Press Release

Hong Kong, South Africa enter into tax pact

Friday, October 17, 2014

Hong Kong and South Africa have signed an agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, a spokesman for the government announced today (October 17).

This is the 31st comprehensive agreement for the avoidance of double taxation (CDTA) that Hong Kong has concluded.

Welcoming the agreement, the Secretary for Financial Services and the Treasury, Professor K C Chan, said that it sets out clearly the allocation of taxing rights between the two jurisdictions and thus will help investors better assess their potential tax liabilities from cross-border economic activities.

The agreement will bolster the economic and trade connections between the two places, and offer added incentives for companies in South Africa to do business or invest in Hong Kong, and vice versa, he added.

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

Under the agreement, South Africa's withholding tax on royalties, currently at 15 per cent, will be capped at 5 per cent. South Africa's dividend withholding tax on Hong Kong residents will be reduced from the current rate of 15 per cent to 10 per cent or 5 per cent, depending on the percentage of their shareholdings. South Africa's interest withholding tax on Hong Kong residents will be capped at 10 per cent.

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

The Hong Kong/South Africa CDTA has incorporated an article on exchange of information.

The 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 will continue its efforts to expand its network of CDTAs with trading and investment partners.

Details of the Hong Kong/South Africa CDTA can be found on the Inland Revenue Department's website (www.ird.gov.hk/eng/pdf/Agreement_South_Africa_HongKong.pdf).

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