



HONG KONG TAX ALERT

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Arrangement between the Mainland China and Hong Kong for automatic exchange of country-by-country reports in effect

Summary

On 4 March 2020, the Hong Kong Inland Revenue Department announced that the Mainland China and Hong Kong have entered into an arrangement for automatic exchange of country-by-country reports. This relieves Hong Kong entities of reportable groups whose ultimate parent entities are tax resident in China from the CbC filing obligation in Hong Kong.

Background

On 4 March 2020, the Hong Kong Inland Revenue Department (“HKIRD”) announced that the Mainland China and Hong Kong have entered into an arrangement for automatic exchange of country-by-country (“CbC”) reports. The exchange arrangement applies retrospectively to accounting periods beginning on or after 1 January 2018 (i.e. ended on or after 31 December 2018).

This measure relieves the Hong Kong entities of reportable groups whose ultimate parent entities are tax resident in China from performing any CbC filing in Hong Kong. Such Hong Kong entities are however required to inform the IRD the relieved position via the CbC online portal on or before 31 March 2020.

KPMG observations

The long-awaited automatic exchange of CbC reports between Mainland China and Hong Kong has been concluded and took effect retrospectively for accounting period beginning on or after 1 January 2018. This is a welcoming development that provides administrative relief to Hong Kong taxpayers of China based reportable group. This means even such taxpayers that have previously been notified by the HKIRD of their filing obligation under section 58F of the Inland Revenue Ordinance are now relieved from their filing obligation and can simply notify the HKIRD their revised position via the CbC online portal on or before 31 March 2020.

However, this also means that there will be exchange of information and collaboration between the tax authorities from Mainland China and Hong Kong on a more frequent and timely basis, causing allocation of profit and business activities among multinational group entities to be revealed to tax authorities and more susceptible to transfer pricing audits on both sides of the border.

We recommend that taxpayers in Hong Kong and their related party transaction counterparties in China take this chance to review their current transfer pricing arrangement and put proper documentation (i.e. Master File and Local Files) in place before the additional data appears before tax authorities through the enhanced exchange mechanism.

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