Press release

Hong Kong, Mexico sign tax pact

Tuesday, June 19, 2012

The Financial Secretary, Mr John C Tsang, signed in Los Cabos on June 18 (Mexican time) an agreement with Mexico 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 Mexican Secretary of Finance and Public Credit, Mr José Antonio Meade Kuribreña, signed on behalf of his government.

This is the 25th 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, Portugal, Spain, the Czech Republic, Switzerland, Malta, Jersey and Malaysia.

Welcoming the agreement, Mr Tsang said it would further strengthen the bilateral relationship by encouraging the flow of investment and talent between Hong Kong and Mexico.

In the absence of a CDTA, income earned by Mexican residents in Hong Kong is subject to both Hong Kong and Mexican income tax. Under the agreement, tax paid in Hong Kong will be allowed as credit against tax payable in Mexico.

In the absence of a CDTA, Hong Kong residents receiving interest from Mexico are subject to Mexico's withholding tax, which is in general at 30 per cent at present. Under the agreement, such withholding tax will be capped at 10 per cent. The interest withholding tax rate will be further reduced to 4.9 per cent if the beneficial owner is a bank. The Mexican withholding tax on royalties, currently at 25 per cent, will be capped at 10 per cent.

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

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

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

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

Ends