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<name>Hong Kong — General Background</name>

<content.group id="6cedcdb7d0ae4e5c944880f19f02785f">

<bna.id>A.</bna.id>

<name>Tax System Overview</name>

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<bna.id>1.</bna.id>

<name>General</name>

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<p id="69398da64a7149389b31dc2610b9ea09">Revenue authority </p>

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<p id="31de6d78901d4400acb651b072feea3e"><emph>Inland Revenue Department</emph> (<emph>Section IV.A.</emph>) </p>

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<row id="0b9d490dfd1f445781a8cba52f00c5d5">

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<p id="197795a445094301b41d2ad823083566">Type of tax system </p>

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<p id="de5dc71dcb704d76ac5dd78d19faec68"><emph>Territorial system</emph>: only Hong Kong-source income is within the charge to tax. (<cite.bna.reference ref="TM\7152.V.A">Sections V.A.</cite.bna.reference>, <cite.bna.reference ref="TM\7152.V.B.1">V.B.1.</cite.bna.reference>, <cite.bna.reference ref="TM\7152.V.C.1">V.C.1.</cite.bna.reference> and <cite.bna.reference ref="TM\7152.V.D.1">V.D.1.</cite.bna.reference>) Since January 1, 2023, certain types of foreign-source passive income received in Hong Kong by a constituent entity of a multinational group can be regarded as Hong Kong-source income (subject to exemptions) and therefore as assessable in the year in which it is received (FSIE regime: <cite.bna.reference ref="TM\7152.VI.I">Section VI.L.</cite.bna.reference>)</p>

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<row id="84de9a4fee4f4aa28dff1939527be2b8">

<entry>

<p id="3cda8142e9ca4f47bd92282319aa5467">Residence </p>

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<p id="7a5e74cffe5f47daaefd489d555ed7ea">Residence generally has little significance for Hong Kong tax purposes (except in a treaty context): under Hong Kong's territorial system, both residents and non-residents are taxable (in generally the same manner) only on their Hong Kong-source profits. (<cite.bna.reference ref="TM\7152.V.A">Section V.A.</cite.bna.reference>) Residence may have relevance for particular purposes (e.g., salaries tax – see <cite.bna.reference ref="TM\7152.IX.A">Section IX.A.</cite.bna.reference>)</p>

<p id="b8efd3dda0ce44d593ddedb91046f634">Where residence is in issue, for corporations the determinative factors may include whether a corporation is incorporated in Hong Kong or, if not, whether it is centrally or effectively managed or controlled from Hong Kong depending on the treaty; for individuals, a presence test applies, based on whether one ‘ordinarily resides' in Hong Kong or, alternatively, has stayed in Hong Kong more than 180 days in the tax year concerned or more than 300 days in two consecutive tax years one of which is the relevant year of assessment. </p>

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<p id="61ecce038e6d4d8eb6f4ccfad7541aa8">Basic domestic nexus rule for foreign corporations </p>

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<p id="389ad2c060a04c1eb8710d8796b363f5">Under Hong Kong's territorial system, foreign corporations, like domestic corporations, are subject to Hong Kong profits tax on their Hong Kong-source profits from a trade, profession or business carried on in Hong Kong (excluding profits arising from the sale of capital assets) and subject to exemption. (<cite.bna.reference ref="TM\7152.V.D.2">Section V.D.2.</cite.bna.reference>).</p>

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<row id="c5285dfa3ac34e5b99faae0b3256b0bf">

<entry>

<p id="3c3a76b07aa8437b8b8eaf4257f32477">Treaty network </p>

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<p id="2a4043036f9a4b6eac867e2cb8472089">Hong Kong has tax agreements with nearly 50 jurisdictions, not including the United States, that generally follow the OECD Model Convention. (<cite.bna.reference ref="TM\7152.XVI.A">Section XVI.A.</cite.bna.reference>) </p>

<p id="b8efd3dda0ce44d593ddedb91046f634">MLI signatory: Yes. (<cite.bna.reference ref="TM\7152.XVI.C">Section XVI.C.</cite.bna.reference>) </p>

<p id="b8efd3dda0ce44d593ddedb91046f634">For the texts and status of Hong Kong's tax agreements, see <emph>International Tax Treaties</emph>. </p>

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<p id="48eaabb09b914be883388197cbba35df">Corporate income tax rate</p>

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<p id="722692dd3de84f40a1677caa999d2e87">Corporate income tax rate </p>

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<p id="2a54fddd448c443482c5d70a3b165917">The standard rate is 16.5%, but a rate of 8.25% applies on the first HK$ 2 million profits (applies only to one entity nominated within a group of entities to be charged at the two-tiered rates). (<cite.bna.reference ref="TM\7152.V.D.7">Section V.D.7.</cite.bna.reference>)</p>

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<p id="cd2fbf48000e455bbedae6c68e25db97">Withholding tax rates on payments to non-resident companies </p>

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<p id="0d36a8cee910426997cf5a1e8f345d16"><underline>Dividends</underline>: 0% (<cite.bna.reference ref="TM\7152.V.D.4.c">Section V.D.4.c.</cite.bna.reference>) <line.break/><underline>Interest</underline>: 0% (<cite.bna.reference ref="TM\7152.V.D.7.c">Section V.D.7.c.</cite.bna.reference>) <line.break/><underline>Royalties</underline>: Generally, 4.95% (unrelated party – based on the standard profits tax rate applied to 30% of the gross royalties) or 16.5% (related party) (<cite.bna.reference ref="TM\7152.V.D.7.c">Section V.D.7.c.</cite.bna.reference>). <line.break/>For the rates of source country taxation applying under Hong Kong domestic law and tax treaties and the context for their application, see the <cite.url ref="https://www.bloomberglaw.com/product/tax/bbna/chart/3/10092">Withholding Tax Chart</cite.url>. </p>

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<p id="3908f241c9ac4a4088ad2ebd0d0792bd">Net operating losses carryback/forward </p>

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<p id="9119259000af40b785ebaeb920d5349e"><underline>Carryback</underline>: No. : Indefinitely. (<cite.bna.reference ref="TM\7152.V.D.5.h.(1)">Section V.D.5.h.(1).</cite.bna.reference>) </p>

<p
id="b8efd3dda0ce44d593ddedb91046f634"><underline>Carryforward</underline></p>

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<p id="db3af0180e0c442ead8b98f8f4d0bf40">Restrictions on deductibility of interest expenses </p>

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<p id="00724f799a474e3b98f47e2b3dffc873">There are no thin capitalization rules, but there are limitations placed on the deductibility of interest expenses in certain circumstances. (<cite.bna.reference ref="TM\7152.V.D.5.h.i">Section V.D.5.h.i.</cite.bna.reference>)</p>

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<p id="55bb531802f546ad9d1245ff15ffcc6d">Anti-hybrid mismatch rules </p>

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<p id="e92c176e4afc4f46b986f73c305a8500">An anti-hybrid rule denies the dividend participation exemption for purposes of the FSIE regime where the dividend is deductible for the paying corporation. (<cite.bna.reference ref="TM\7152.VI.L.4.b">Section VI.L.4.b.</cite.bna.reference>) </p>

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<p id="0bbc79f39e1d42779c65f4042f119812">Incentives (major)) </p>

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<p id="1352f5b0bffb473e9b5acaeacbeeb14d"><source.list.item>• R&D: Yes. (<cite.bna.reference ref="TM\7152.II.E.2.d">Section II.E.2.d.</cite.bna.reference>, <cite.bna.reference ref="TM\7152.V.D.5.h.(1)">Section V.I.4.</cite.bna.reference>, and <cite.bna.reference ref="TM\7152.X.B.4.c">Section X.B.4.c.</cite.bna.reference>)</source.list.item><source.list.item>• Patent box: Yes. (<cite.bna.reference ref="TM\7152.VI.L">Section VI.L.</cite.bna.reference>)</source.list.item><source.list.item>• Enhanced depreciation / capital allowance: Yes. (<cite.bna.reference ref="TM\7152.V.D.5.h">Section V.D.5.h.</cite.bna.reference>)</source.list.item><source.list.item>• Environmental: No.</source.list.item><source.list.item>• Other: Special concessions for insurers, financial services, aviation/shipping, treasury operations, and family offices. (<cite.bna.reference ref="TM\7152.VI.C">Sections VI.C.</cite.bna.reference> to <cite.bna.reference ref="TM\7152.VI.J">J.</cite.bna.reference>)</source.list.item></p>

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<p id="f4a9eba8a3fe48b3a951374cc1b44e3e">Participation exemption (or similar regime) </p>

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<p id="8b02c56f2d8c4cd0a2cf042f2a620600">Yes, there are limited exemptions to the FSIE regime for certain types of foreign-sourced interest, dividends, and disposal gains subject to requirements on economic substance, participation, or nexus. (<cite.bna.reference ref="TM\7152.VI.N.4">Section VI.N.4.</cite.bna.reference>) </p>

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<p id="018ffff11c394013bdb58d62bea8d5f7">Tax consolidation </p>

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<entry>

<p id="a75dfa53a9b6467f91539f6d8d6e3a6f">No. </p>

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<p id="1426cac2874d4bc9b65a1f77419eb42c">M&A regime </p>

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<p id="06769b7f810049b6b71159ff392c5cea"><source.list.item>• Tax-free or tax-privileged transaction: Yes. (<cite.bna.reference ref="TM\7152.VI.M">Section VI.M.</cite.bna.reference>)</source.list.item><source.list.item>• Stamp duty/share transfer taxes: Transfers or sales of Hong Kong property and transfers of non-exempt shares in Hong Kong companies are subject to stamp duty. (<cite.bna.reference ref="TM\7152.XI.A">Section XI.A.</cite.bna.reference>) </source.list.item><source.list.item>• Limitation on pre-deal NOL carryforwards: No limitation on losses acquired in share deals. (<cite.bna.reference ref="TM\7152.VI.M.2">Section VI.M.2.</cite.bna.reference>) </source.list.item></p>

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<row id="49eb7cb64b4c4bbb93ef218320a5e9b0">

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<p id="8ba7369e53ee4643bed8086b85973304">OECD Pillars One and Two </p>

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<p id="4d27f20f71834c63b4775f9dd3be5db3">Hong Kong has agreed to implement the Two Pillar Solution. (<cite.bna.reference ref="TM\7152.XV.B">Section XV.B.</cite.bna.reference>) </p>

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<p id="382edb914ec0454c984ced4db8745123">Controlled foreign company regime </p>

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<p id="e42e68cb179f45d0a65c42b1d5ae74df">No. </p>

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<row id="08370eccc5454e2a98786a811e9efe80">

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<p id="4063cce743f04ddc8b9461c4a9e5a7b1">Transfer pricing regime </p>

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<p id="2d5d8c1af3c04378b922a5ba7f3f6aec">Yes. (<emph>Section VII.D.</emph>) </p>

<p id="b8efd3dda0ce44d593ddedb91046f634">Country-by-country report: Yes. (<cite.bna.reference ref="TM\7152.VII.D.1">Section VII.D.1.</cite.bna.reference>) </p>

<p id="b8efd3dda0ce44d593ddedb91046f634">See also <emph>Chapter 70 of 6955 T.M., Transfer Pricing: Rules and Practice in Selected Countries (H–I)</emph>. </p>

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<row id="810c1dd567eb44479e4a7b4c64c21850">

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<p id="8c4db81afea04fa6b262aaac959c5d39">General anti-avoidance rule </p>

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<p id="ab4fbd9febad44b1b6ddf90b196d9084">Yes. (<cite.bna.reference ref="TM\7152.X.F.2">Section X.F.2.</cite.bna.reference>)</p>

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<p id="a03132df639d45edb68a90d3b1278cb8">Mandatory disclosure regime </p>

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<p id="4778ae1f766e4a2abf162eb58e3bedf7">No. </p>

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<p id="4b002c70d27e484eb711dd57d7dd99b4">Foreign tax relief </p>

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<p id="5339f832afa24412b025a8f6648d1ec6">Relief may be granted unilaterally: by way of a deduction, in certain circumstances; or under the terms of a tax treaty: by way of a credit. (<cite.bna.reference ref="TM\7152.XVI.B">Section XVI.B.</cite.bna.reference>) </p>

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<p id="db2767e5187e4f07a2f2a1dbc36bad05">Personal income tax rates </p>

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<p id="db9e4b6c554e4143b18473f6f2a470f8">Lower of:<source.list.item> (i) the standard rate on net income (before deduction of allowances) at 15% on the first HK$ 5,000,000 and 16% on the remainder; and </source.list.item><source.list.item>(ii) the progressive rates on net chargeable income, at 2%, 6%, 10% and 14%, based on increments of HK$ 50,000, and 17% on net chargeable income above HK$ 200,000. (<cite.bna.reference ref="TM\7152.V.C.9">Section V.C.9.</cite.bna.reference>) </source.list.item></p>

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<p id="bd281c2c5f1846728148b0297ece012b">Equity incentives </p>

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<p id="3ff7f5b7e69b4d5ab9e197ac0c90335b">Yes. (<cite.bna.reference ref="TM\7152.V.C.3">Section V.C.3.</cite.bna.reference>)</p>

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<p id="c24ca9e8cab144a38210acd0a37e4d54">Foreign tax relief </p>

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<p id="7ff120ca35e048e2a6273c70f3c795d3">Yes. (<cite.bna.reference ref="TM\7152.XVI.B">Section XVI.B.</cite.bna.reference>) </p>

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<p id="85ff6d2413ad469d80add88af65eecc9">Wealth tax, estate/inheritance taxes, gift tax </p>

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<p id="c21c2d840a01494da16221adc602e872"><source.list.item>• There is no net worth or wealth tax in Hong Kong. (<cite.bna.reference ref="TM\7152.IV.B.8">Section IV.B.8.</cite.bna.reference>)</source.list.item> <source.list.item>• There is no estate tax, inheritance tax, or gift tax in Hong Kong. (<cite.bna.reference ref="TM\7152.IV.B.2">Sections IV.B.2.</cite.bna.reference> and <cite.bna.reference ref="TM\7152.XIII.A">XIII.A.</cite.bna.reference>)</source.list.item></p>

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<p id="b9214edb5eec41f8bac182b1057f6a2c">Exit tax </p>

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<p id="0db45105176c4b5d8e53d4cdc81e5d15">No. </p>

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<p id="d5a3a091c4e24f739cc476614fcd82d5">VAT/GST/Sales tax </p>
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<p id="a2eac71952a0460aba7d994f6c7d3d84">No. (Section IV.B.4.)</p>
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<p id="67bc0c1fb6104accba04b777627b021e">Digital services tax </p>

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<p id="7470d73a01974d65a4a25a67301b3c12">No. </p>

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<p id="b88c975d36dd46d0907318b5860c697e">Local taxes </p>

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<p id="297ded742fd04d10ac0021b78fe21463">Generally, none, but property tax is assessed on owners of land or buildings on a net assessable value basis and ad valorem stamp duty is charged on real estate sales, transfers, and leases, and on transfers of Hong Kong stock. (<cite.bna.reference ref="TM\7152.V.B">Section V.B. </cite.bna.reference>and <cite.bna.reference ref="TM\7152.XI.A">Section XI.A.</cite.bna.reference> and <cite.bna.reference ref="TM\7152.XI.D">D.</cite.bna.reference>) </p>

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<p id="17c1c9d927e6480790eb33906d808305">Standard tax return filing dates </p>

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<p id="740bab39c2494913bc415ed33034b0af"><underline>Corporations</underline>: generally issued at the start of April each year and must be filed within one month thereafter.</p>

<p id="b8efd3dda0ce44d593ddedb91046f634"><underline>Individuals</underline>: generally issued at the start of May each year and must be filed within one month thereafter. (<cite.bna.reference ref="TM\7152.X.A">Section X.A.</cite.bna.reference>)</p>

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<p id="359a2f8a0f354b55a305d188989180ef"><source.list.item>• Up to six years from the end of the relevant tax period;</source.list.item><source.list.item>• Up to 10 years where fraud or willful evasion is involved. (<cite.bna.reference ref="TM\7152.X.F.1">Section X.F.1.</cite.bna.reference><emph/>) </source.list.item></p>

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<p id="30a7de336f09491f85e29dc3fe604c30">Advance tax rulings </p>

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<p id="99583156736d4977853235e206dc289c">Yes. (<cite.bna.reference ref="TM\7152.X.F.2">Section X.F.2.</cite.bna.reference>) </p>

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