Press Release

Hong Kong, Korea tax treaty signed (with photos)

Tuesday, July 8, 2014

The Secretary for Financial Services and the Treasury, Professor K C Chan, today (July 8) signed in Hong Kong an agreement with Korea 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 Consul-General of the Republic of Korea in Hong Kong, Mr Cho Yong-chun, signed on behalf of his government.

This is the 30th comprehensive agreement for the avoidance of double taxation (CDTA) that Hong Kong has concluded 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, Mexico, Canada, Italy, Guernsey and Qatar.

Welcoming the agreement, Professor Chan said that it sets out clearly the allocation of taxing rights between the two jurisdictions and thus will help investors better assess their potential tax liabilities from cross-border economic activities.

The agreement will bolster the economic and trade connections between the two places, and offer added incentives for companies in Korea to do business or invest in Hong Kong, and vice versa, he added.

In the absence of a CDTA, income earned by Korean residents in Hong Kong is subject to both Hong Kong and Korean income tax. Under the agreement, tax paid in Hong Kong will be allowed as a credit against tax payable in Korea. Furthermore, in the absence of a CDTA, the profits of Hong Kong companies doing business through a permanent establishment in Korea may be taxed in both places if the income is Hong Kong sourced. Under the agreement, double taxation will be avoided in that any Korean 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 Korea are subject to Korea's withholding tax, which ranges from 14 per cent to 20 per cent at present. Under the agreement, such withholding tax will be capped at 10 per cent. The Korean withholding tax on royalties, currently at 20 per cent, will be capped at 10 per cent. The Korean dividends withholding tax on Hong Kong residents will be reduced from the current rate of 20 per cent to 15 per cent or 10 per cent, depending on the percentage of their shareholdings.

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

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

The 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 efforts to expand its network of CDTAs with trading and investment partners.

Details of the Hong Kong/Korea CDTA can be found on the Inland Revenue Department's website (www.ird.gov.hk/eng/pdf/Agreement_Korea_HongKong.pdf).

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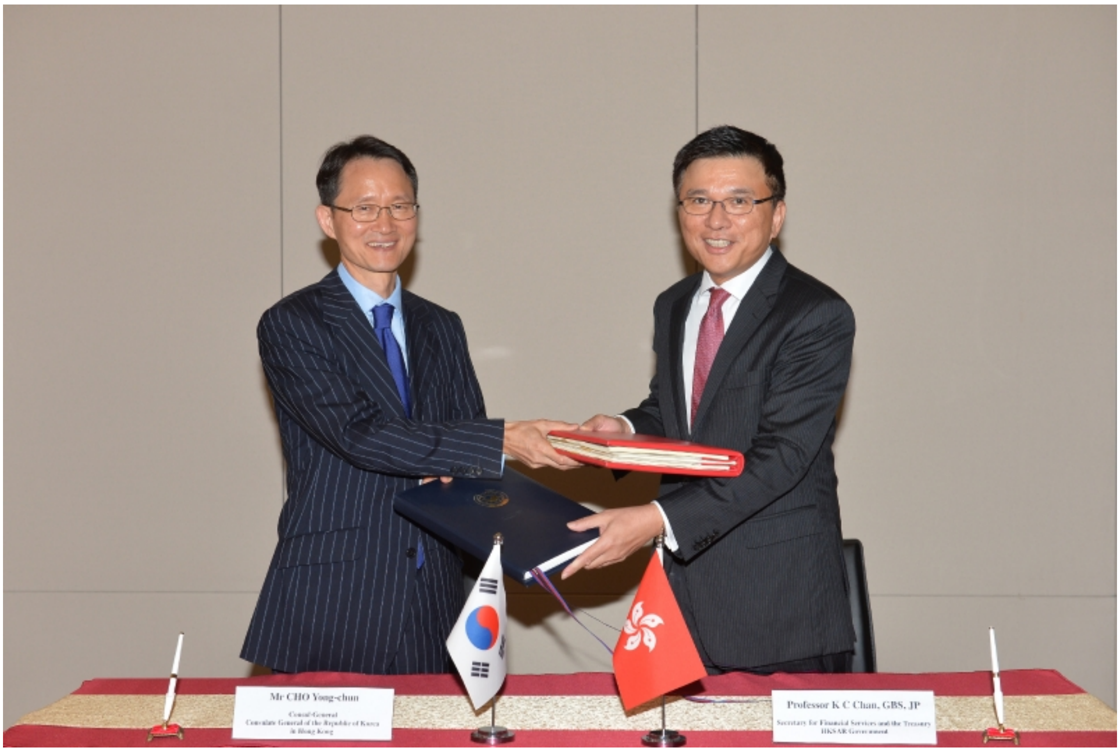

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