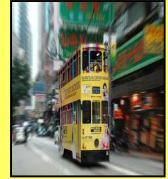
OPIUM \$\$\$ ☹️



LAND \$\$\$\$\$\$ 😊



# RENOVATING THE HONG KONG REVENUE REGIME



**HKSAR GOVERNMENT RETAINS A CORE  
PROPRIETARY INTEREST IN ALL LAND**

**“LARVOTTO”**

**AP LEI CHAU – LOT 129**

**180,000 SQUARE FEET**

**“INDUSTRIAL” -1995**

**SALE: HK\$230 MILLION**

**RESALE: HK\$570 MILLION**

**“RESIDENTIAL” - 2005**

**LEASE MODIFICATION**

**PREMIUM: HK\$3.9 BILLION**



**Lands Department**

The Government of the Hong Kong Special Administrative Region

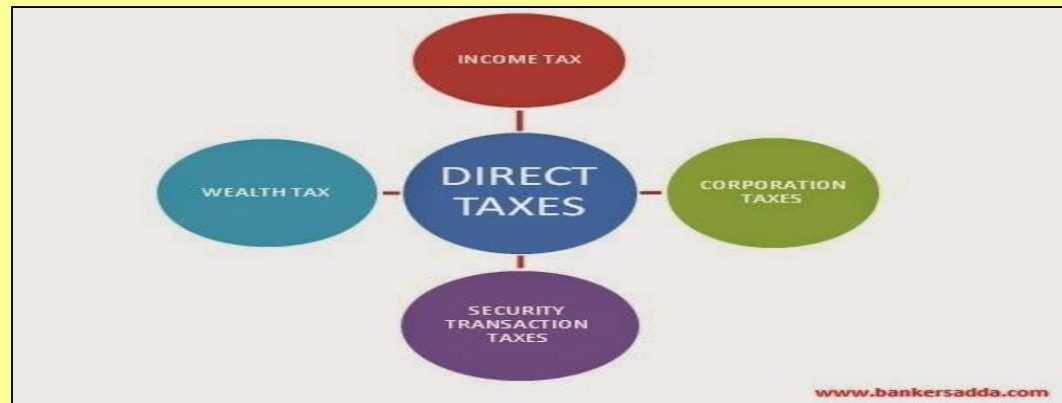


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## DISCUSSION POINT:

- **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?





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## DISCUSSION POINT:

- **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 the low rate, simple principles underpinning the RR?



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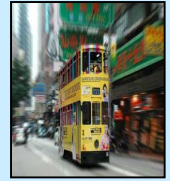


## DISCUSSION POINT:

- **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?

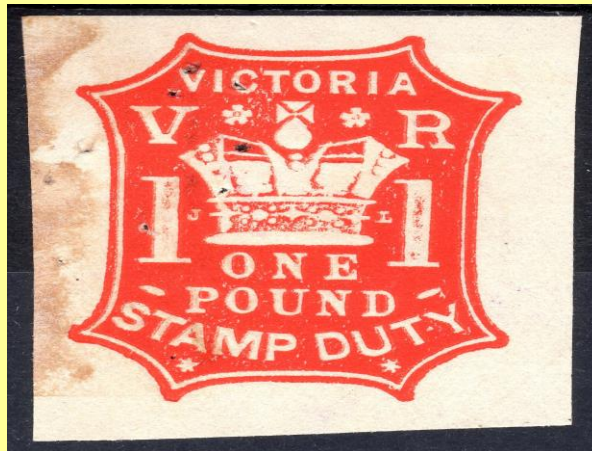


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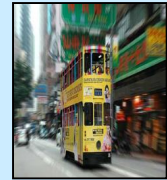


## DISCUSSION POINT:

- **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?



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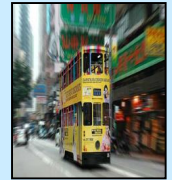


## DISCUSSION POINT:

- **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 Land Fund Reserves (currently earmarked just for capital expenditure)?



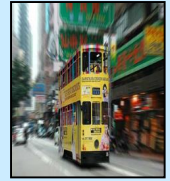
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## DISCUSSION POINT:

- **INTERACTION WITH INTERNATIONAL (& MAINLAND) 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 **BASE EROSION & PROFIT SHIFTING (BEPS) Project** is further shaping these interaction requirements. How can the HKSAR best respond to these new pressures and demands.?

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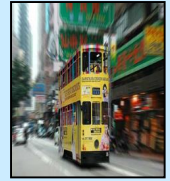


## DISCUSSION POINT:

- **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?
- **OTHER ISSUES??**



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**LET'S BEGIN THE DISCUSSION**

