

Press release

**Order to implement the Avoidance of Double Taxation Agreement with
Vietnam gazetted**

Thursday, April 30, 2009

An order made by the Chief Executive in Council under the Inland Revenue Ordinance to implement the Agreement with the Socialist Republic of Vietnam for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was gazetted today (April 30).

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

"The agreement ensures that investors will not have to pay tax twice on a single source of income," a spokesman for the Government said.

"In simple terms, the agreement will bring 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."

Under the agreement:

- double taxation is avoided in that any Hong Kong income 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;
- the withholding tax on royalties derived in Vietnam will be capped at 7% where payments are made for the use of patent, design or model, plan, secret formula or process;
- the withholding tax on interest derived in Vietnam 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 will enjoy full tax exemption; and
- 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 25% in Vietnam, which they are subject to currently.

The order will be tabled in the Legislative Council on May 6 for negative vetting. The agreement will only take effect after both sides have completed their ratification procedures.

The Hong Kong/Vietnam CDTA was signed by the Financial Secretary, Mr John C Tsang, and the Vietnam Vice-Minister of Finance, Mr Do Hoang Anh Tuan, in Hanoi on December 16, 2008.

Ends