Press release

Hong Kong signs tax treaty with Czech Republic

Tuesday, June 7, 2011

The Secretary for Financial Services and the Treasury, Professor K C Chan, signed in Prague yesterday (June 6, Prague time) an agreement with the Czech Republic for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income on behalf of the Hong Kong Special Administrative Region Government. The Czech Minister of Finance, Mr Miroslav Kalousek, signed on behalf of his Government.

This is the 21st comprehensive agreement for the avoidance of double taxation (CDTA) concluded by Hong Kong with its trading partners, coming after those with Belgium, Thailand, the Mainland of China, Luxembourg, Vietnam, Brunei, the Netherlands, Indonesia, Hungary, Kuwait, Austria, the United Kingdom, Ireland, Liechtenstein, France, Japan, New Zealand, Switzerland, Portugal and Spain.

As the CDTA sets out clearly the allocation of taxing rights between the two jurisdictions and the relief on tax rates on different types of passive income, it will help investors better assess their potential tax liabilities from cross-border economic activities. The agreement will boost closer economic and trade ties between the two places, and provide added incentives for companies in the Czech Republic to do business or invest in Hong Kong, and vice versa.

In the absence of a CDTA, income earned by Czech residents in Hong Kong is subject to both Hong Kong and Czech income tax. Profits of Czech companies doing business through a branch in Hong Kong are fully taxed in both places. Under the agreement, tax paid in Hong Kong will be allowed as a credit against Czech tax payable.

In the absence of a CDTA, Hong Kong residents receiving dividends from the Czech Republic not attributable to a permanent establishment in the Czech Republic are subject to the Czech withholding tax, which is currently set at 15%. Under the agreement, this withholding tax rate will be capped at 5%. Hong Kong residents will be exempted from Czech withholding tax on interest, currently set at 15%. The Czech withholding tax on royalties, currently at 15%, will be capped at 10%.

Under the CDTA, Hong Kong airlines operating flights to the Czech Republic will be taxed at Hong Kong's corporation tax rate (which is lower than that of the Czech Republic). Profits from international shipping transport earned by Hong Kong residents that arise in the Czech Republic, which are currently subject to tax there, will not be taxed in the Czech Republic under the agreement.

The Hong Kong/Czech Republic CDTA has incorporated the latest Organisation for Economic Co-operation and Development standard on exchange of information.

The Hong Kong/Czech Republic CDTA will come into force after the completion of ratification procedures on both sides. In the case of Hong Kong, an order is required to be made by the Chief Executive in Council under the Inland Revenue Ordinance. The order is subject to negative vetting by the Legislative Council.

Hong Kong is actively seeking to expand its network of CDTAs with major trading and investment partners. Where CDTA discussions with some jurisdictions cannot be started for the time being, Hong Kong will seek to conclude limited double taxation avoidance arrangements for airline and shipping income with relevant partners. So far, 27 avoidance of double taxation agreements on airline income, six agreements on shipping income and two agreements on airline and shipping income have been reached.

Details of the Hong Kong/Czech Republic CDTA are available at the Inland Revenue Department's website (www.ird.gov.hk/eng/pdf/Agreement_Czech_HongKong.pdf).

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