

Broadening the Tax Base
Ensuring our Future Prosperity

Financial Services



Consultation Document Leaflet

July 2006

Financial Services and the Treasury Bureau
The Government of the Hong Kong Special Administrative Region

This leaflet is specifically provided for reference by the financial services sector (e.g. banking, securities and insurance) and is designed to supplement the information outlined in the Consultation Document.

General

1 How would the proposed Goods and Services Tax (GST) apply to the financial services sector?

We propose to draw up a scope of “financial supplies” for zero rating. Those financial services that were within the defined scope of “financial supplies” would be zero rated. The provision of such goods and services to other organizations and final customers would not be subject to GST (output tax), and the vendors could reclaim from the Inland Revenue Department GST paid on goods and services purchased (input tax).

2 Would the proposal enhance the international competitiveness of Hong Kong’s financial services sector?

Financial institutions would benefit from the proposed zero-rating approach for financial supplies as they would be allowed to reclaim full refund of their input tax. Moreover, financial supplies under the proposed scope would not be subject to GST. This approach would place them in a more competitive position over their international counterparts

in other GST systems. Apart from enjoying zero rating, our financial institutions would also benefit from the proposed Profits Tax reductions and other business support measures. Thus, the proposals in the Consultation Document would help to further strengthen Hong Kong’s position as an international financial centre.

For Businesses

3 What types of financial products and services are proposed for inclusion in the scope of “financial supplies”?

The scope of zero-rated “financial supplies” would be drawn up in consultation with the financial sector regulators and the financial services industry to ensure the scope would be practicable, provide equal treatment between like products and suppliers, and not be subject to abuse. Our preliminary view is that the proposed scope should include the following items:

Bank accounts	Loans and mortgages	Securities (e.g. shares and bonds)
Bank deposits	Money exchange	Futures
Stored Value Cards	Certificates of Deposit	Derivatives
Currency	Insurance ¹	Underwriting

¹ The detailed scope of insurance that would be subject to zero rating would be drawn up with the trade to ensure practicability and avoid abuse.

Mandatory Provident Fund and Collective Investment Schemes	Financial guarantees	Precious metals
Bills of exchange	Trade finance	Refining of precious metals

In consultation with the trade, we will examine the inclusion of any other related financial services, e.g. services provided by stock brokers and insurance brokers or “arranging”² services, for zero rating.

For individuals

4 Would interest earned from time deposits be subject to GST?

No. The interest earned is within our proposed scope of “financial supplies” and hence would be zero rated.

5 Would the stored value of Octopus be subject to GST?

No. The stored value card is within our proposed scope of financial supplies and hence would be zero rated.

² The definition of “arranging” services would need to be carefully worked out to avoid unintended consequences or abuse.

Additional Information Available

An electronic copy of this leaflet, the Consultation Document, as well as other relevant reports and leaflets are available at the website www.taxreform.gov.hk. Further information will be posted on to this website when appropriate.

Additional Leaflets

- Tax Reform and Households
- Small Business
- Wholesale and Retail Sector
- Import/Export Trade and Logistics Sector
- Property Sector
- Tourism and Hospitality Sector