Press Release

Hong Kong and Saudi Arabia enter into tax pact (with photos)

Thursday, August 24, 2017

The Secretary for Financial Services and the Treasury, Mr James Lau, on behalf of the Government of the Hong Kong Special Administrative Region, signed in Hong Kong today (August 24) a comprehensive agreement for the avoidance of double taxation (CDTA) with Saudi Arabia, which signifies the Government's sustained efforts in expanding Hong Kong's CDTA network, in particular with economies along the Belt and Road.

The Consul General of the Kingdom of Saudi Arabia in Hong Kong and Macau, Mr Omar Bakheet Al Bunayan, signed the agreement on behalf of his Government.

The CDTA sets out clearly the allocation of taxing rights between the two jurisdictions and will help investors better assess their potential tax liabilities from cross-border economic activities.

Mr Lau said, "This is the 38th CDTA that Hong Kong has signed with its trading partners. Hong Kong has all along treasured the economic and trade connections with Saudi Arabia, and I have every confidence that the signing of the CDTA will bring the trade relations between the two places to a new level."

In the absence of a CDTA, the profits of Hong Kong companies doing business through a permanent establishment in Saudi Arabia may be taxed in both places if the income is Hong Kong sourced. For Saudi Arabian companies, the income earned in Hong Kong is subject to both Hong Kong and Saudi Arabian tax.

Under the agreement, double taxation will be avoided in that any Saudi Arabian tax paid by Hong Kong companies will be allowed as a credit against the tax payable in Hong Kong on the same profits, subject to the provisions of the tax laws of Hong Kong. Likewise, for Saudi Arabian companies, the tax paid in Hong Kong will be allowed as a deduction from the tax payable on the same income in Saudi Arabia.

Moreover, the agreement provides the following tax relief arrangements:

(a) Saudi Arabia's withholding tax rate for Hong Kong residents on royalties (currently at 15 per cent) will be capped at 8 per cent and it will be further reduced to 5 per cent if the royalties are for the use of, or the right to use, industrial, commercial or scientific equipment;

(b) Hong Kong airlines operating flights to Saudi Arabia will be taxed at Hong Kong's corporation tax rate, and will not be taxed in Saudi Arabia; and

(c) Profits from international shipping transport earned by Hong Kong residents in Saudi Arabia will be exempted from tax liability therein.

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

Hong Kong will continue to negotiate with trading and investment partners, with a view to expanding its CDTA network.

Ends


Mr Omar Bakheet Al Bunayan
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Royal Consulate General of Saudi Arabia
Mr James H. Lau Jr.
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