Press Release

Hong Kong and Latvia enter into tax pact (with photos)

Wednesday, April 13, 2016

The Secretary for Financial Services and the Treasury, Professor K C Chan, on behalf of the Government of the Hong Kong Special Administrative Region, signed in Riga today (April 13, Riga time) a comprehensive agreement for the avoidance of double taxation (CDTA) with Latvia. Representing the Government of Latvia to sign the agreement was its Minister of Finance, Mrs Dana Reizniece-Ozola.

"This is the 35th CDTA that Hong Kong has signed with its trading partners and it signifies the Government's ongoing efforts to expand its CDTA network, in particular with economies along the Belt and Road," Professor Chan said. "The CDTA 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. It will also offer added incentives for companies in Latvia to do business or invest in Hong Kong, and vice versa," Professor Chan added.

In the absence of a CDTA, the profits of Hong Kong companies doing business through a permanent establishment in Latvia may be taxed in both places if the income is Hong Kong sourced. Under the agreement, double taxation will be avoided in that any Latvian tax paid by the companies will be allowed as a credit against the tax payable in Hong Kong on the same profits, subject to the provisions of the tax laws of Hong Kong.

Moreover, in the absence of a CDTA, income earned by Latvian residents in Hong Kong is subject to both Hong Kong and Latvian tax. Under the agreement, tax paid in Hong Kong will be allowed as a credit against the tax payable on the same income in Latvia.

Under the agreement, Latvia's withholding tax rate on royalties (currently at various rates and can be as high as 23 per cent in some cases) will be reduced to zero per cent for companies and capped at 3 per cent in all other cases. Latvia's withholding tax rate on dividends and interest (currently at various rates and can be as high as 30 per cent in some cases) will also be reduced to zero per cent for companies and capped at 10 per cent in all other cases.

Further, Hong Kong airlines operating flights to Latvia will be taxed at Hong Kong's corporation tax rate, and will not be taxed in Latvia. Profits from international shipping transport earned by Hong Kong residents that arise in Latvia, which are currently subject to tax there, will not be taxed in Latvia under the agreement.

The Hong Kong/Latvia CDTA has also incorporated an article on exchange of information, which enables Hong Kong to fulfil its international obligations on enhancing tax transparency and combating tax evasion.

The CDTA will come into force after the completion of ratification procedures on both sides. In the case of Hong Kong, the CDTA is implemented by way of an order 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.

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

Ends


LATVIJA
FINANŠU
OF THE REPUBLIC