

## Chapter 3 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 <sup>5</sup>	Interest Tax
Corporation carrying on trade or business in Hong Kong			
Income has HK source	Yes	No	No
Income has Foreign source	No	No	No

  

	2010/11 Tax Rates	2011/12 Tax Rates
Profits Tax	16.5%	16.5%
Property Tax -Corporation	15%	15%
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.

<sup>5</sup>Income from properties in Hong Kong will be taxed together with profit from business under the head of Profits Tax.

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.

### 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%	
<b>Plant &amp; Equipment</b>			
•Industrial Device	100%	Nil	Manufacturing Industry
•Computer	100%	Nil	
•On scientific research	100%	Nil	
•Others	60%	10-30%	On the balance of capital expenditure incurred

\* [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 4.95% 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

Besides signing Double Tax Agreements with Mainland China, Hong Kong has signed comprehensive Double Tax Treaties with Belgium, Thailand, Austria, Brunei, France, Hungary, Indonesia, Ireland, Japan, Kuwait, Liechtenstein, Luxemburg, New Zealand, Netherlands, The Kingdom of British, Vietnam, Switzerland, Portugal and Spain which has been expanding its international tax treaties and information exchange networks.



Jurisdictions	Dividend	Interest	Royalty
China	5% /10%	0% /7%	7%
Thailand	10%	10%	5%/10%
Belgium	0% /5%	10%	5%
Austria	0%/10%	--	3%
Brunei	5%/10%	--	5%
France	10%	10%	10%
Hungary	5%/10%	5%	5%
Indonesia	10%	5%	5%
Ireland	0%	10%	3%
Japan	5%/10%	10%	5%
Liechtenstein	0%	0%	3%
Luxemburg	0%/10%	--	--
New Zealand	0%/5%/10%	10%	5%
Netherlands	0%/10%	0%	3%
Kuwait	5%	0%	5%
The Kingdom of British	0%	0%	3%
Vietnam	10%	0%/10%	7%/10%
Switzerland	0%/10%	0%	3%
Portugal	5%/10%	10%	5%
Spain	10%	5%	5%