Press Release

Hong Kong and Russia enter into tax pact (with photos)

Monday, January 18, 2016

The Secretary for Financial Services and the Treasury, Professor K C Chan, on behalf of the Government of the Hong Kong Special Administrative Region, signed in Hong Kong today (January 18) a comprehensive agreement for the avoidance of double taxation (CDTA) with Russia, signifying the Government's ongoing efforts to expand its CDTA network, in particular with economies along the Belt and Road.

Russia's State Secretary, Deputy Minister of Finance, Mr Yuriy Zubarev, signed the agreement on behalf of his Government. Also present at the ceremony to witness the signing were the Financial Secretary, Mr John C Tsang, and Deputy Prime Minister of Russia Mr Arkady Dvorkovich.

"This is the 34th CDTA that Hong Kong has signed with its trading partners," Professor Chan said. "The CDTA 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."

Professor Chan added, "The agreement will bolster the economic and trade connections between the two places. It will also offer added incentives for companies in Russia to do business or invest in Hong Kong, and vice versa."

In the absence of a CDTA, the profits of Hong Kong companies doing business through a permanent establishment in Russia may be taxed in both places if the income is sourced in Hong Kong. Under the agreement, double taxation will be avoided in that any Russian 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.

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

Under the agreement, Russia's withholding tax rate on royalties, currently at 20 per cent (for companies) or 30 per cent (for individuals), will be capped at 3 per cent. Russia's dividend withholding tax rate on Hong Kong residents will be reduced from the current rate of 15 per cent to 5 per cent or 10 per cent, depending on the percentage of their shareholdings.

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

The Hong Kong/Russia CDTA has also 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, the CDTA is implemented by way of an order 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.

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

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