

## **Press Release**

### **Hong Kong signs Avoidance of Double Taxation Agreement with Vietnam**

Tuesday, December 16, 2008

Hong Kong today (December 16) signed an Agreement, in Hanoi, with the Socialist Republic of Vietnam for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income.

The agreement is the fifth comprehensive double taxation agreement Hong Kong signed with its trading partners, coming after those with Belgium, Thailand, the Mainland of China and Luxembourg.

The Financial Secretary, Mr John C Tsang, signed the agreement on behalf of the HKSAR Government. The Vietnam Vice-Minister of Finance, Mr Do Hoang Anh Tuan, signed on behalf of the Vietnamese government.

Speaking at the signing ceremony, Mr Tsang hailed the agreement as elevating the bilateral relationship between Hong Kong and Vietnam to a new level. “The agreement represents tax savings and a higher degree of certainty on taxation rights for investors from both Vietnam and Hong Kong when they engage in bilateral trade and investment activities. It also fosters economic co-operation and protects both our governments’ revenue base.” Mr Tsang said.

In the absence of a comprehensive agreement for the avoidance of double taxation, profits earned by Vietnamese residents in Hong Kong are subject to both Hong Kong and Vietnam income tax. Profits of Vietnamese companies doing business through a branch in Hong Kong are fully taxed in both places. Under the agreement, double taxation is avoided in that any Hong Kong tax paid by Vietnam residents or companies shall be allowed as a credit against any tax payable in respect of the same incomes in Vietnam.

Also, Hong Kong residents receiving royalties from Vietnam are subject to a standard withholding tax of 10% in Vietnam. Under the agreement, the royalties withholding tax will be capped at 7% where payments are made for the use of patent, design or model, plan, secret formula or process. The interest withholding tax will be reduced from the current rate of 10% to nil if the recipient is the HKSAR Government, the Hong Kong Monetary Authority or other recognised institutions as mutually agreed.

Profits from international shipping transport earned by Hong Kong residents that arise in Vietnam, which are currently subject to tax there, will enjoy tax exemption under the agreement. Hong Kong airlines operating flights to Vietnam will be taxed at the much lower corporation tax rate of 16.5% in Hong Kong as against the corporate tax rate of 28% in Vietnam, which they are subject to currently.

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

“I am confident that this agreement will encourage a greater flow of investment, technology, talents and expertise between Hong Kong and Vietnam, and that will certainly help strengthen both our economies for many years to come,” Mr Tsang said.

The agreement will come into force after the completion of ratification procedures for 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 establish a network of comprehensive agreements for the avoidance of double taxation with major trading and investment partners, and has concluded agreements,

with Belgium in 2003, Thailand in 2005, the Mainland of China in 2006 and with Luxembourg in 2007.

Where negotiations for comprehensive agreements cannot be proceeded with immediately, the Government is also seeking to conclude limited double taxation avoidance agreements for airline and shipping income with relevant partners. So far, 24 avoidance of double taxation agreements on airline income, six agreements on shipping income and two agreements on airline and shipping income have been made.

Details of the Hong Kong/Vietnam CDTA can be found on the Inland Revenue Department website at [http://www.ird.gov.hk/eng/pdf/dt\\_vietnam.pdf](http://www.ird.gov.hk/eng/pdf/dt_vietnam.pdf)

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