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Tax Newsflash

Hong Kong Tax News

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HK-UAE tax treaty signed

Hong Kong (HK) signed a comprehensive double taxation agreement (CDTA) with United Arab Emirates (UAE) in Dubai on 11 December 2014. This is the 32nd CDTA concluded by HK.

The CDTA sets out the allocation of taxing rights between the two jurisdictions and eliminates double taxation for income earned through permanent establishment on the other side. As there is no withholding tax (WHT) in UAE while HK only imposes WHT on royalties at 4.95%, the CDTA would not provide further benefit in terms of WHT rate. Similar to most of the CDTAs signed by HK, the HK-UAE CDTA has incorporated an article on exchange of information (EoI), which enables HK to fulfil its international obligations on enhancing tax transparency and combating tax evasion.

The HK-UAE CDTA will come into force after the completion of ratification procedures on both sides. Details of the HK-UAE CDTA can be found on the Inland Revenue Department's (IRD) website (www.ird.gov.hk/eng/pdf/Agreement_United_Arab_Emirates_HongKong.pdf).

Notes exchanged with Japan regarding the EoI article in CDTA

HK exchanged notes with Japan on 10 December 2014 regarding the EoI article in the CDTA signed between the two jurisdictions. The purpose of the notes is to expand the coverage of tax types under the EoI arrangement so as to fulfil the international obligation to meet global standards for enhancing tax transparency. In particular, the additional tax types include inheritance tax, gift tax and consumption tax in Japan while the tax types for HK remain the same. The exchange of notes will come into force after the completion of ratification procedures and notification by both sides.

Stamp duty waiver for ETFs

Exchange Traded Funds (ETFs) are passively-managed and open-ended funds, which are traded on the securities market of Hong Kong Exchanges and Clearing Limited. ETFs are typically designed to track the performance of their underlying benchmarks (e.g. an index, a commodity such as gold, etc.). The ETF sector is one of the key components of the asset management industry worldwide and has been growing rapidly. Since 2010, there has been a stamp duty exemption concession for the trading of ETFs that track indices comprising no more than 40% in HK stocks. The government proposed in the 2014/15 Budget to extend the concessionary exemption for the transfer of all ETF shares or units so as to promote the development, management and trading of ETFs in HK. The relevant bill, the Stamp Duty (Amendment) Bill 2014, was gazetted on 5 December 2014. It will be introduced to the Legislative Council on 17 December 2014. For details of the Bill, please refer to the Financial Services and the Treasury Bureau's website (www.fstb.gov.hk/fsb/topical/etf.htm).

Practice notes issued by the IRD

The IRD issued and revised the following Departmental Interpretation and Practice Notes (DIPN) and Stamp Office Interpretation and Practice Notes (SOIPN) over the last 6 months:

Related to sale and purchase of immovable property		
SOIPN 5 (revised)	Special Stamp Duty	July 2014 (revised)
SOIPN 7	Buyer's Stamp Duty	July 2014
SOIPN 8	Ad Valorem Stamp Duty	October 2014
SOIPN 1 (revised)	Stamping of agreements for sale and purchase of immovable property	October 2014 (revised)

Related to alternative bond schemes		
DIPN 50	Taxation of specified alternative bond schemes	July 2014
SOIPN 6	Alternative Bond Schemes	August 2014

Please find the details of the DIPN and SOIPNs by clicking the links above.

The IRD's Annual Report 2013-14

The IRD's Annual Report 2013-14 is available in the IRD's website (http://www.ird.gov.hk/eng/ppr/are13_14.htm). Here are some of the information that you may be interested in:

Revenue collected by tax type

The revenue collected in the year 2013-14 is a record high as a result of a slight year-on-year increase. The increase mainly came from Salaries Tax and Betting Duty. Although Profits Tax collection fell slightly, Profits Tax contributed the largest part (50%) of the total revenue collected by the IRD, followed by Salaries Tax (23%).

Stamp duty

Subsequent to the introduction of various demand-side management measures for property market, the number of property transactions has decreased significantly in the year 2013-14, resulting in an overall drop in stamp duty collections from property transactions. The stamp duty collections from property transactions decreased by 19% in 2013-14.

Advance rulings

The IRD completed the processing of 39 advance ruling applications during the year. Out of which, 25 rulings were made, 6 applications were withdrawn and 8 rulings were declined. There were 7 cases awaiting decision at the end of the year 2013-14.

Objections and appeals

The number of cases processed / settled / decided during 2013-14:

Objections	76,643 cases processed
Appeals to the Board of Review	78 cases settled
Appeals to the Court of First Instance	4 cases awaiting hearing as at the year end
Appeals to the Court of Appeal	3 cases awaiting hearing as at the year end
Appeals to the Court of Final Appeal	1 case settled, 1 case awaiting hearing as at the year end

Tax return administration

The IRD provided some guidelines when taxpayers prepare the supporting documents (e.g. tax computation) to be filed with each tax return. Certain points are highlighted below:

- Use plain white paper in A4 size.
- Add a header on each page to show the name of business and / or its file reference.
- Print or type the text clearly and legibly on paper in permanent black ink, of uniform density, and use font of at least size 11.
- Duplex printing is acceptable.
- Staple the documents together firmly at the top left corner. Do not bind the documents by screw, ring, binding bar, double wire ring, nor paste etc. Do not seal the documents.

If you have any questions please contact:

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