

**Press release**

**Hong Kong signs comprehensive agreement with Brunei Darussalam on avoidance of double taxation**

Saturday, March 20, 2010

Hong Kong today (March 20) signed an agreement with Brunei Darussalam for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

The Financial Secretary, Mr John C Tsang, signed the agreement in Brunei on behalf of the Hong Kong Special Administrative Region Government. Brunei's Second Minister of Finance, Pehin Dato Abdul Rahman Ibrahim, signed on behalf of his Government.

This is the sixth comprehensive agreement for the avoidance of double taxation (CDTA) concluded by Hong Kong. It will eliminate double taxation instances encountered by Hong Kong and Bruneian investors, and bring about tax savings and certainty in tax liabilities in connection with cross-border economic activities. It will also help foster closer economic and trade links between the two places, and provide added incentives for Bruneian enterprises to do business or invest in Hong Kong, and vice versa.

In the absence of the CDTA, profits of Hong Kong trading companies doing business through a permanent establishment, such as a sales outlet, in Brunei may be taxed in both places if the income is Hong Kong sourced. Under the CDTA, double taxation is avoided in that any Brunei tax paid by the companies shall be allowed as a deduction from the tax payable in Hong Kong.

In the absence of the CDTA, Hong Kong residents receiving interests from Brunei are subject to a withholding tax, which is currently at 15%. Under the agreement, this will be reduced to 10%. If the recipient is a bank or financial institution, the withholding tax rate will be further reduced to 5%. Brunei has also agreed to lower the withholding tax on royalties received by Hong Kong residents from Brunei from the current rate of 10% to 5%.

Under the CDTA, Hong Kong airlines operating flights to Brunei will be taxed at Hong Kong's corporation tax rate (which is lower than Brunei's). Profits from international shipping transport earned by Hong Kong residents that arise in Brunei, which are currently subject to tax there, will enjoy tax exemption under the agreement.

The signing of the agreement also marks a new page for Hong Kong in supporting the international effort in enhancing tax transparency. In February last year, the Financial Secretary announced his decision to put forward legislative amendments to enable Hong Kong to adopt the prevailing international standard on exchange of information in our CDTAs. The Government has moved swiftly on this initiative and the relevant legislation took effect earlier this month. The Hong Kong/Brunei CDTA is among the first batch of CDTAs Hong Kong signed using the latest Organisation for Economic Co-operation and Development standard on exchange of information. The Hong Kong/Netherlands and Hong Kong/Indonesia CDTAs, both adopting this new standard, will be signed on March 22 and 23. It is expected that more CDTAs using this new standard will be signed.

The Hong Kong/Brunei 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 is actively seeking to establish a network of CDTAs, and concluded CDTAs with Belgium in 2003, Thailand in 2005, the Mainland of China in 2006, Luxembourg in 2007 and Vietnam in 2008.

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, 28 avoidance of double taxation agreements on airline income, six agreements on shipping income and two agreements on airline and shipping income have been reached.

Details of the Hong Kong/Brunei CDTA can be found on the Inland Revenue Department's website ([www.ird.gov.hk/eng/pdf/Agreement\\_Brunei\\_HongKong.pdf](http://www.ird.gov.hk/eng/pdf/Agreement_Brunei_HongKong.pdf)).

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