

The Basic Law and Our Daily Life

Hong Kong's Taxation system



• Understand the Hong Kong Special Administrative Region shall practise an independent taxation system under the protection of the Basic Law.



Source 1 A cartoon about taxation in Hong Kong





Chapter V Article 108:

The Hong Kong Special Administrative Region shall practise an independent taxation system.

The Hong Kong Special Administrative Region shall, taking the low tax policy previously pursued in Hong Kong as reference, enact laws on its own concerning types of taxes, tax rates, tax reductions, allowances and exemptions, and other matters of taxation.

Chapter V Article 114:

The Hong Kong Special Administrative Region shall maintain the status of a free port and shall not impose any tariff unless otherwise prescribed by law.

Question 1	
HKSAR levies	so that imported goods can be sold at a lower
price.	
A. tariff	
B. sales tax	
C. land tax	
D. zero tariff	
Question 2	2
Hong Kong government d	oes not collect sales tax. What is the impact of this

Hong Kong government does not collect sales tax. What is the impact of this measure on the prices of goods?

- A. Prices of goods would not rise because of sales tax
- B. Prices of goods rise
- C. Prices of all goods are the lowest among the world
- D. No impact

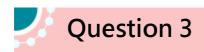


Source 2 A piece of information about Hong Kong's taxation system

Hong Kong has maintained a low, simple and competitive taxation system since the post-war era proves that taxation system has long been recognised as a major factor contributing to the economic development and competitiveness of Hong Kong. Under the principles of simplicity and clarity, the Inland Revenue Ordinance is kept under constant review in order to cope with the changes in economic environment and mode of business.

Basically, only business profits, salaries and wages, and property rental income are subjected to tax. Hong Kong has no capital gains tax or dividends tax, and most interest income is tax free.

Source: Inland Revenue Department



Which of the following tax types exist in Hong Kong and which are not?

- A. Sales tax / Consumption tax / Value-added tax
- B. Salaries tax
- C. Profits tax
- D. Withholding tax
- E. Property tax
- F. Capital gains tax
- G. Dividends tax
- H. Estate Duty

Tax types existing:	
Tax types absent:	



Comprehensive thinking question

How does the taxation system increase Hong Kong's international competitiveness?

Suggested Activities

Group discussion: Comparison between Hong Kong's and other districts' taxation systems

Taxation systems around the world are different. Try to discuss with your classmates and compare the characteristics of Hong Kong's taxation system with the rest of the world.

Tips:

- Why doesn't Hong Kong need to follow the taxation system of the mainland?
- Students can compare the taxation systems of Hong Kong, mainland China, Singapore, England and other regions.
- What is the importance of Hong Kong's taxation system to economic development?

Suggested answer:

- 1. D
- 2. A
- 3. Tax types existing: <u>B, C, E</u>

Tax types absent: A, D, F, G, H

Comprehensive thinking question

Free answer. Reference answer:

- The Basic Law states that the Hong Kong Special Administrative Region practises an independent taxation system and the government can enact laws on its own concerning matters of taxation.
- Hong Kong practises low tax policy, attracting business partners from all over the world, which promotes economic development and increases Hong Kong's international competitiveness.