Press release

Hong Kong and Malta sign tax treaty

Tuesday, November 8, 2011

The Secretary for Financial Services and the Treasury, Professor K C Chan, signed in Hong Kong today (November 8) an agreement with the Republic of Malta for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income on behalf of the Hong Kong Special Administrative Region Government. The Ambassador of Malta to China, Mr Joseph Cassar, signed on behalf of his Government.

This is the 22nd 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, Japan, New Zealand, Switzerland, Portugal, Spain and the Czech Republic.

The CDTA clearly sets out the allocation of taxing rights between the two jurisdictions and the relief on tax rates on different types of passive income, thus helping investors to better assess their potential tax liabilities from cross-border economic activities. The agreement will boost closer economic and trade ties between the two places, and provide added incentives for companies in Malta to do business or invest in Hong Kong, and vice versa.

In the absence of a CDTA, income earned by Malta residents in Hong Kong is subject to both Hong Kong and Malta income tax. Profits of Malta companies doing business through a branch in Hong Kong are fully taxed in both places. Under the agreement, tax paid in Hong Kong will be allowed as a credit against tax payable in Malta.

Under the CDTA, Hong Kong airlines operating flights to Malta will be taxed at Hong Kong's corporation tax rate (which is lower than that of Malta). Profits from international shipping transport earned by Hong Kong residents that arise in Malta, which are currently subject to tax there, will not be taxed in Malta under the agreement.

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

The Hong Kong/Malta 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 expand its 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/Malta CDTA will be available at the Inland Revenue Department's website (www.ird.gov.hk/eng/pdf/Agreement_Malta_HongKong.pdf).

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