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Tax Newsflash

Hong Kong Tax News
- HK-Russia Tax Treaty Signed
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HK-Russia Tax Treaty Signed

Hong Kong (HK) signed a comprehensive agreement for the avoidance of double taxation (CDTA) with Russia on 18 January 2016. This is the 34th CDTA concluded by HK.

Below is a comparison of the withholding tax (WHT) rates of dividends, interest and royalties, under the respective domestic tax law and the HK-Russia CDTA:

	Dividends	Interest	Royalties
HK non-CDTA rate	0%	0%	4.95% *(NB1)*
Russia non-CDTA rate	15%	20 %	20% / 30% *(NB2)*
HK-Russia CDTA rate	0% / 5% / 10% *(NB3)*	0%	3%

NB1: The 4.95% rate applies (i) if the royalty is not paid to a related party; or (ii) if the royalty is paid to a related party, the licensed intellectual property has never been owned in whole or in part by a person carrying on business in Hong Kong. Otherwise, the rate is 16.5%.

NB2: Russia's withholding tax rate on royalties currently is 20% for companies and 30% for individuals.

NB3: The 0% rate applies to dividends to the government, the Hong Kong Monetary Authority or certain entities mutually agreed upon by the governments; the 5% rate applies if the beneficial owner is a company (other than a partnership) which holds directly at least 15% of the capital of the company paying the dividends; the 10% rate applies to all other cases.

The HK-Russia CDTA will come into force after the completion of ratification procedures on both sides. The CDTA can be downloaded from this link (http://www.ird.gov.hk/eng/pdf/Agreement_Russia_HongKong.pdf).

AEOI Bill Gazetted

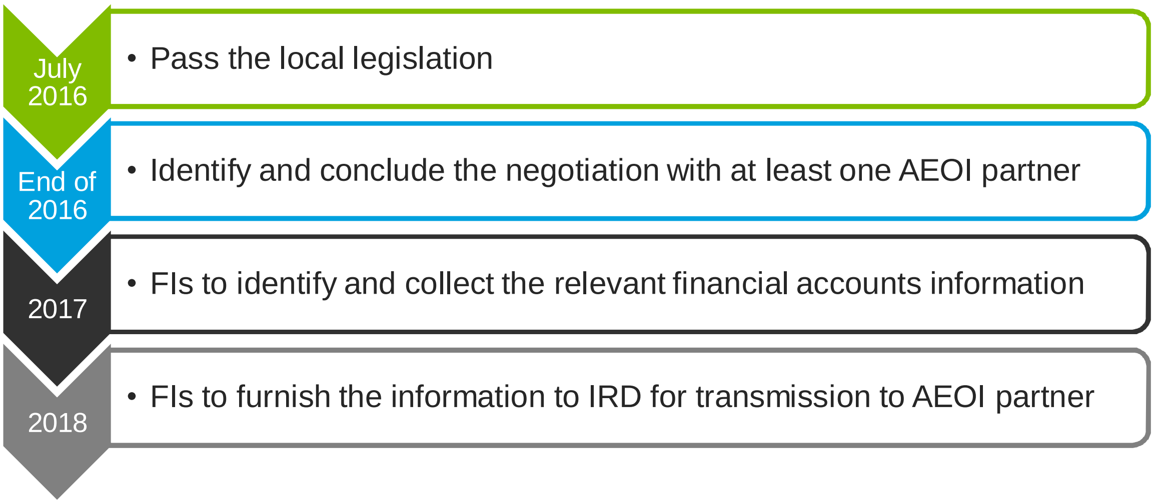
Subsequent to the HK Government's consultation exercise on the proposed model for implementing Automatic Exchange of Information (AEOI) as promulgated by the Organization for Economic Co-operation and Development, the relevant Inland Revenue (Amendment) Bill 2016 was gazetted on January 8. The Bill seeks to put in place a legal framework for HK to implement AEOI, with a view to commencing its first information exchange by the end of 2018.

Under AEOI framework, a financial institution (FI) is required to identify financial accounts held by tax residents of reportable jurisdictions, collect the reportable information of these financial accounts and furnish such information to Inland Revenue Department (IRD). The IRD will then exchange it with tax authorities of AEOI partner jurisdictions on an annual basis. So far, over 90 jurisdictions have committed to implementing the AEOI standards. The IRD intends to conduct AEOI only with those signed CDTAs and TIEAs with HK on bilateral basis.

The Bill covers four key aspects:

1. Scope of FIs and financial accounts to be reported
2. Obligations on FIs to identify reportable accounts and collect information from account holders
3. Scope of information to be provided by FIs to the IRD
4. Enforcement powers for the IRD and sanctions against non-compliance

The time frame for HK to implement and commence its first information exchange by the end of 2018 is very tight. The HK Government's proposed time frame is shown in the diagram below:



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