Press release

Hong Kong and the Netherlands sign agreement for avoidance of double taxation

Monday, March 22, 2010

The Secretary for Financial Services and the Treasury of Hong Kong, Professor K C Chan, and the Minister of Finance of the Netherlands, Mr J C de Jager, today (March 22) signed a comprehensive agreement for avoidance of double taxation (CDTA) between the Hong Kong Special Administrative Region and the Kingdom of the Netherlands.

The CDTA applies to taxes on income and intends to avoid double taxation as well as to prevent tax evasion. Both Mr De Jager and Professor Chan underlined that the signing of the CDTA will contribute to the expansion of mutual investments and the strengthening of the economic relations between the Netherlands and Hong Kong.

Mr De Jager said: "I am very happy that we have signed this agreement today. It is a milestone in the bilateral relations between Hong Kong and the Netherlands and a stepping stone towards further increasing mutual investments."

Professor Chan said: "I am confident that the agreement will encourage greater flow of investment, technology, talent and expertise between us for the mutual benefit of both economies. The Hong Kong-Netherlands CDTA is the first agreement we conclude with an Organisation for Economic Co-operation and Development (OECD) member country adopting the latest international standard on exchange of information. Following the announcement by the Financial Secretary in February last year, we have moved swiftly to amend our law to enable Hong Kong to adopt the prevailing OECD article on exchange of information. We hope this will become an impetus for Hong Kong to expand our treaty network."

Under the CDTA, withholding tax rates on passive income including dividends and royalties will be lowered. A withholding tax rate of 0%, instead of the 15% rate currently applicable in the Netherlands in the absence of a CDTA, applies to dividends received by qualifying persons holding at least 10% of the share capital of the paying companies, as well as dividends received by banks and insurance companies, pension funds, headquarters companies and certain other qualifying entities. To other dividends, a withholding tax rate of 10% will apply. No source taxation will apply to interest payments, as there is no withholding tax for such payments in either party. For royalties, Hong Kong has agreed to limit its withholding tax to 3%.

Furthermore, the CDTA contains a provision on exchange of information relating to tax matters, according to the OECD standard. It offers an opportunity for the tax authorities of Hong Kong and the Netherlands to consult each other in order to resolve disputes on the application or interpretation of the CDTA. Furthermore, under the CDTA, taxpayers could request an arbitration procedure.

The CDTA was signed in Hong Kong during Mr De Jager's visit to China.

The CDTA needs to be ratified in the Netherlands and Hong Kong before it can enter into force. Details of the Hong Kong/Netherlands CDTA can be found on the websites of the Dutch Ministry of Finance (www.minfin.nl/Onderwerpen/Internationaal/Belastingverdragen) or the Hong Kong Inland Revenue Department (www.ird.gov.hk/eng/pdf/Agreement_Netherlands_HongKong.pdf).

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