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<name>Tax System Overview</name>

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ref="https://www.ird.gov.hk/eng/welcome.htm">Inland Revenue Department</cite.url>
(<emph><cite.bna.reference ref="TM\7152.IV.A">Section
IV.A.</cite.bna.reference></emph>) </p>

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

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    <p id="de5dc71dcb704d76ac5dd78d19faec68"><underline>Territorial
system</underline>: 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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<p id="3cda8142e9ca4f47bd92282319aa5467"><emph face="b">Residence </emph></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>)<line.break only.in="!print"/><line.break only.in="!print"/></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"><emph face="b">Basic domestic nexus rule for foreign corporations </emph></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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       <p id="3c3a76b07aa8437b8b8eaf4257f32477"><emph face="b">Treaty network </emph></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="6024f4ccebc54860bf4137fd68ae3942">MLI signatory: Yes. (<cite.bna.reference ref="TM\7152.XVI.C">Section XVI.C.</cite.bna.reference>) <line.break only.in="!print"/><line.break only.in="!print"/></p>

<p id="c8c311a0707648278e48b7180a66d432">For the texts and status of Hong Kong's tax agreements, see <cite.url ref="https://www.bloomberglaw.com/product/tax/search/results/829ef8df02520c766a193fe4fc222f64?bc=W1siU2VhcmNoIFJlc3VsdHMiLCIvcHJvZHVjdC90YXgvc2VhcmNoL3Jlc3VsdHMvZjM0YTczNDc3ODljZmIxMTc1OTJhZWViYzI5YTY1MGM_Y3VyYXRlZD10cnVll1d--5485816f816b979eb4572e25f204009f7401cfca">International Tax Treaties</cite.url>. </p>

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      <p id="722692dd3de84f40a1677caa999d2e87"><emph face="b">Corporate income
tax rate </emph></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"><emph face="b">Withholding tax rates on payments to non-resident companies </emph></p>

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     <p id="0d36a8cee910426997cf5a1e8f345d16">Dividends: 0% (<cite.bna.reference ref="TM\7152.V.D.4.c">Section V.D.4.c.</cite.bna.reference>) <line.break only.in="!print"/><line.break only.in="!print"/></p>

<p id="00ef3053b5564b46a2bc00290dc0c12f">Interest: 0% (<cite.bna.reference ref="TM\7152.V.D.7.c">Section V.D.7.c.</cite.bna.reference>) <line.break only.in="!print"/><line.break only.in="!print"/></p>

<p id="53b11d53d29d4604a29aad9049dd8347">Royalties: 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 only.in="!print"/><line.break only.in="!print"/></p>

<p id="48904c5817544572a90bdf56df050b6b">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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losses carryback/forward </emph></p>

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    <p id="9119259000af40b785ebaeb920d5349e"><underline>Carryback</underline>:
No.<line.break only.in="!print"/><line.break only.in="!print"/></p>

<p id="497031f21a3144e599030f058af967aa"><underline>Carryforward</underline>:
Indefinitely. (<cite.bna.reference ref="TM\7152.V.D.5.h.(1)">Section
V.D.5.h.(1).</cite.bna.reference>) </p>

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    <p id="db3af0180e0c442ead8b98f8f4d0bf40"><emph face="b">Restrictions on
deductibility of interest expenses </emph></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"><emph face="b">Anti-hybrid
mismatch rules </emph></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"><emph face="b">Incentives (major)</emph></p>

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      <p id="1352f5b0bffb473e9b5acaeacbeeb14d"><source.list.item>• R&amp;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"><emph face="b">Participation
exemption (or similar regime) </emph></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="1426cac2874d4bc9b65a1f77419eb42c"><emph face="b">M&amp;A regime
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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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      <p id="8ba7369e53ee4643bed8086b85973304"><emph face="b">OECD Pillars One and Two </emph></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"><emph face="b">Controlled foreign company regime</emph> </p>

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      <p id="e42e68cb179f45d0a65c42b1d5ae74df">No. </p>
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        <p id="4063cce743f04ddc8b9461c4a9e5a7b1"><emph face="b">Transfer pricing
regime </emph></p>

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         <p id="2d5d8c1af3c04378b922a5ba7f3f6aec">Yes. (<cite.bna.reference
ref="TM\7152.VII.D">Section VII.D.</cite.bna.reference>) </p>

<p id="df7b0094f489489291413d82fc567e21">Country-by-country report: Yes.
(<cite.bna.reference ref="TM\7152.VII.D.1">Section VII.D.1.</cite.bna.reference>)
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<p id="c0176d70cf424adbaef359ce2f7b8e39">See also <cite.url
ref="https://www.bloomberglaw.com/product/tax/document/27902691368">Chapter 70
of 6955 T.M., Transfer Pricing: Rules and Practice in Selected Countries (H–I)</cite.url>.
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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="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="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
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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="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="7ff120ca35e048e2a6273c70f3c795d3">Yes. (<cite.bna.reference
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estate/inheritance taxes, gift tax </emph></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="d5a3a091c4e24f739cc476614fcd82d5"><emph face="b">VAT/GST/Sales
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       <p id="a2eac71952a0460aba7d994f6c7d3d84">No. (<cite.bna.reference
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taxes</emph> </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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years where fraud or willful evasion is involved. (<cite.bna.reference
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<name>Administrative Status</name>

<para id="5dfa9cb0d4ab408d8e5f2dd08de9066c">Hong Kong was a colony of the United Kingdom from 1842 until 1997. Since the handover of Hong Kong to the People's Republic of China (PRC) on July 1, 1997, the city has been a Special Administrative Region (HKSAR) of the PRC. The Joint Declaration, an agreement signed in 1984 between the United Kingdom and China, provided for certain provisions to apply for 50 years after the handover in 1997, including:<list.item>(i) The continuation of the laws then in force in Hong Kong;</list.item><list.item>(ii) The continuation of Hong Kong's existing capitalist economy and trade system;</list.item><list.item>(iii) The free movement of goods and capital;</list.item><list.item>(iv) The continuation of Hong Kong's "status of a free port and a separate customs territory";</list.item><list.item>(v) The free exchange of Hong Kong dollars;</list.item><list.item>(vi) The protection of property rights and foreign investments;</list.item><list.item>(vii) The retention of the English common law system and the protection of fundamental human rights; and</list.item><list.item>(viii) The independence of the judiciary.</list.item></para>

<para id="9ebabaf98ff947bd9f054231e048c6c8">In April 1990, after several years of drafting and consultation, the National People's Congress of China promulgated the Basic Law, which is the constitutional document for Hong Kong. The Basic Law embodied the policy of "one country, two systems," as set out in the Joint Declaration. It came into effect on July 1, 1997. The Basic Law stipulates that Hong Kong is "to enjoy executive, legislative and independent judicial power, including that of final adjudication." The Basic Law also stipulates that "the laws previously in force in Hong Kong," including the "common law, rules of equity, ordinances, subordinate legislation and customary law," are to continue to remain in force unless subsequently amended by Hong Kong's legislature.</para>

<para id="ee8c75f37268409aaf149c5e5b3b17ad">Under the Basic Law, residents have "freedom of speech, of the press and of publication; freedom of association, of assembly, of procession and of demonstration; and the right and freedom to form and join trade unions, and to strike." The right to privacy is protected by very strict data protection laws. Also, the Basic Law states that the "provisions of the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights and International Labour Conventions as applied to Hong Kong" previously remain in force.

Hong Kong remains a free port, a separate customs territory and an international financial center. Hong Kong issues and manages its own currency and shipping register, and the Chinese Central People's Government does not levy taxes in Hong Kong.</para>

<para id="0faaeb91aa4e4826b86ab15c63c7a04a">The legislature of the Central People's Government has the right to amend the Basic Law. It can also introduce laws into Hong Kong by listing them in Annex III of the Basic Law, and these laws become effective through promulgation by the Chief Executive of the HKSAR or by way of local legislation. Although Hong Kong's own Court of Final Appeal has the power of final adjudication, the ultimate power of interpretation of the Basic Law is vested in the Central People's Government if there are questions concerning Hong Kong's relationship with the Central People's Government. Finally, the regime under the Basic Law may be amended after 2047, and it is not known what system will prevail after that time.</para>

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<name>Government</name>

<para id="d68a5ebb1a6947b3b15d8bed115c8a23">The government of Hong Kong is headed by the Chief Executive, who is assisted by the Executive Council. The Legislative Council, which is separate from the executive branch, legislates, approves public expenditure and monitors the performance of the government executive. The judiciary (described further below) is independent from the executive and legislative branches of the Government.</para>

<para id="4df5c7b4a89a49d88b39e232b536be87">The Legislative Council has 90 members, with 40 members elected by the Election Committee constituency, 20 members directly elected through geographical constituencies and 30 members elected by functional constituencies.</para>

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<name>Legal System</name>

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<name>The Courts </name>

<para id="aee85f5d91ea4be281b2d2a61f4ad52b">The Basic Law provides that the courts of Hong Kong are to adjudicate cases in accordance with the laws previously in force in Hong Kong, except for any that contravene the Basic Law and subject to any amendment by the Hong Kong legislature. The Basic Law provides that "[t]he judicial system previously practiced in Hong Kong shall be maintained except for those changes consequent upon the establishment of the Court of Final Appeal of the Hong Kong Special Administrative Region." It further provides that "[i]n criminal or civil proceedings in the Hong Kong Special Administrative Region, the principles previously applied in Hong Kong and the rights previously enjoyed by parties to proceedings shall be maintained."</para>

<para id="1f918802b42c4cc780a9d0bc92f3ada9">The Basic Law also includes provisions for the establishment of the Court of Final Appeal, the High Court (i.e., which consists of

the Court of Appeal and the Court of First Instance), district courts, magistrates' courts, and special courts such as the Lands Tribunal and the Labour Tribunal.</para>

<para id="35c1b1b599a24449b706429c6b6360fc">The Court of Final Appeal took over the role of final adjudication formerly performed by the Privy Council. The Court of Final Appeal is comprised of five judges: the Chief Judge and three permanent judges, in addition to a non-permanent judge from Hong Kong or another common law jurisdiction. The Court of Final Appeal has civil and criminal jurisdiction, but has no jurisdiction over acts of state, such as defense and foreign affairs. The Court of Final Appeal hears civil and criminal appeals from the High Court. In civil cases, the Court of Final Appeal will hear an appeal from the Court of Appeal, at the discretion of the Court of Appeal or, in the case of absence or refusal of Court of Appeal leave to appeal, the Court of Final Appeal, if the matter is of great general or public importance.</para>

<para id="5d439b6b23ef4667908c485cf5a8e7dc">Judges in Hong Kong may refer to the applicable law as described above together with the precedents of other common law jurisdictions, so that the flexibility and discretion available under the former common law system is also preserved. Several other fundamental principles retained under the Basic Law include the principle of trial by jury, the right to a fair trial without delay and the presumption of innocence in criminal proceedings.</para>

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<name>Arbitration</name>

<para id="cc8e5e5b8d28472f8a57587a13aa1e69">The Hong Kong Arbitration Ordinance,<footnote id="cf5228b39c714f31939841a150b65cc0"><footnote.marker><superior>1</superior></footnote.marker><footnote.text><para id="73511247e9b64248b6a37bc9e1f3afd2">Cap. 609, L.H.K.</para></footnote.text></footnote> which governs arbitration in Hong Kong, is based on the United Nations Commission on International Trade Law (UNCITRAL) Model Law on International Commercial Arbitration 1985.   </para>

<para id="fa8180ce20e449f7a47e7ace76e88670">The Hong Kong International Arbitration Centre (HKIAC) is a leading arbitration center globally. Parties that enter into a contract may specify that any arbitration be administered by the HKIAC under the UNCITRAL arbitration rules.<footnote id="9356041880a74996971ac94a49576f60"><footnote.marker><superior>2</superior></f

ootnote.marker><footnote.text><para id="d1e29f0eb7fd4e769adb7c99bfe5b2d7">Sample model arbitration clauses suggested by the HKIAC can be found at: <cite.url ref="https://www.hkiac.org/arbitration/model-clauses">https://www.hkiac.org/arbitration/model-clauses</cite.url>.</para></footnote.text></footnote> The 2024 Administered Arbitration Rules of the HKIAC, which came into effect on June 1, 2024, may also be used for cross-border disputes.<footnote id="39313f76dd624749b62514ee72eb5900"><footnote.marker><superior>3</superior></footnote.marker><footnote.text><para id="b44f69282c1d4ef4874cf078460df282">The 2024 Rules can be found at: <cite.url ref="https://www.hkiac.org/arbitration/rules-practice-notes/hkiac-administered-2024">https://www.hkiac.org/arbitration/rules-practice-notes/hkiac-administered-2024</cite.url>.</para></footnote.text></footnote> Under the 2024 Rules, an arbitration will be deemed to have commenced on the date the HKIAC receives a Notice of Arbitration from the claimant. The Notice of Arbitration must include the relevant details as specified in the 2024 Rules including the nature of the claim, the relief or remedy that is sought, a copy of the arbitration agreement that is invoked, if any funding arrangement exists and the identity of any third-party funder. The respondent must provide an answer with the relevant details as specified in the 2024 Rules within 30 days from the date of receipt of the Notice of Arbitration. If parties are unable to agree on the number of arbitrators within the stipulated period of time, the HKIAC may decide whether to refer the case to a sole arbitrator or three arbitrators based on the circumstances of the case. Under the 2024 Rules, parties may apply for interim measures such as the preservation of assets or evidence. The arbitration tribunal may appoint experts to assess the evidence, after consulting with parties.</para>

<para id="d957ed4ee3834b5f848f21add66967e2">The HKIAC is often used in disputes with parties from Mainland China given that they may benefit from the Arrangement Concerning Mutual Assistance in Court-ordered Interim Measures in Aid of Arbitral Proceedings by both the courts of the Mainland and of the Hong Kong Special Administrative Region, which took force in October 2019. Under this arrangement, parties to a dispute that is administered under the HKIAC can apply to courts in Mainland China for interim measures to preserve assets or evidence.</para>

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