

Hong Kong Concluded New Comprehensive Double Tax Agreement with Thailand

Following the concluding of a Comprehensive Double Tax Agreement (CDTA) with Belgium last year, the very first CDTA of the SAR, Hong Kong has on September 7 2005, signed an agreement with Thailand on the avoidance of double taxation. This is the first comprehensive agreement for the avoidance of double taxation (known as a CDTA) that Hong Kong had signed with an Asia-Pacific country.

Profits for a Branch of Hong Kong Company - Under the agreement, profits remitted by a branch office in Thailand to its Hong Kong head office (a Hong Kong resident company) will not be taxed by the Thai Government. Currently, such remittances are subject to a 10% withholding tax in Thailand.

Royalty - 5% Thai withholding tax for royalties of any copyright of literary, artistic or scientific work and films will be levied on the Hong Kong resident and that does not have a permanent establishment in Thailand. The rate is 10% if paid for the use of, or the right to use, any patent, trademark, design or model, plan, secret formula or process. The current rate is 15% on the gross amount of royalties.

Interest - In the case of interest received by a Hong Kong resident without PE in Thailand, the rate is reduced to 10% against the current Thai withholding tax of 15% of the gross amount. This applies to interest payable to a financial institution or insurance company, or if interest is paid with respect to indebtedness arising from the sale on credit of equipment, merchandise or services.

The DTA will take effect with respect to Hong Kong taxes from April 1, 2006, and with respect to Thai taxes from January 1, 2006.

Since 1998, Hong Kong began to explore the possibilities of concluding CDTAs with Hong Kong's major trading partners. However, the progress is slow and without much progress. For 7 years up to 2005, only two CDTAs are concluded. A DTA is concluded with the Mainland China, but this does not cover Profits Tax. In contrast, Macao concluded a CDTA with Mainland China in 2004. In December, 2003, Hong Kong signed its first CDTA with Belgium, and talks on double taxation have also been held with Macao, Vietnam and some member economies of the Organisation for Economic Co-operation and Development.