

Press release

Hong Kong, Ireland sign tax pact

Wednesday, June 23, 2010

Hong Kong signed yesterday (June 22, Dublin time) its 13th comprehensive agreement for the avoidance of double taxation (CDTA).

On behalf of the Hong Kong Special Administrative Region Government, the Secretary for Financial Services and the Treasury, Professor K C Chan, signed the agreement with Ireland in Dublin for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income. The Irish Minister of Finance, Mr Brian Lenihan, signed on behalf of his government.

Professor Chan said: "The agreement will encourage Hong Kong enterprises to leverage on the success of Irish companies in the areas of technology, research and development, while facilitating Irish enterprises to tap into the Asian market, particularly the vast Mainland market, using Hong Kong as a gateway."

Mr Lenihan said: "It is hoped that this agreement will be an important asset for Ireland as we seek to attract major Mainland Chinese financial institutions to establish presences here. The conclusion of this agreement will also facilitate Irish businesses in accessing Hong Kong and greater China markets. Equally, this agreement will assist Hong Kong businesses in accessing the Irish and wider European markets."

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

Without a CDTA, Hong Kong residents receiving dividends from Ireland are subject to a withholding tax, which is currently at 20%. Under the agreement, the withholding tax on dividends for Hong Kong residents will be exempted. Also, Hong Kong residents receiving royalties and interest from Ireland are subject to a current withholding tax rate of 20% respectively in Ireland. Under the agreement, the withholding tax rate on royalties will be capped at 3% while the withholding tax rate on interest will be reduced to 10%.

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

Apart from eliminating double taxation instances encountered by investors of the two places, the CDTA will bring about certainty in tax liabilities in connection with cross-border economic activities, thereby fostering closer bilateral economic and trade links, and provide added incentives for Irish enterprises to do business or invest in Hong Kong, and vice versa.

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

The Hong Kong/Ireland 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 as well as Brunei, the Netherlands, Indonesia, Hungary, Kuwait, Austria and the United Kingdom 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/Ireland CDTA can be found on the Inland Revenue Department website (www.ird.gov.hk/eng/pdf/Agreement_Ireland_HongKong.pdf).

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