

## **Press release**

### **Hong Kong, Hungary sign double taxation pact**

Thursday, May 13, 2010

Hong Kong signed on May 12 (Hungary time) an agreement with Hungary for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

The Special Representative for Hong Kong Economic and Trade Affairs to the European Union, Miss Mary Chow, signed the agreement on behalf of the Hong Kong Special Administrative Region Government in Budapest. The Hungarian Minister of Finance, Dr Peter Oszko, signed on behalf of his Government.

This is the ninth comprehensive agreement for the avoidance of double taxation (CDTA) concluded by Hong Kong. It will eliminate double taxation instances encountered by Hong Kong and Hungarian 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 Hungarian enterprises to do business or invest in Hong Kong, and vice versa.

In the absence of a CDTA, profits earned by Hungarian residents in Hong Kong are subject to both Hong Kong and Hungary income tax. Profits of Hungarian companies doing business through a branch in Hong Kong are fully taxed in both places. Under the agreement, Hungary will provide exemption to her residents for such income.

In the absence of a CDTA, Hong Kong residents receiving dividends from Hungary not attributable to a permanent establishment in Hungary are subject to a Hungary withholding tax, which is currently at 25%. Under the agreement, such withholding tax rate will be reduced to 10%. If the recipient is a company holding 10% or more of the share capital of the paying company, the withholding tax rate will be reduced to 5%.

Also, Hong Kong residents receiving royalties from Hungary are subject to a current withholding tax of 30% in Hungary. Under the agreement, the royalties withholding tax will be capped at 5%. The Hungary interest withholding tax on Hong Kong residents will be reduced from the current rate of 30% to 5%.

Under the CDTA, Hong Kong airlines operating flights to Hungary will be taxed at Hong Kong's corporation tax rate (which is lower than that of Hungary's 19%). Profits from international shipping transport earned by Hong Kong residents that arise in Hungary, which are currently subject to tax there, will enjoy tax exemption under the agreement.

The Hong Kong/Hungary CDTA incorporated the latest Organisation for Economic Co-operation and Development standard on exchange of information.

The Hong Kong/Hungary 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 with major trading and investment partners, and has concluded CDTAs with Belgium in 2003, Thailand in 2005, the Mainland of China in 2006, Luxembourg in 2007, Vietnam in 2008 and Brunei, the Netherlands and Indonesia this year.

Where CDTA discussions with some jurisdictions cannot be started for the time being, Hong Kong will seek to conclude limited double taxation avoidance arrangements for airline and shipping income with relevant partners. So far, 27 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/Hungary CDTA can be found on the Inland Revenue Department's website ([www.ird.gov.hk/eng/pdf/Agreement\\_Hungary\\_HongKong.pdf](http://www.ird.gov.hk/eng/pdf/Agreement_Hungary_HongKong.pdf)).

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