

# 7<sup>th</sup> Meeting of Heads of SGATAR Training Institutions

**Identifying and building the  
future capability requirements to address  
challenging taxation administration issues**



**Inland Revenue Department  
Hong Kong Special Administrative Region  
of The People's Republic of China**



## **Tax System of Hong Kong**

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- **Simple and low tax rates**
- **Territorial basis**
  - ◆ Only income or profits arising in or derived from Hong Kong are chargeable
- **Direct taxes**
  - ◆ Profits tax – business profits
  - ◆ Salaries tax – employment income
  - ◆ Property tax – property rental income

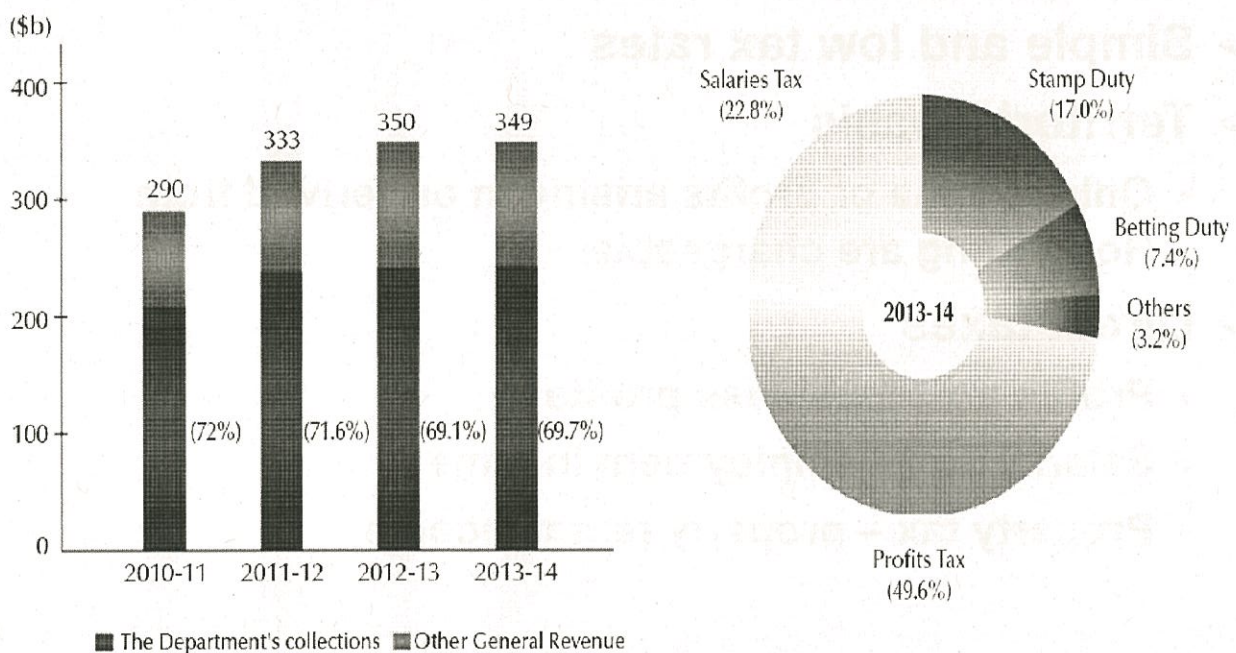


# Tax System of Hong Kong

- No withholding tax on interest income and dividend
- No tax on
  - ◆ General consumption
  - ◆ Capital gains
  - ◆ Estate



## Tax collection



## **Taxation administration issues that require the development of new or different capabilities**



### **Meet taxpayers' increasing demand with reduced budget**

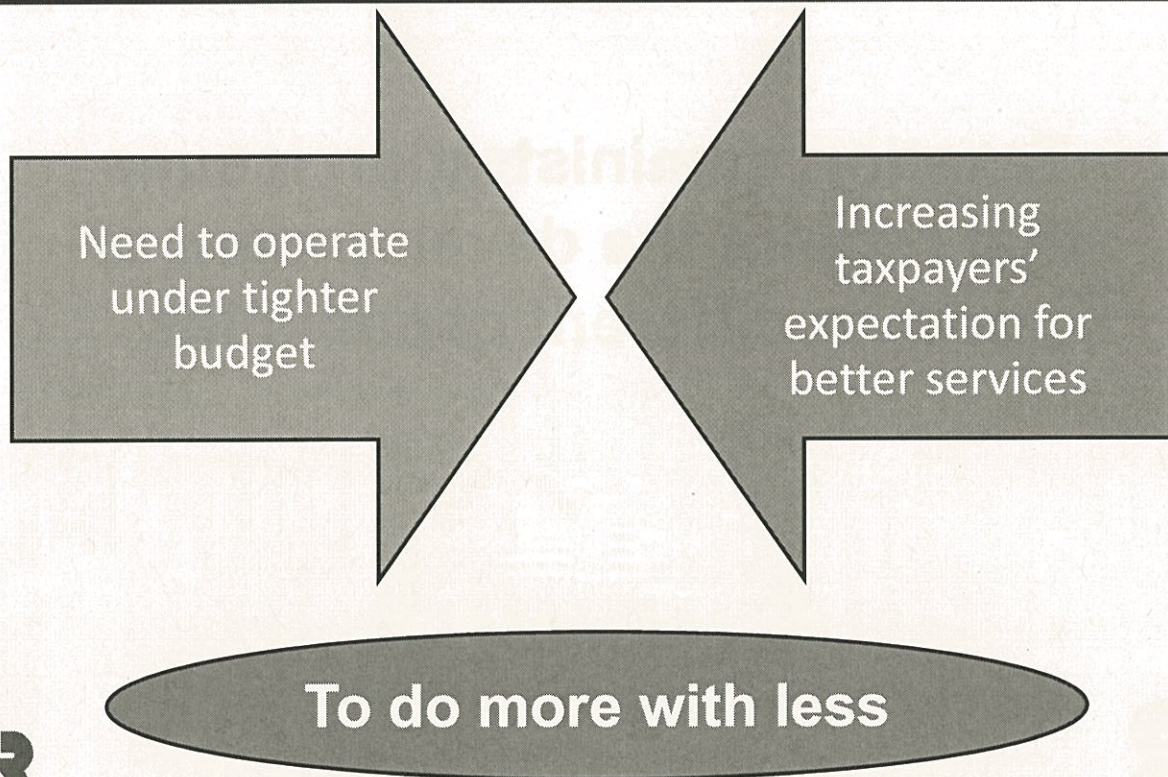
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- **Concern about the long term fiscal sustainability**
  - ◆ **population is ageing fast**
  - ◆ **government revenue is narrow-based and volatile**
- **Need to contain the growth in public expenditure and maximise administrative efficiency**



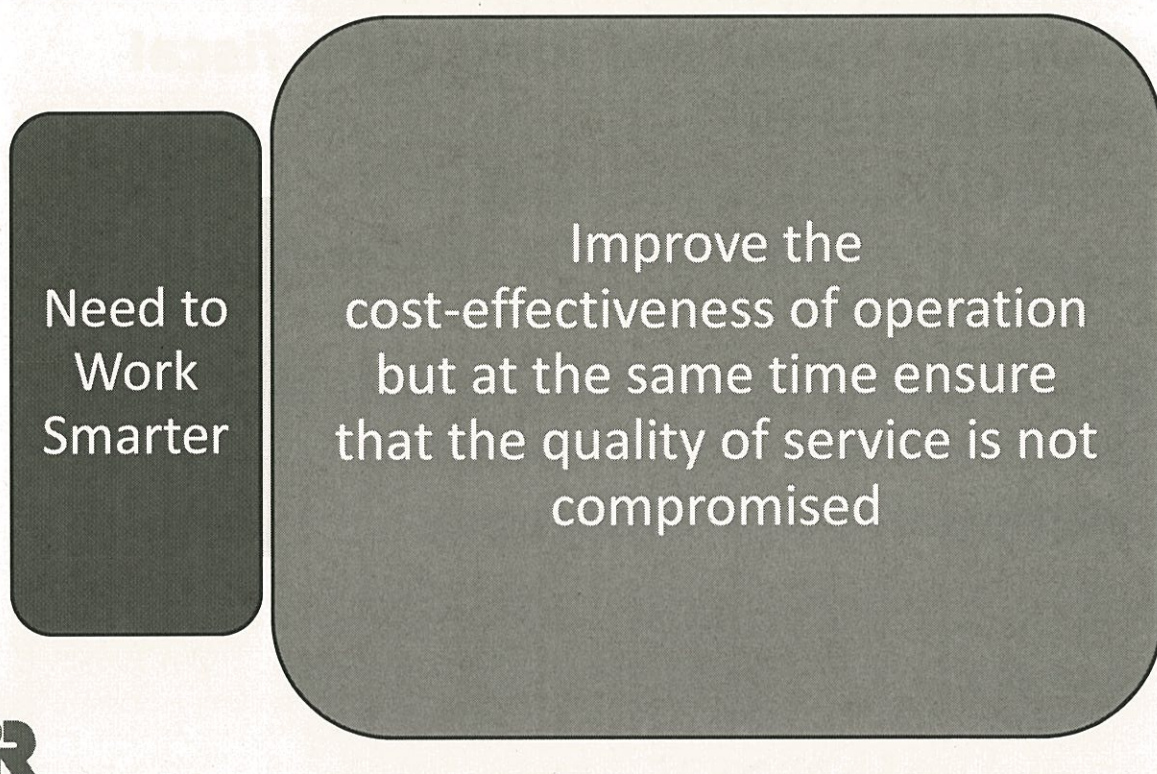
## Meet taxpayers' increasing demand with reduced budget

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## Meet taxpayers' increasing demand with reduced budget

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## Challenges brought about by globalisation

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### More opportunities for international tax planning

Restructure business, relocate intangible assets and operations to low tax jurisdictions

Digital technologies - goods and services supplied to customers from remote locations

MNEs claim that their profits were not sourced in Hong Kong



## Challenges brought about by globalisation

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Transfer pricing arrangements

Arrange transactions with connected non-resident persons not on an arm's length basis

Manipulate the amount of taxable profits



## Challenges brought about by globalisation

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Commercial activities become more complicated and globalised

More difficult to obtain full information and documents to ascertain the relevant facts

Increased difficulties in ascertaining the source of profits



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## Challenges brought about by globalisation

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International transactions involve a number of parties in different geographical locations which are not governed by our information seeking powers

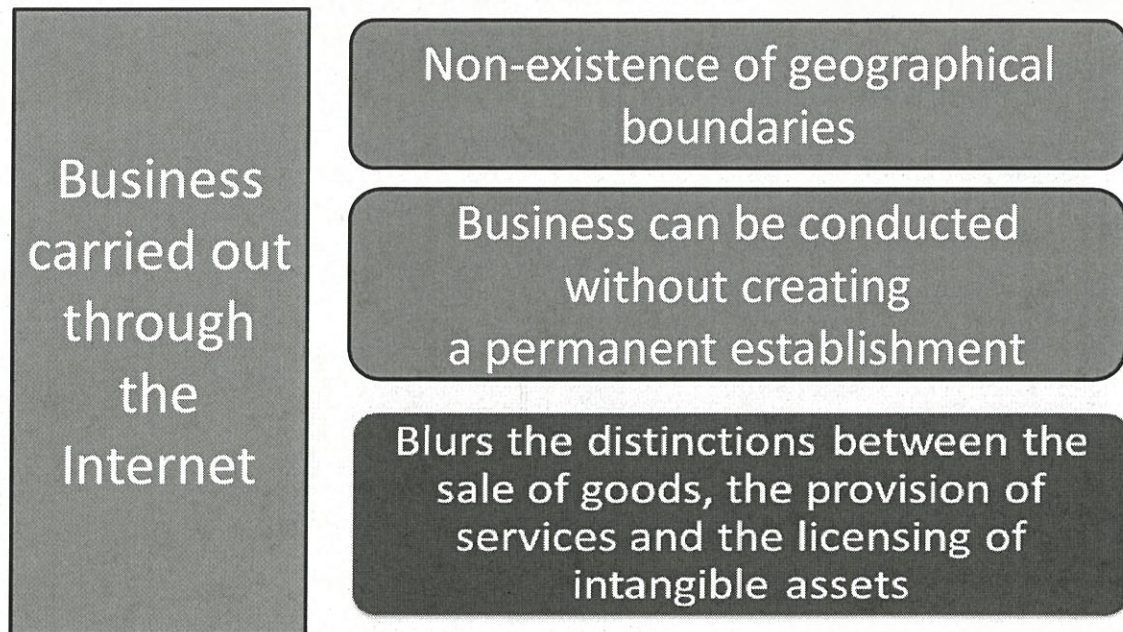
Loss of audit trail



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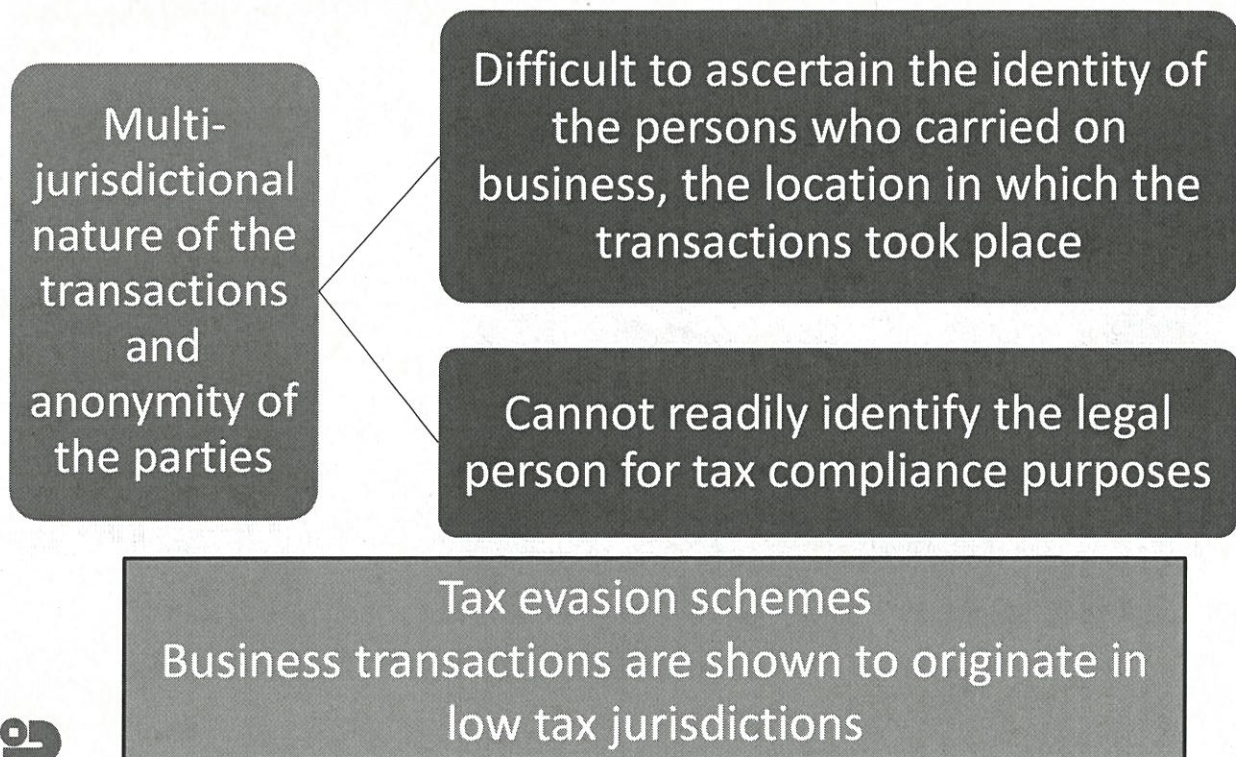
# Challenges brought about by e-Commerce

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# Challenges brought about by e-Commerce

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## Development in international taxation

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Ability to handle International taxation issues and resolve disputes

- Familiarise with international standards
- Learn how to interpret the articles in tax treaties
- Resolve disputes over double taxation through Mutual Agreement Procedure
- Tackle cases involving transfer pricing and applications for Advance Pricing Arrangements



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## Development in international taxation

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Ability to handle International taxation issues and resolve disputes

- Ascertain the tax residency of taxpayers
- Deal with requests for issue of Certificate of Resident Status
- Handle EoI requests



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# Development in international taxation

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Increasing aspirations in the international community to strengthen cross-jurisdictional collaboration and enhance tax transparency

Base Erosion and Profit Shifting project

Automatic exchange of information requirement



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# Development in international taxation

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Increasing aspirations in the international community to strengthen cross-jurisdictional collaboration and enhance tax transparency

Need more resources to expand treaty network and fulfil obligations

Update tax legislation to conform to the new requirements of international standards



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# Thank You



**Inland Revenue Department  
Hong Kong Special Administrative Region  
of The People's Republic of China**



Kementerian Keuangan Republik Indonesia  
Direktorat Jenderal Pajak

# TAX ADMINISTRATION ISSUES IN INDONESIA

THE DIRECTORATE GENERAL OF TAXES  
MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA

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## OUTLINE

About Indonesia

DGT Operational Units

Tax Administration Issues



Kementerian Keuangan Republik Indonesia  
Direktorat Jenderal Pajak

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# INDONESIA

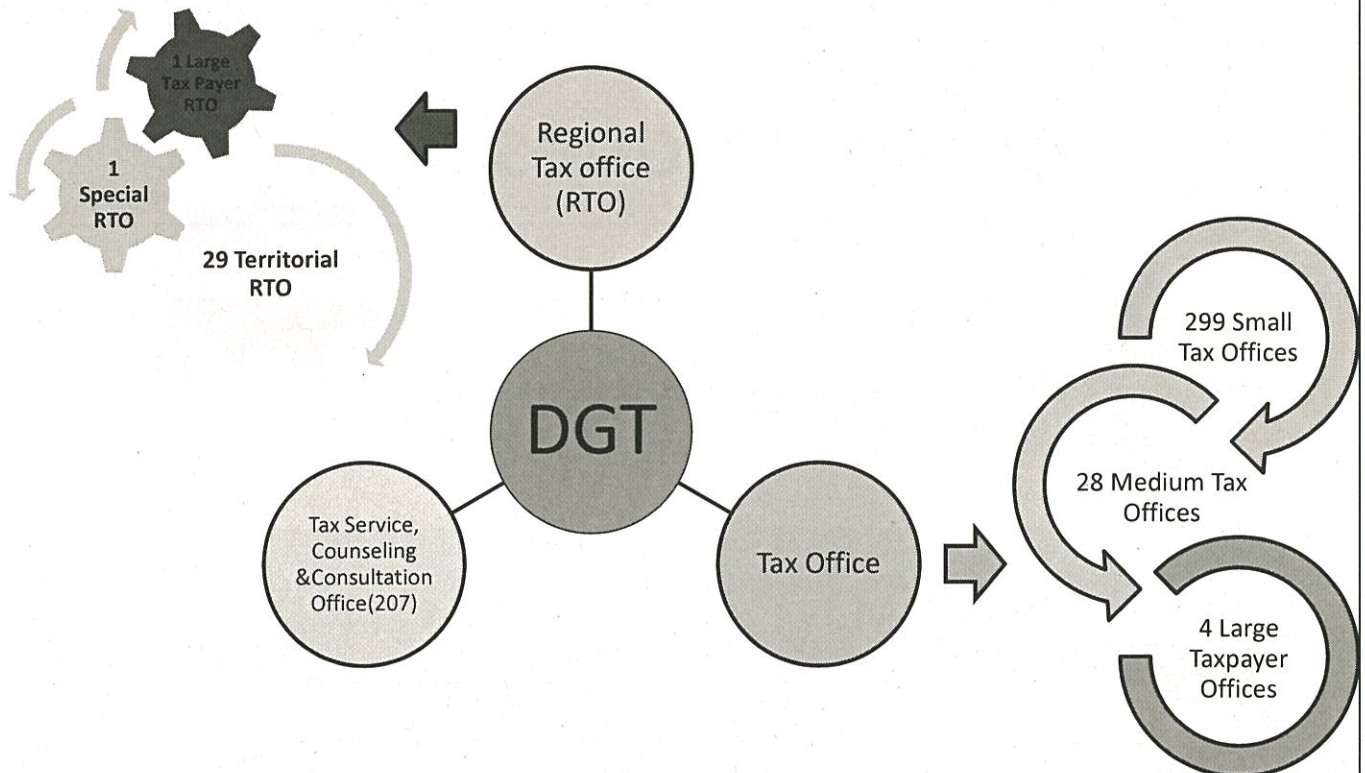


Area (skms)	1,919,440
Islands	13.466
Population (est.2014)	253.603.649
Provinces	34
GDP (in billion 2013)	Rp 9.083.972,20
Growth GDP	5%-6%



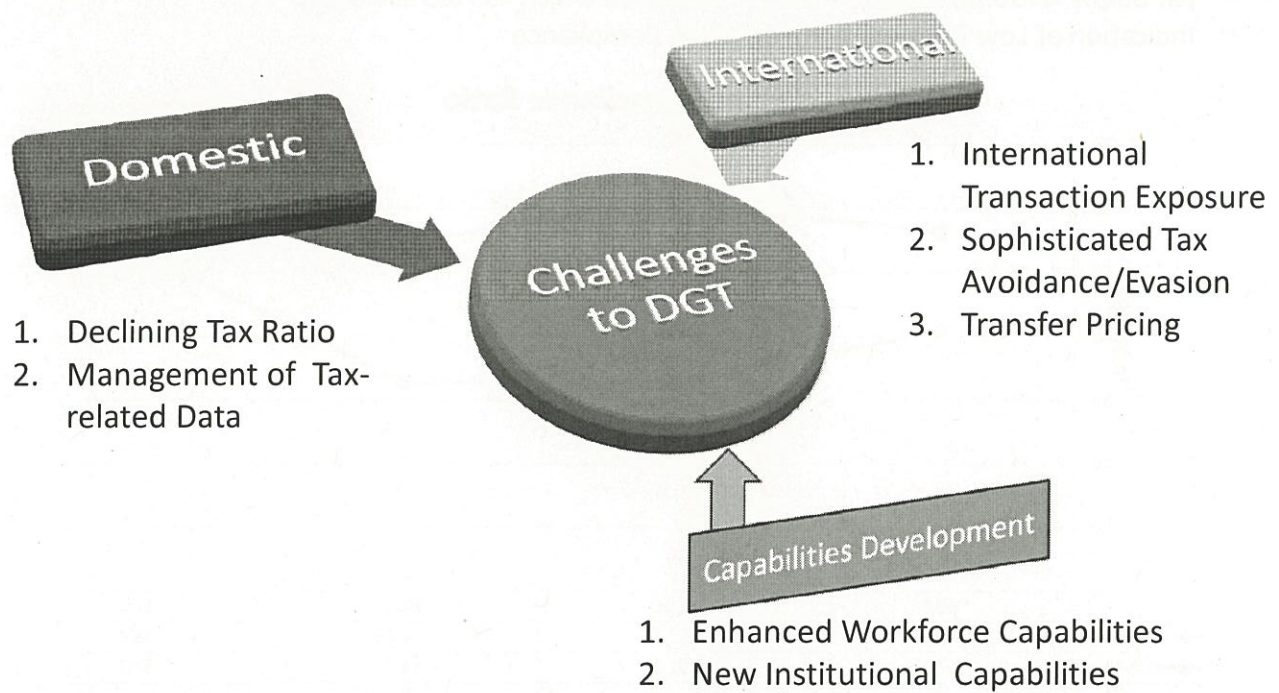
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## DGT OPERATIONAL UNITS



Kementerian Keuangan Republik Indonesia  
Direktorat Jenderal Pajak

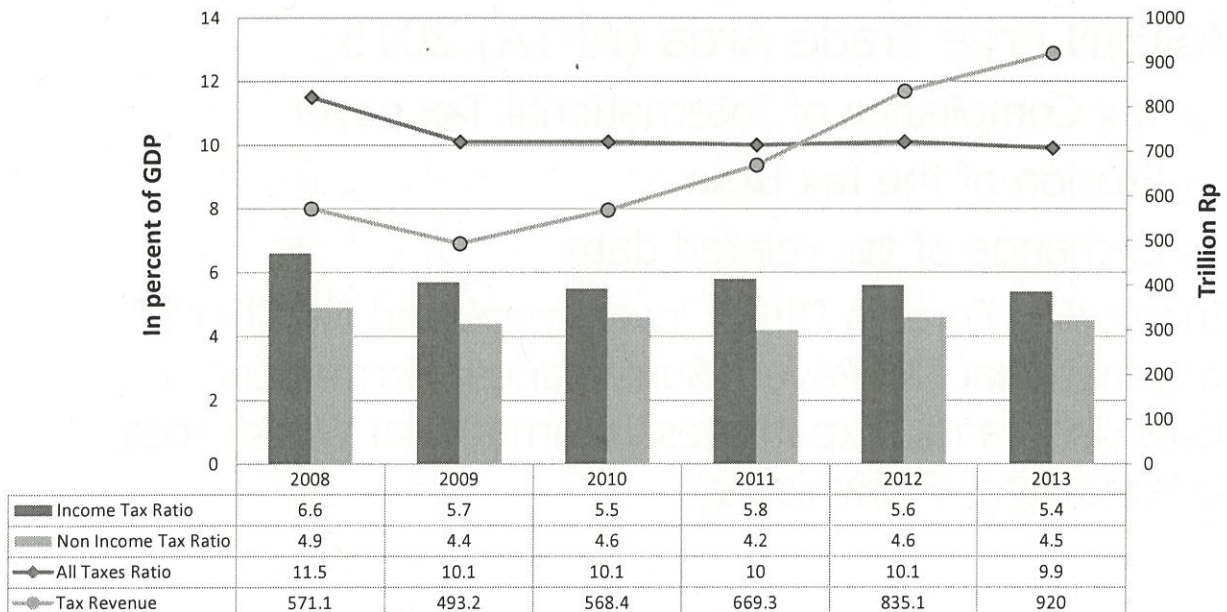
# TAX ADMINISTRATION ISSUES



# TAX ADMINISTRATION ISSUES

**Tax revenue increasing nominally, but decreasing in percent of GDP**

Tax Revenue 2008-2013

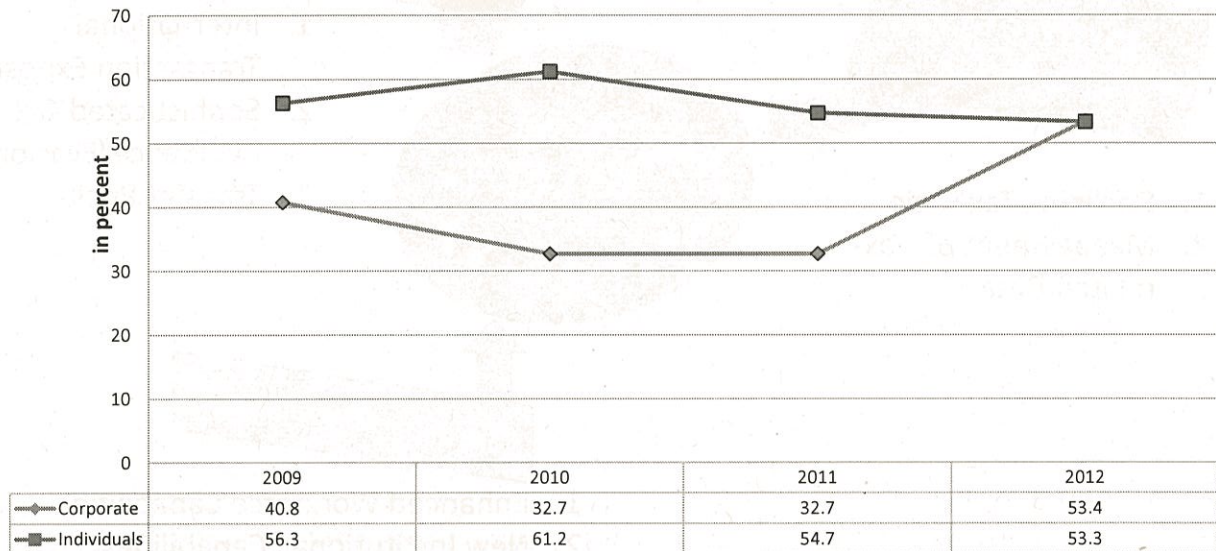


# TAX ADMINISTRATION ISSUE

## Low Compliance of Filing Tax Return

- Far Below National Target of Filing Compliance which is 70% averagely
- Indication of Low Payment and Reporting Compliance

Filing Compliance Ratio



Source: DGT Annual Report



# TAX ADMINISTRATION ISSUE

## INTERNATIONAL ISSUES

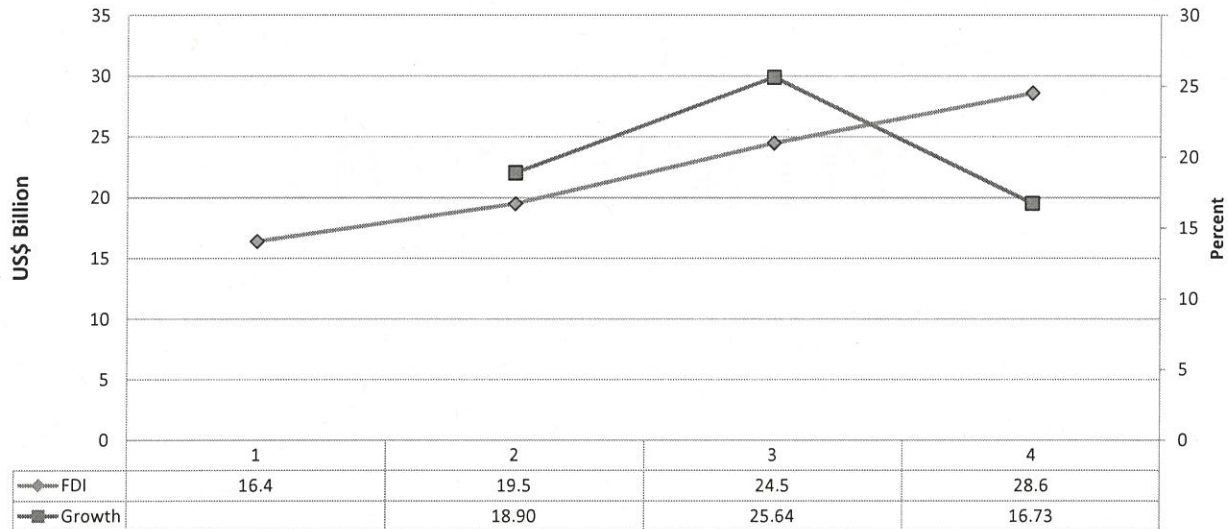
- ASEAN Free Trade Area (AFTA) 2015
  - Tax Compliance of International Tax payer
  - Erosion of the tax base
  - Exchange of tax related data
- Increasing Foreign Direct investment and Number of International Tax Payer (Subsidiaries, Permanent Establishments, Expatriates/International Workforces, International Franchisors)



# TAX ADMINISTRATION ISSUE

## Exposure of International Transaction : Increasing FDI

Foreign Direct Investment Realization 2010-2013



Source:  
The Investment Coordinating Board RI, Press release Q4 2013

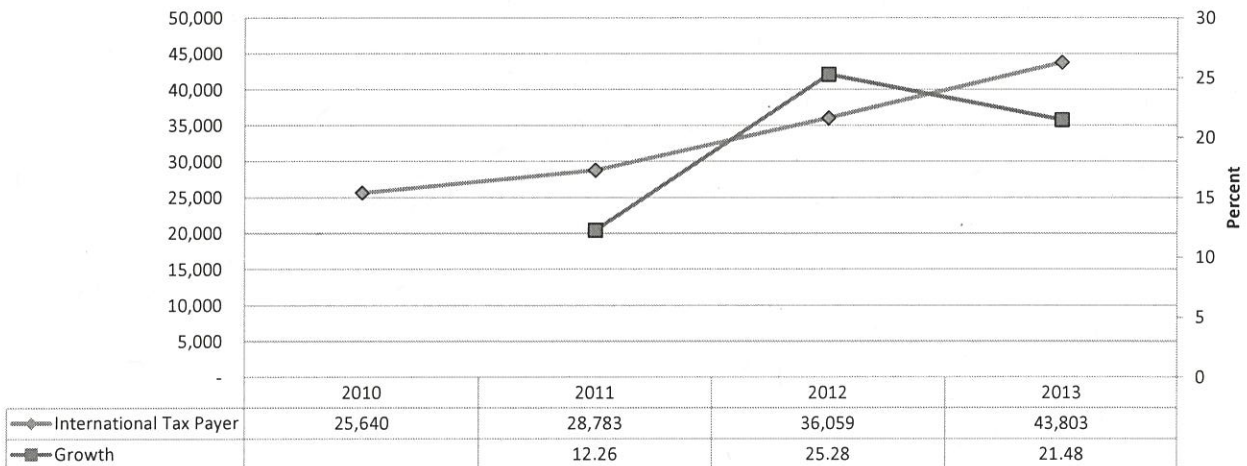


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# TAX ADMINISTRATION ISSUE

## Exposure of International Transaction : Increasing International Taxpayers

International Taxpayer 2010-2013



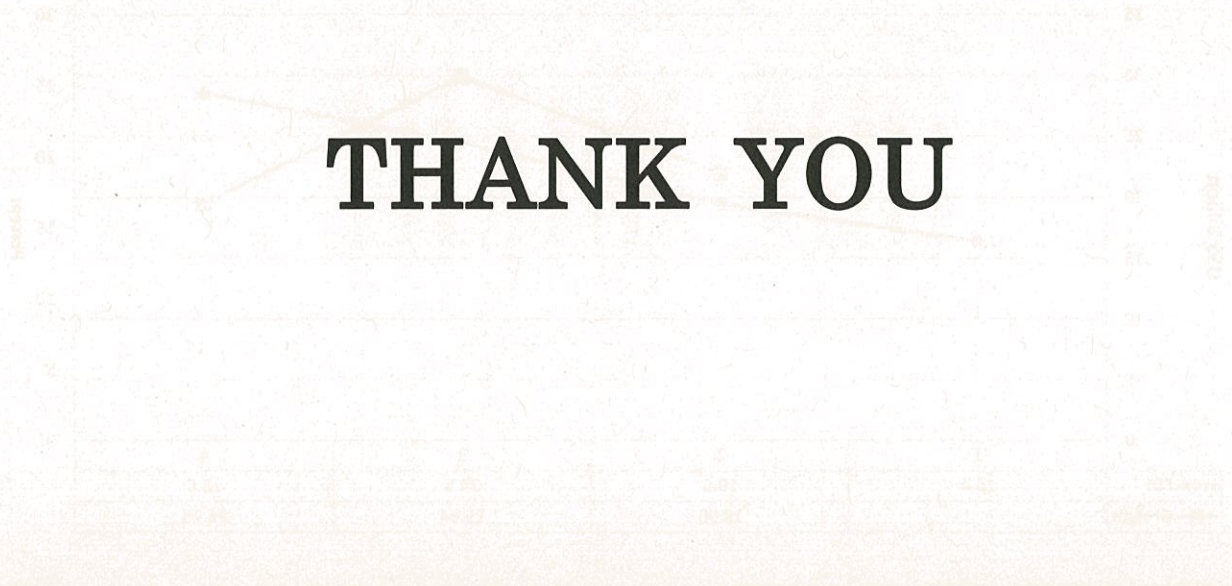
Note:

1. Included Permanent Establishment, Expatriates, and Subsidiaries established in Indonesia
2. Excluded: Oil and Gas Companies, Foreign Owned Companies Listed in Indonesia Stock Exchange, and Foreign Owned Companies Registered in Large Taxpayer Tax Offices



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## Foreign Direct Investment Realization 2010-2013



# THANK YOU



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Direktorat Jenderal Pajak

## Exposure of International Transaction : Increasing International Taxpayers

### International Taxpayer 2010-2013



1. Included Permanent Establishment, Resident and Subsidiary established in Indonesia  
2. Excluded Off the Gas Companies, Foreign Banks, Companies that in Indonesia Stock Exchange, and Foreign  
Owned Companies established in Indonesia