

Tax Rates

Hong Kong has a simple, predictable and low tax system:

- ONLY imposes THREE direct taxes (Profits tax, Salaries tax & Property tax)
- NOT imposed: VAT, capital gains tax, tax on dividends, estate duty

Year of Assessment	2014/2015	2013/2014
Profits Tax rates		
Incorporated companies	16.5%	16.5%
Unincorporated companies	15%	15%
Salaries Tax rates		
- Progressive rate		
First HK\$40,000	2%	2%
Next HK\$40,000	7%	7%
Next HK\$40,000	12%	12%
On the remainder	17%	17%
- Standard rate	15%	15%
Property Tax rate	15%	15%

Note: A year of assessment runs from 1 April to 31 March. Companies can select the financial year ending on a date within the year of assessment.

Highlights

Profits Tax is payable by every company carrying on a trade, profession or business in Hong Kong on profits arising in or derived from Hong Kong from that trade, profession or business. The territorial concept is applied in Hong Kong. ONLY profits which arise in or are derived from Hong Kong are liable to tax here.

Depreciation and other capital allowances are granted at specified rates under the Inland Revenue Ordinance. Capital allowances are available for industrial buildings or structures, commercial buildings or structures; and for plant and machinery used in the production of assessable profits. Computer and manufacturing equipment, environment-friendly facility will be fully deductible for profits tax purposes in a year of assessment.

Losses can be offset against profits in the forthcoming years of assessment, but the losses cannot be offset against the profits of previous years or group companies.

Salaries Tax is charged on any income arising in or derived from Hong Kong from an office, employment or pension. Income is ONLY assessable to salaries tax if it has a Hong Kong source. Salaries tax liability is charged at the lower of progressive rates or standard tax rate after various allowable deductions from the taxpayer's income.

Property Tax is computed at the standard tax rate on the assessable value (e.g. rent) less certain prescribed deductions of a taxpayer's properties situated in Hong Kong.

Current Tax Reforms

Double tax relief

As of March 2014, Hong Kong has so far entered into double tax arrangement/agreements (“CDTAs”) with 29 jurisdictions (Table 1). Double tax relief (by means of tax credit) is available for overseas tax (in the nature of a tax on profits) paid in jurisdictions which have concluded a CDTA with Hong Kong on the foreign income which is also subject to Hong Kong profits tax.

Tax information exchange

As from July 2013, the Inland Revenue (Amendment) Bill 2013 enables Hong Kong to enter into tax information exchange agreements with other jurisdictions where necessary, and to enhance the existing exchange of information (Eol) arrangements under CDTAs. Further enhancement of Hong Kong’s Eol regime is expected in the foreseeable future.

Transfer pricing in Hong Kong

Departmental Interpretation and Practice Notes (“DIPN”) No. 46 sets out the Hong Kong Inland Revenue Department’s views and practices on the methodologies of transfer pricing and related issues. DIPN No. 45 deals with double taxation relief of transfer pricing adjustments.

Table 1

1 Austria	16 Liechtenstein
2 Belgium	17 Luxembourg
3 Brunei	18 Malaysia
4 Canada	19 Malta
5 China	20 Mexico
6 Czech	21 Netherlands
7 France	22 New Zealand
8 Guernsey	23 Portugal
9 Hungary	24 Qatar
10 Indonesia	25 Spain
11 Ireland	26 Switzerland
12 Italy	27 Thailand
13 Japan	28 UK
14 Jersey	29 Vietnam
15 Kuwait	

Outlook

Economic Outlook of Hong Kong for 2014

- Forecast GDP growth of 3% to 4%
- Forecast headline inflation of 4.6% and underlying inflation of 3.7%

Good business conditions of Hong Kong

a. “Doing business & Tax” friendly city:

According to two recent studies commissioned by the World Bank and IFC which measure the ease of “doing business” and “paying taxes” across 189 economies worldwide, Hong Kong has one of the most “doing business” & “tax” -friendly economies in the world.

b. All businesses in Hong Kong benefit from:

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| 1. Free port status & easy customs procedures | 7. Free market principles |
| 2. Easy and efficient regional travel | 8. Free flow of information |
| 3. Political stability | 9. No barriers to trade – no tariffs, no quotas |
| 4. Corruption-free economy | 10. No restrictions on investments inward or outward |
| 5. Independent judiciary and the rule of law | 11. No foreign exchange controls |
| 6. English as the language of business | 12. No nationality restrictions on corporate ownership |

c. Hong Kong is the gateway to Mainland China:

Hong Kong offers easy commercial and geographical access to China business opportunities. Hong Kong is under Chinese sovereignty but it has a separate political and legal system to retain all the fundamental strengths that underpin its success as an international business city, while enhancing its appeal with unrivalled access to opportunities in Mainland China.