Press release

Hong Kong, New Zealand sign tax pact

Wednesday, December 1, 2010

Hong Kong today (December 1) signed an agreement with New Zealand 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 Auckland) on behalf of the Hong Kong Special Administrative Region Government. The New Zealand's Deputy Prime Minister and Minister of Finance, Mr Bill English, signed on behalf of his Government.

This is the 17th 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, Liechtenstein, France and Japan.

Mr Tsang welcomed the agreement as further strengthening the bilateral relationship by encouraging the flow of investment and talents between Hong Kong and New Zealand.

In the absence of a CDTA, the profits of Hong Kong companies doing business through a permanent establishment, such as a sales outlet, in New Zealand may be taxed in both places if the income is Hong Kong sourced. Under the agreement, double taxation will be avoided in that any New Zealand tax paid by the companies will be allowed as credit against the tax payable in Hong Kong in respect of the income, subject to the provisions of the tax laws of Hong Kong.

In the absence of a CDTA, Hong Kong residents receiving dividends from New Zealand not attributable to a permanent establishment in New Zealand can be subject to a withholding tax, which is currently set at 30%. Under the agreement, such withholding tax rate will be reduced to 15%. The withholding tax rate will be further lowered to 5% or 0% for qualifying beneficial owners. Also, Hong Kong residents receiving royalties from New Zealand are subject to a current withholding tax of 15% in New Zealand. Under the agreement, the royalties withholding tax will be capped at 5%. The New Zealand interest withholding tax on Hong Kong residents will be reduced from the current rate of 15% to 10%.

Upon coming into force, the CDTA will supersede the existing limited double taxation avoidance agreement for airline income, providing the same level of benefit. The level of benefit in the existing reciprocal exemption on shipping income will also remain the same.

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

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

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