



# UPDATE

on Improving Tax Environment

## **The Belt and Road Initiative Tax Administration Cooperation Mechanism**

### ***EDITOR'S NOTE:***

The strong desire for economic recovery after the COVID-19 pandemic has fired jurisdictions with the enthusiasm for enhancing business environment and they gradually adopted it as a national strategy. The business environment is the sum of the external environment involved in the life cycle of market players from entry, operating, to exit, including political, economic, rule-of-law, market, and tax factors. A jurisdiction's business environment is related to its investment attraction, foreign exchange and international competitiveness, and is an important economic soft power. The *Nur-Sultan Action Plan (2022-2024)* adopted by the Second BRITACOF has listed improving tax environment as one of the main topics and encouraged BRITACOM members to improve their tax environment by preparing taxation guidelines, optimizing procedures of tax law application, providing targeted services to taxpayers and improving taxpayers' compliance. To sum up, in order to facilitate the ease of tax business environment, a two-pronged approach from tax system and administration could be followed, i.e., reducing tax burden which hampers the operation and profitability of enterprises and enhancing tax administration capacity which mainly affects the experience and feelings of enterprises in tax-related aspects. The purpose is to encourage enterprises to focus on business development and minimize unnecessary losses in the process of operation, so as to effectively lift the burden on enterprises, stimulate their vitality, and promote economic growth.

The Special Edition of the BRITACOM Update on Improving Tax Environment is issued, aiming to provide a platform for BRITACOM Council Members, Observers, and other stakeholders to exchange views and share experiences for improving the tax environment and providing reference. Issue 4 is an article on applying digitalised tax administration to enhance taxpayer services and improve tax compliance in Hong Kong, China. At the same time, this essay also focuses on the tax challenges arising from digitalisation. In response to potential risks, the IRD will continue to work

with the relevant bureau to monitor the international developments, make assessments and devise response measures.

Later we will share more experience of tax environment construction from countries and regions and views of international organizations and tax experts with you. If you would like to provide material and experience to the Special Edition, please contact us via email [secretariat@britacom.org](mailto:secretariat@britacom.org).



# The Use of Technology to Enhance Taxpayer Service and Improve Tax Compliance —Experience of Hong Kong, China

**Abstract:** The Inland Revenue Department (IRD) is the authority which administers the tax law in the Hong Kong Special Administrative Region of the People’s Republic of China. This article shares the IRD’s experience in applying digitalised tax administration to enhance taxpayer services and improve tax compliance. This can be achieved through developing user-friendly digital platforms for filing and communication, the use of prepopulated tax returns, fillable PDF public forms and online systems for paying taxes, and providing accessible and easy-to-understand tax information on the Internet.

**Keywords:** Inland Revenue Department; Taxpayer service; Electronic service; Tax compliance; Digitalised tax administration

## 1. Introduction

The rapid development and advancement of technologies have moved the world towards a digital era, where technologies have become part of people’s daily life. Digitalisation and emerging technologies have opened the doors to new opportunities not just for businesses, but for tax authorities as well to transform their day-to-day operations. Well-designed and efficiently implemented electronic systems not only reduce the time and effort required by taxpayers to meet their tax obligations but also offer significant benefits to tax authorities. With the use of technologies, tax authorities may improve the variety and responsiveness of service channels and shift taxpayers from traditional in-person communications to self-help channels.

The Inland Revenue Department (IRD) is the authority which administers the tax law in the Hong Kong Special Administrative Region of the People’s Republic of China (Hong Kong SAR). The IRD is also responsible for the administration of certain duties and fees, e.g., the stamp duty and business registration fee. The IRD’s mission and vision are expressed in its slogan “Tax by the Law, Service from the Heart”. It aims at playing an important role as an excellent tax administration in promoting Hong Kong’s prosperity and stability and developing a customer-oriented culture for delivering services to taxpayers.

In the following paragraphs, the IRD’s experience in applying digitalised tax administration to enhance taxpayer services and improve tax compliance will be shared. This can be achieved through developing user-friendly digital platforms for filing and communication, the use of prepopulated tax returns, fillable PDF public forms and online systems for paying taxes, and providing accessible and easy-to-understand tax information on the Internet.

## 2. eTAX

eTAX is a one-stop taxpayer portal consolidating all the e-services provided by the IRD under a

single platform and an individual can have access to the services provided to him/her via his/her personal eTAX account under eTAX. It offers taxpayers an easy, secure, cost-saving and environment-friendly means to facilitate their compliance with the tax law. In addition to providing a gateway for taxpayers to file their tax returns, eTAX also provides a wide range of online tax services (e.g. e-Stamping of property documents, business registration e-services, electronic notices, electronic payments and lodgement of applications), which enable taxpayers to keep track of their tax position, manage their tax affairs and communicate with the IRD.

Once taxpayers have registered their personal eTAX accounts with the IRD, they can view their tax returns submitted within the last three years online via the Tax Position service. All outstanding tax returns and tax payments will also be listed for their information. When the return filing due date or the tax payment due date is approaching, the system will also generate an e-alert message to the Message Box of the taxpayers' eTAX accounts to remind the taxpayers to file or to pay. At the time of registration for an eTAX account, the taxpayers can also opt to provide a designated email account to the IRD. When the IRD has issued returns, letters or messages to the taxpayers' eTAX accounts, an alert message will be sent to the designated email account to remind the taxpayers to login in their eTAX accounts to read the new messages.

The above measures can reduce the possibility of taxpayers' failure to meet their tax obligations due to accidental negligence or omission, thus increasing the level of voluntary compliance.

When taxpayers use e-filing services, data like personal particulars, spouse information, particulars of last year's allowance/deduction claims and employment information submitted by their employers will be pre-filled on the tax returns. This can make return filing more convenient for taxpayers, and at the same time, reduce the chance of making mistakes. The fields on the returns are guarded by validations. If taxpayers have made a deduction claim exceeding the ceiling allowed by the tax law or omitted to fill in some required information or filled in some inconsistent information in the returns, error messages will pop up and the taxpayers will have to make amendments before they can proceed to complete other parts of the returns. Taxpayers can also access the tax guidelines for a particular item through the hyperlink embedded in the filing screen.

After taxpayers have completed their tax returns in the eTAX accounts, they can choose to view their estimated Salaries Tax Computation instantly based on the information filled in the tax returns. This e-service is available for the majority of Salaries Tax cases and taxpayers can get an idea of their tax liability at the time when they submit the returns through this service, and will have a few months before the due date to prepare for the tax payment, thus reducing the risk of default.

The e-services provided under eTAX are available to taxpayers 24 hours a day and 7 days a week. That means taxpayers can view their tax records, communicate with the IRD or use the services to meet their tax obligations anytime and anywhere.

In processing paper returns, if the IRD staff spot any irregularities or incomplete information, they will manually issue query letters to taxpayers to clarify or obtain further information from taxpayers. In case taxpayers use the e-filing service, the manual effort for screening returns and issuing query letters can be saved and taxpayers can file their tax returns correctly in the first instance. Compared with paper returns, e-returns can impose better control over the information filled in by taxpayers and facilitate them to meet their tax obligations by filing correct tax returns.

### **3. Portals for Automatic Exchange of Financial Account Information (AEOI) and Country-by-Country Reporting (CbC Reporting)**

Hong Kong is committed to effective implementation of AEOI and CbC Reporting. To facilitate reporting by Hong Kong reporting entities, the IRD has developed two secure electronic platforms (i.e. the AEOI Portal and CbC Reporting Portal) for reporting entities to submit notifications and file returns in relation to AEOI and CbC Reporting. The IRD has attached great importance to the confidentiality of information. The portals are safe, secure, and can ensure confidentiality of information exchanged during the process. They make it easier and quicker for entities to comply with their obligations.

### **4. Fillable PDF Public Forms**

To facilitate taxpayers who do not have an eTAX account to meet their tax obligations, the IRD has introduced fillable PDF forms with automatic generation of QR codes. Pre-defined validation rules are incorporated in the forms to guide taxpayers in completing the forms, and any invalid input will be instantly rejected. QR code containing all the input information will be generated automatically after the form is completed. Upon receipt of the forms, the IRD staff will capture the information contained in the QR codes with barcode scanners. The information will then automatically be updated to the database. This new digital instrument facilitates those taxpayers who do not have an eTAX account to file a completed form as required by the IRD and reduce the chance of human error made in completing the forms.

### **5. e-Stamping**

e-Stamping service, which involves printing a stamp certificate online for attachment to the instrument, is an alternative to conventional stamping. Such stamp certificates have the same legal status as conventional stamps imprinted on instruments.

With e-Stamping, there is no need to present original instruments or documents to the IRD. All the user has to do is to input data and submit stamping application. After payment of stamp duty, a stamp certificate can be printed out and be affixed to the document as evidence of stamping.

Advantages of using e-Stamping service include:

- stamping possible anytime, anywhere;
- payment can be made online via Visa, MasterCard, JCB, Union Pay, etc;
- instant issue of stamp certificate after receipt of stamp duty online;

- free online service for checking authenticity of a stamp certificate; and
- one-stop service-submission of tenancy e-forms for reporting tenancy information to the Rating and Valuation Department online after e-Stamping of tenancy agreement.

## **6. e-Payments**

The IRD allows taxpayers to settle their tax liabilities by various electronic means, e.g. payment by phone, bank ATM, or via Internet banking services and Faster Payment System. This not only saves taxpayers' time in queuing up to pay taxes, but also enables taxpayers to fulfill their tax obligations by online payment even if they are physically outside Hong Kong.

## **7. e-Communication Channels**

### **7.1 IRD Website ([www.ird.gov.hk](http://www.ird.gov.hk))**

The IRD website is a very effective channel for disseminating tax information and providing electronic services to the public. With continuous enrichment and updates, the website enables taxpayers to obtain the most current information about Hong Kong taxation in a fast and convenient manner. This will in turn enhance taxpayers' compliance and reduce the work of the IRD.

To facilitate all sectors of the community to locate the relevant tax information, there are thematic content pages for individuals, businesses, property owners, employers, tax representatives, etc. The IRD website has adopted responsive web design, which enables users to have quick and convenient access to tax information. It also has a mobile version to facilitate quick and convenient access to tax information anywhere. With the advancement of information technology, a lot of services and information are provided online.

Adopting artificial intelligence technology, the IRD has since April 2021 provided a real time interactive service, a Chatbot named "Iris", in the IRD website. Iris stands for "Inland Revenue Interactive Service", which means the intelligent assistant of the IRD. "Iris" provides round-the-clock instant service in answering general queries relating to tax on individuals.

The information uploaded to the IRD website includes taxpayers' rights and obligations, IRD software, IRD public forms, tax law, Departmental Interpretation and Practice Notes (DIPNs), guidelines, advance rulings, penalty policy, e-Seminars, answers to frequently asked questions and press release.

The IRD sets out its interpretation of the applicable tax laws and practices adopted in relation to important tax issues in its DIPNs. They help taxpayers better understand the IRD's stance, thereby ensuring consistency in the application of the tax law, providing transparency in tax administration and reducing taxpayers' compliance costs.

Other than DIPNs, there are also pamphlets and guidelines which contain tax information in simpler terms. They are downloadable from the website. In addition, e-Seminars are provided for employers, property owners and individual taxpayers. Information on how to complete tax

returns, fulfil tax obligations and overcome difficulties in compliance has been uploaded to the website. After reading the information, taxpayers can raise enquiries electronically at the “Q&A Corner”.

The IRD has also uploaded its penalty policy on its website to enhance transparency of the penal actions. To encourage full voluntary disclosure on non-compliance, the IRD’s penalty policy imposes escalated levels of sanctions on belated notifications to or delays/obstructions in the investigation work carried out by the IRD. Press announcements of successfully prosecuted court cases have also been posted on the IRD website to alert the public of the serious consequences of understatement.

Hong Kong has in place an advance ruling system so as to provide taxpayers with a degree of certainty about the application of the tax law in Hong Kong. A person may apply to the IRD for a ruling on how the tax law applies to him or the arrangement specified in the application. In addition to providing certainty to taxpayers, advance ruling also promotes consistency in the application of the tax law, minimises tax disputes which can be a lengthy and costly process, fosters trust relationship between taxpayers and the tax administration, and provides a transparent framework that encourages compliance with the tax law.

To promote transparency and consistency in the application of the tax law, some rulings considered to be of general interest have been published on the IRD website in redacted form. In order to protect taxpayer confidentiality, the IRD will edit the selected rulings prior to publication. Therefore, all information that might identify the taxpayer will be removed from the edited version.

## 7.2 e-Enquiry

The IRD’s Enquiry Service Centre (Centre) handles telephone and counter enquiries. The Centre is equipped with a computer network linked to the Department’s Knowledge Database to enable our staff to provide, as far as possible, an immediate “one-stop” service.

The Centre operates an Interactive Telephone Enquiry System with over 100 telephone lines. Callers can have access on a 24-hour basis to a wide range of tax information by listening to recorded messages. Besides, callers can obtain facsimile copies of information sheets and forms through the system. A “Leave-and-Call-Back” facility, for recording information requests, and a “Fax-in Enquiry” service are also available.

The IRD has also provided designated email accounts for communication on specific tax matters to speed up the processing of email enquiries.

## 7.3 GovHK

GovHK is the one-stop portal created by the Government of the Hong Kong SAR, making information and services of the public sector easier to find and use. The IRD has uploaded to the “Taxes & Duties” cluster under the GovHK portal tax information and articles specially written for

taxpayers such as their rights and obligations under the tax law, the kinds of income that are chargeable/non-chargeable to tax and the kinds of allowances/deductions they may claim. The GovHK provides another electronic channel for the public to obtain tax information.

### **8. Tax Challenges Arising from Digitalisation**

While modern technologies can bring benefits to tax authorities, they pose a number of complex questions for tax policy at the same time. The most prominent tax policy issue is how to tax the digital economy. With a view to addressing the base erosion and profit shifting (BEPS) risks arising from the digitalisation of the economy, the Organisation for Economic Co-operation and Development (OECD) announced this year the framework for international tax reform (commonly referred to as BEPS 2.0). The framework is based on a two-pillar package which seeks to ensure a fairer distribution of taxing rights in respect of profits of large multinational enterprises, and to set a global minimum tax rate. The OECD is developing the detailed rules for the BEPS 2.0 package, and aims at implementing the package in 2023. Hong Kong SAR together with over 130 jurisdictions have indicated acceptance of the BEPS 2.0 package. Implementation of the package will have far-reaching implications for Hong Kong's existing tax regime and tax treaties, as well as for multinational enterprises. The IRD will continue to participate in the OECD's meetings and work with the relevant bureau to monitor the international developments, make assessments and devise response measures.



## **BRITACOM Update on Improving Tax Environment**

Editor: Secretariat of the BRITACOM

Issue: 4