Press release

Hong Kong, Canada sign tax pact (with photos)

Sunday, November 11, 2012

The Secretary for Financial Services and the Treasury, Professor K C Chan, today (November 11) signed in Hong Kong an agreement with Canada 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 Canadian Minister of International Trade and Minister for the Asia-Pacific Gateway, Mr Edward Fast, signed on behalf of his government. The Chief Executive, Mr C Y Leung, and the Prime Minister of Canada, Mr Stephen Harper, witnessed the signing ceremony.

This is the 26th comprehensive avoidance of double taxation agreement (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, Portugal, Spain, the Czech Republic, Switzerland, Malta, Jersey, Malaysia and Mexico.

Welcoming the agreement, Professor Chan said that 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 further strengthen the economic and trade ties between the two places, and provide added incentives for companies in Canada to do business or invest in Hong Kong, and vice versa, he added.

In the absence of a CDTA, income earned by Canadian residents in Hong Kong is subject to both Hong Kong and Canadian income tax. Under the agreement, tax paid in Hong Kong will be allowed as a credit against tax payable in Canada. Furthermore, in the absence of a CDTA, the profits of Hong Kong companies doing business through a permanent establishment in Canada may be taxed in both places if the income is Hong Kong-sourced. Under the agreement, double taxation will be avoided in that any Canada tax paid by the companies will be allowed as a credit against the tax payable in Hong Kong in respect of the income, subject to the provisions of the tax laws of Hong

Kong.

In the absence of a CDTA, Hong Kong residents receiving interest from Canada are subject to Canada's withholding tax, which is 25 per cent at present. Under the agreement, such withholding tax will be capped at 10 per cent. The Canadian withholding tax on royalties, currently at 25 per cent, will be capped at 10 per cent. The Canadian dividends withholding tax on Hong Kong residents will be reduced from the current rate of 25 per cent to 15 per cent, and will be further lowered to 5 per cent upon fulfilling certain conditions.

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

The Hong Kong/Canada CDTA has incorporated an article on exchange of information.

The Hong Kong/Canada 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 will continue its effort to expand its network of CDTAs with trading and investment partners.

Details of the Hong Kong/Canada CDTA will be available at the Inland Revenue Department's website (www.ird.gov.hk/eng/pdf/Agreement_Canada_HongKong.pdf).

Ends


The Honourable Edward Fast
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