



FACT SHEET

TAXATION OF HONG KONG CORPORATIONS

Resident and non-resident corporations are generally taxed on income derived from Hong Kong source only. Foreign source income is not taxed even if remitted into Hong Kong. It is the source of income that determines whether the corporation attracts Hong Kong tax and not the origin of that corporation.

Major Taxes on Corporation

	Profits Tax	Property Tax ¹	Interest Tax
<i>Corporation carrying on trade or business in Hong Kong²</i>			
Income has HK source	Yes	No	No
Income has Foreign source	No	No	No

	2007/08 Tax Rates	2008/09 Tax Rates
Profits Tax	17.5%	16.5%
Property Tax – Corporation	16.0%	16%
Interest Tax	Nil	Nil

Concessionary tax rates are available for gains derived from qualified debt instruments and for offshore business of re-insurance companies.

Taxable Income

Basis for Computation of Taxable income

When a corporation receives both local and foreign income, related expenses will be proportionally deducted. Except capital expenditure, all expenses wholly and exclusively incurred in the production of assessable profits are allowed for Profits Tax purposes.

Expenditure on scientific research and payments on technical education are 100% deductible. There is no upper limit for all kinds of expenditures, except that it should be reasonably incurred in the production of taxable income.

There is no thin capitalization rule in Hong Kong. All interests are deductible as long as they are borrowed from a recognized financial institution or from an entity whose income is also chargeable under profits tax.

¹ Income from properties in Hong Kong will be taxed together with profit from business under the head of Profits Tax.

Dividends

Dividends received by and paid from a corporation is not subject to any tax.

Capital Gains

There is no capital gains tax in Hong Kong, and capital revenue is not taxable. However, a transfer of right to receive income is taxable notwithstanding the revenue is of capital nature.

Depreciation

In computing assessable profits for Profits Tax purposes, the tax authority provides the following rules in connection with depreciation on capital expenditures:-

	Initial Allowance	Annual Allowance	
Industrial Buildings	20%	4%	On construction costs
Commercial Buildings	Nil	4%	On capital expenditure incurred [1]
Refurbishment Expenses	Nil	25%	
Plant & Equipment			
• Computer	100%	Nil	On the balance of capital expenditure incurred
• On scientific research	100%	Nil	
• Others	60%	10-30%	

* [1] Available to capital expenditure on commercial buildings only

Operating Loss

Operating loss for a corporation carrying on business in Hong Kong can be used to set-off taxable profits for all business of the corporation in future years, which are not necessary in the same line with the business incurring losses. Losses may not be carried backward or relieved against profits of associated companies but the government is considering the proposal for group relief

Non-resident and Agents

A non-resident will be chargeable to tax either directly or in the name of his agent in Hong Kong if he receives Hong Kong source of income.

Royalties from Film Patents and Trademarks

Royalties received by a non-Hong Kong entity relating to the use of film patents and trademarks are deemed to be sums derived from Hong Kong. Profit is taken to be 30% of the amount received. The effective tax rate is therefore 5.25% of the amount received.

Patent Rights Used in Hong Kong

Expenditure incurred for the purchase of patent rights for business with chargeable income in Hong Kong is 100% deductible as an expense, except when the seller is an associate of the taxpayer.

Double Tax Agreement

Hong Kong has Double Taxation Treaty with Belgium and Thailand. Moreover, Hong Kong has a Double Taxation Arrangement, which is in essence a double tax agreement on profits and personal income only.

	Dividend	Interest	Royalty
China	5% ² /10%	0% / 7%	7%
Thailand	10%	10%	5% -10%
Belgium	0% / 5%	10%	5%

Advance Rulings

A taxpayer may apply to the Commissioner of Inland Revenue for a ruling on how any provision of the Inland Revenue Ordinance applies to him or the arrangement specified in the application. Full particulars will need to be provided before an advance ruling can be given.

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- ⇒ Incorporation of Hong Kong and other onshore/offshore companies and structures
- ⇒ Full corporate management services
- ⇒ Registered office, business office, mail redirection and business centre (available in selected locations only)
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² For shareholding more than 25%