

Press release

HK-UK tax pact signed

Tuesday, June 22, 2010

The Secretary for Financial Services and the Treasury of Hong Kong, Professor K C Chan, and the United Kingdom (UK) Exchequer Secretary to the Treasury, Mr David Gauke, signed in London on June 21 (UK time) a comprehensive agreement for the avoidance of double taxation (CDTA) between the Hong Kong Special Administrative Region and the UK.

The agreement is the 12th CDTA Hong Kong signed with its trading partners, coming after those with Belgium (2003), Thailand (2005), the Mainland of China (2006), Luxembourg (2007), Vietnam (2008), Brunei (2010), the Netherlands (2010), Indonesia (2010), Hungary (2010), Kuwait (2010) and Austria (2010).

The CDTA sets out clearly the allocation of taxing rights between the two jurisdictions and the relief on tax rates on different types of passive 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 the UK to do business or invest in Hong Kong, and vice versa.

In the absence of a CDTA, profits earned by British residents in Hong Kong are subject to both Hong Kong and UK income tax. Profits of British companies doing business through a branch in Hong Kong are fully taxed in both places. Under the agreement, the UK will provide tax credit to her residents and companies against UK tax payable in respect of the income.

In the absence of a CDTA, Hong Kong residents receiving dividends from UK Real Estate Investment Trusts are subject to a withholding tax, which is currently at 20%. Under the agreement, such withholding tax rate will be reduced to 15%. Also, Hong Kong residents receiving royalties and interest from the UK are subject to a current withholding tax rate of 20% respectively in the UK. Under the agreement, the royalties withholding tax rate will be capped at 3% and the withholding tax on interest will be exempted.

Upon its entry into force, the Hong Kong/UK CDTA will supersede the existing limited double taxation avoidance agreements for airline income and for shipping income respectively providing the same level of benefits.

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

The Hong Kong/UK 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. 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/UK CDTA can be found on the Inland Revenue Department website (www.ird.gov.hk/eng/pdf/Agreement_UK_HongKong.pdf).

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