

Press release

Hong Kong signs agreement with France on avoidance of double taxation

Thursday, October 21, 2010

Hong Kong signed today (October 21, Paris time) an agreement with France for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and on capital.

The Financial Secretary, Mr John C Tsang, signed the agreement in Paris on behalf of the Hong Kong Special Administrative Region Government. The French Minister of Economy, Industry and Employment, Mrs Christine Lagarde, signed on behalf of her Government.

This is the 15th comprehensive agreement for the avoidance of double taxation (CDTA) concluded by Hong Kong with its trading partners, coming after those with Belgium, Thailand, the Mainland of China, Luxembourg, Vietnam, Brunei, the Netherlands, Indonesia, Hungary, Kuwait, Austria, the United Kingdom, Ireland and Liechtenstein.

Speaking at the signing ceremony, Mr Tsang hailed the agreement as elevating the bilateral relationship between Hong Kong and France to a new level.

"I am fully confident that the agreement we have just signed will represent a win-win for all parties, as Hong Kong continues to ride on the dynamic growth in the Asian region and offer tremendous opportunities to French companies seeking to expand their presence in our region," Mr Tsang said.

In the absence of a CDTA, profits earned by French residents in Hong Kong are subject to both Hong Kong and French income tax. Profits of French companies doing business through a branch in Hong Kong are fully taxed in both places. Under the agreement, double taxation will be avoided as the income taxed in Hong Kong shall be allowed as a tax credit against French tax attributable to such income.

In the absence of a CDTA, Hong Kong residents receiving dividends from France not attributable to a permanent establishment in France are subject to a French withholding tax, which is currently 25%. Under the agreement, such withholding tax rate will be reduced to 10%. Also, Hong Kong residents receiving royalties from France are subject to a current withholding tax of 33.33% in France. Under the agreement, the royalties withholding tax will be capped at 10%. The French interest withholding tax on Hong Kong residents will be reduced from the current rate of 18% to 10%.

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

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

The Hong Kong/France 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. 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/France CDTA can be found on the Inland Revenue Department's website (www.ird.gov.hk/eng/pdf/Agreement_France_HongKong.pdf).

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