

6th IMF-Japan High Level Tax Conference

Tax Treaties - Hong **Kong's** Experience



Richard Wong
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Purpose of a tax treaty

- Avoidance of double taxation
- Prevention of tax evasion or double non-taxation

Development of Hong Kong's Tax Treaties

- Legal framework - relevant provisions were included when the Inland Revenue Ordinance was first enacted in 1947
- **Limited double taxation agreement (“limited DTA”)**
 - ~ 28 limited DTAs on air services income
 - ~ 6 limited DTAs on shipping income
 - ~ 2 limited DTAs on both shipping and air services income

Development of Hong Kong's Tax Treaties

- Air Services Income Agreements
 - ~ Bangladesh, Canada, Croatia, Denmark, Estonia, Ethiopia, Fiji, Finland, Germany, Iceland, Israel, Jordan, Kenya, Korea, Kuwait, Laos, Macao SAR, Maldives, Mauritius, Mexico, Netherlands, New Zealand, Norway, Russian Federation, Seychelles, Sweden, Switzerland and United Kingdom
- Shipping Income Agreements
 - ~ Denmark, Germany, Netherlands, Norway, United Kingdom and USA
- Airline and Shipping Income Agreements
 - ~ Singapore and Sri Lanka

Hong Kong's Tax Treaty Policy

Targets

- Major trading and investment partners
- Emerging economies

Aims

- Facilitate flow of trade and investment between Hong Kong and other jurisdictions
- Enhance **Hong Kong's position as an international business and financial centre**



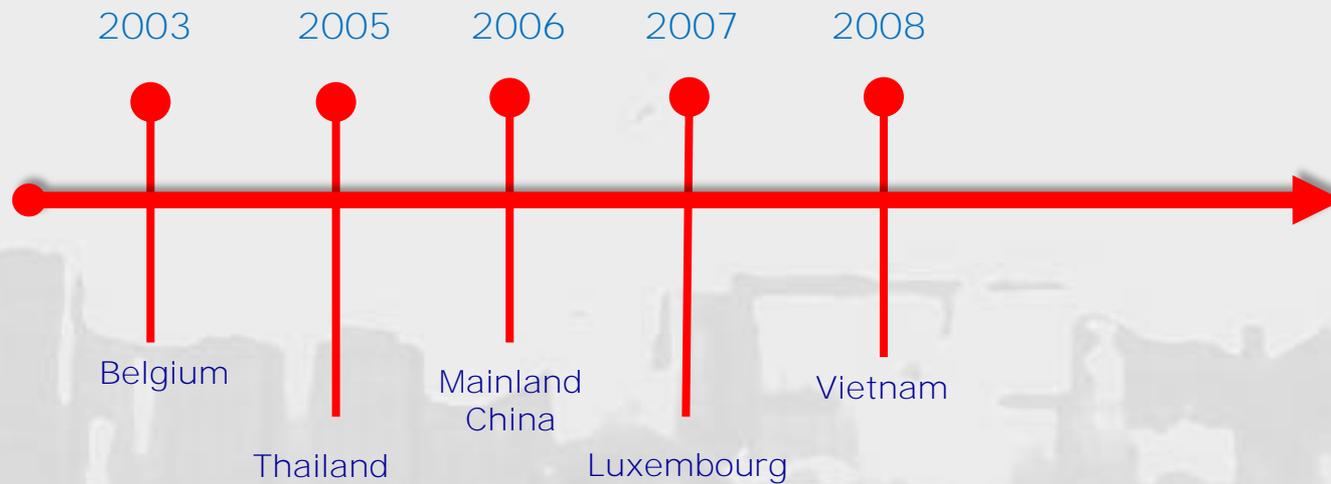
Development of Hong Kong's Tax Treaties

Comprehensive **double taxation agreement** (“CDTA”)

- HKSAR Government announced in the 1998/99 Budget its intention to negotiate CDTA with major trading partners
- First limited arrangement with Mainland China was signed in 1998 with limited scope
- First CDTA signed with Belgium in 2003
- Slow progress



Hong Kong's CDTA Network



Major Hurdle

Exchange of Information (“EoI”)

- Old EoI regime
 - ~ 1995 version of OECD Model Tax Convention
 - ~ Domestic interest requirement

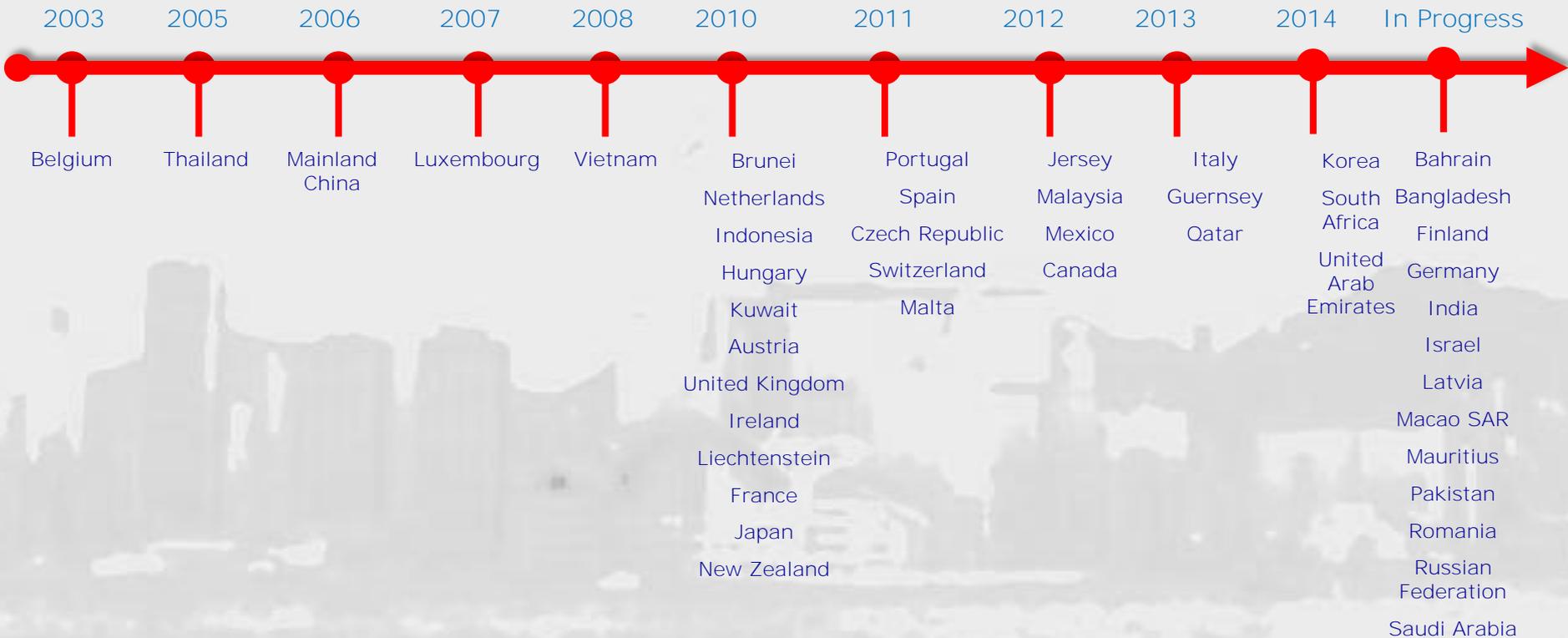
Important Milestones

- Hong Kong has all along been very supportive of international efforts to promote tax transparency
- **Openly endorsed OECD's principles of tax transparency in 2005**
- Conducted domestic consultation in 2005 and 2008
- Engagement with stakeholders

Legislative Amendments

- Inland Revenue (Amendment) Ordinance 2010 - to remove domestic interest requirement
- Inland Revenue (Disclosure of Information) Rules - to provide safeguards on confidentiality and privacy of information exchanged

Hong Kong's CDTA Network



CDTAs with Major Trading Partners

1	Mainland China	CDTA	11	United Kingdom	CDTA
2	USA	Not started	12	Switzerland	CDTA
3	Japan	CDTA	13	Vietnam	CDTA
4	Taiwan	Not started	14	France	CDTA
5	Singapore	Not started	15	Italy	CDTA
6	Korea	CDTA	16	United Arab Emirates	CDTA
7	India	In progress	17	Netherlands	CDTA
8	Germany	In progress	18	Philippines	Not started
9	Thailand	CDTA	19	Australia	Initial contact
10	Malaysia	CDTA	20	Macao SAR	In progress

CDTAs with OECD Countries

1	Australia	Initial contact	13	Hungary	CDTA	25	Poland	Not started
2	Austria	CDTA	14	Iceland	Not started	26	Portugal	CDTA
3	Belgium	CDTA	15	Ireland	CDTA	27	Slovak	Not started
4	Canada	CDTA	16	Israel	In progress	28	Slovenia	Not started
5	Chile	Not started	17	Italy	CDTA	29	Spain	CDTA
6	Czech	CDTA	18	Japan	CDTA	30	Sweden	Not started
7	Denmark	Not started	19	Korea	CDTA	31	Switzerland	CDTA
8	Estonia	Not started	20	Luxembourg	CDTA	32	Turkey	Not started
9	Finland	In progress	21	Mexico	CDTA	33	UK	CDTA
10	France	CDTA	22	Netherlands	CDTA	34	USA	Not started
11	Germany	In progress	23	New Zealand	CDTA			
12	Greece	Not started	24	Norway	Not started			

CDTAs with ASEAN Countries

1	Brunei Darussalam	CDTA	6	Myanmar	Not started
2	Cambodia	Not started	7	Philippines	Not started
3	Indonesia	CDTA	8	Singapore	Not started
4	Lao PDR	Not started	9	Thailand	CDTA
5	Malaysia	CDTA	10	Vietnam	CDTA

CDTAs with APEC Members

1	Australia	Initial contact	11	New Zealand	CDTA
2	Brunei Darussalam	CDTA	12	Papua New Guinea	Not started
3	Canada	CDTA	13	Peru	Not started
4	Chile	Not started	14	Philippines	Not started
5	Mainland China	CDTA	15	Russia	In progress
6	Indonesia	CDTA	16	Singapore	Not started
7	Japan	CDTA	17	Taiwan	Not started
8	Korea	CDTA	18	Thailand	CDTA
9	Malaysia	CDTA	19	USA	Not started
10	Mexico	CDTA	20	Vietnam	CDTA

Benefits of Extending Hong Kong's Tax Treaty Network

	2009	2014
Number of regional headquarters, regional offices and local offices	6,397	7,585
Number of persons engaged by regional headquarters, regional offices and local offices	350,000	405,000
Number of employment and investment visas newly issued	20,988	31,676

Number of Regional Headquarters, Regional Offices and Local Offices

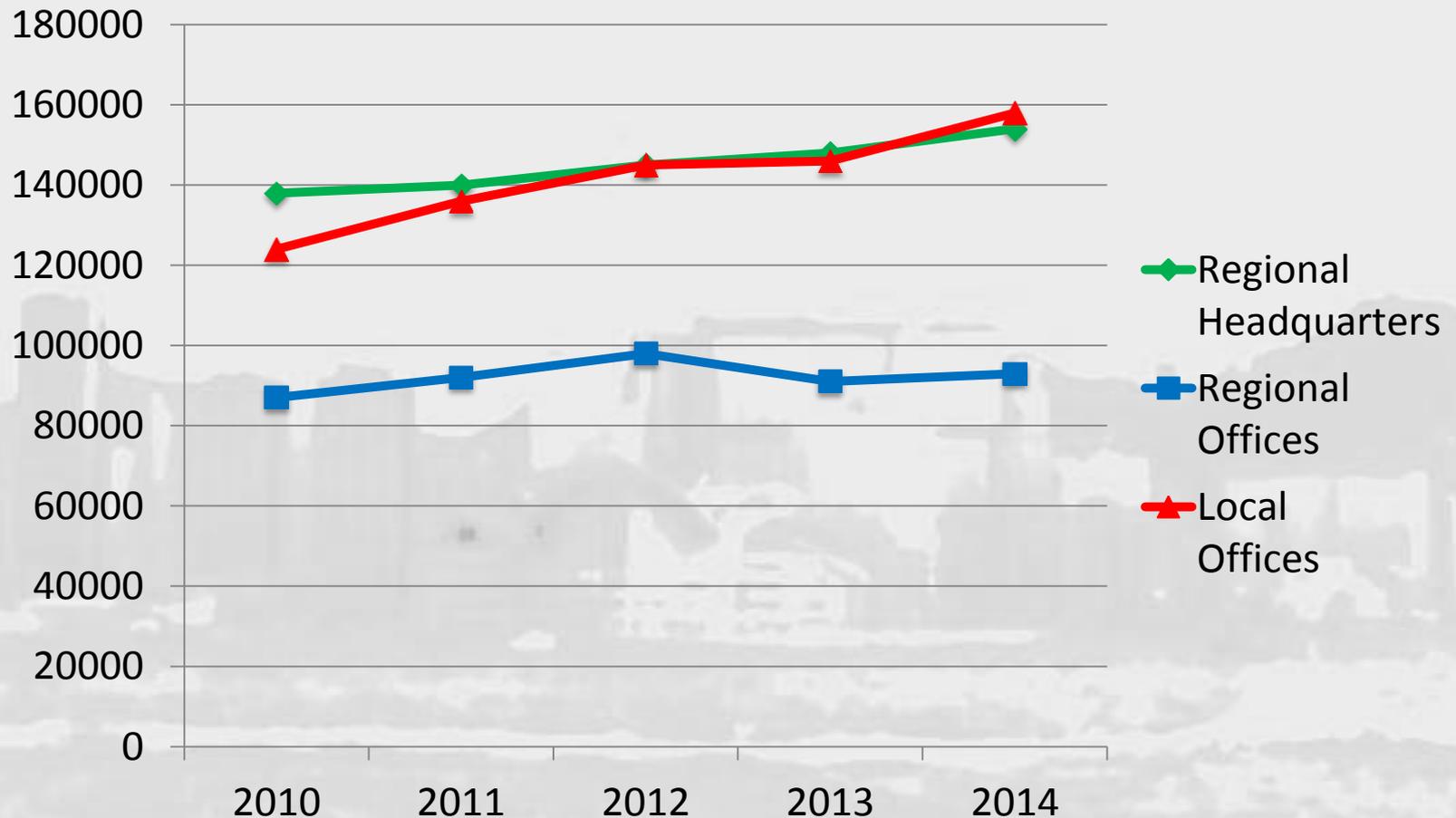
By territory where the parent company was located

	2010	2011	2012	2013	2014
Japan	1085	1150	1218	1389	1388
United States	1263	1328	1388	1339	1331
Mainland China	789	805	853	901	957
United Kingdom	505	562	565	586	584
Taiwan	452	446	450	448	426
Singapore	304	330	327	327	343
Germany	291	313	332	327	335
France	278	290	299	307	311
Switzerland	177	186	217	216	242
Netherlands	160	182	203	188	187
Australia	145	153	162	153	173
Italy	144	148	153	156	152
Korea	120	132	131	141	136
Canada	92	95	103	97	97
Sweden	68	79	83	85	84
Malaysia	59	64	60	70	67



Note: Figures from Census and Statistics Department

Persons engaged by Regional Headquarters, Regional Offices and Local Offices



Challenges Ahead

- Continue to expand tax treaty network
- **Upgrade the “Old” EoI articles in two existing CDTAs**
- Automatic EoI
- Action plan on base erosion and profit shifting (“BEPS”)



THANK YOU