

## **Press Release**

### **Hong Kong and Romania enter into tax pact (with photos)**

Wednesday, November 18, 2015

The Financial Secretary, Mr John C Tsang, on behalf of the Government of the Hong Kong Special Administrative Region, today (November 18), signed in Bucharest an agreement on the avoidance of double taxation with Romania. Romania's State Secretary for Public Finance, Mr Attila György, signed on behalf of his Government.

"This is the 33rd comprehensive agreement for the avoidance of double taxation (CDTA) that Hong Kong has signed with its trading partners," Mr Tsang said. Welcoming the agreement, Mr Tsang added 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 economic and trade connections between the two places, and offer additional incentives for companies in Romania to do business or invest in Hong Kong, and vice versa," Mr Tsang said.

In the absence of a CDTA, income earned by Romanian residents in Hong Kong is subject to both Hong Kong and Romanian tax. Under the agreement, tax paid in Hong Kong will be allowed as a deduction from Romanian tax on the income taxed in Hong Kong. Furthermore, in the absence of a CDTA, the profits of Hong Kong companies doing business through a permanent establishment in Romania may be taxed in both places if the income is Hong Kong sourced. Under the agreement, double taxation will be avoided in that any Romanian 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.

Under the agreement, Romania's withholding tax rate on royalties, currently at 16 per cent, will be capped at 3 per cent. Romania's dividend withholding tax on Hong Kong residents will be reduced from the current rate of 16 per cent to 3 per cent or 5 per cent, depending on the percentage of their shareholdings. Romania's interest withholding tax rate on Hong Kong residents, currently at 16 per cent, will be reduced to zero as long as Hong Kong levies no

withholding tax on interest. If Hong Kong levies withholding tax on interest, Romania's interest withholding tax rate on Hong Kong's residents will be capped at 3 per cent.

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

The Hong Kong/Romania CDTA has incorporated an article on exchange of information, which enables Hong Kong to fulfil its international obligations on enhancing tax transparency and combating tax evasion.

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/Romania CDTA can be found on the Inland Revenue Department's website ([www.ird.gov.hk/eng/pdf/Agreement\\_Romania\\_HongKong.pdf](http://www.ird.gov.hk/eng/pdf/Agreement_Romania_HongKong.pdf)).

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