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Hong Kong Tax Newsflash

Hong Kong-Laos tax treaty signed

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Hong Kong SAR (HK) signed a Comprehensive Double Tax Agreement (CDTA) with Laos yesterday. Laos is one of the economies participating in the Belt and Road Initiative. This is the 61st CDTA concluded by HK.

Below is a comparison of the withholding tax rates applicable to dividends, interest and royalties, under the respective domestic tax law and the HK-Laos CDTA:

	Dividends	Interest	Royalties
HK non-CDTA rate	0%	0%	4.95% / 16.5%[1]
Laos non-CDTA rate	10%	0% / 10%[2]	5%
HK-Laos CDTA rate	5% / 8%[3]	5%	5%

The CDTA also provides beneficial treatment on capital gains. Capital gains derived by a HK investor from the disposal of shares or comparable interests (e.g. interests in a partnership or trust) in a Laos entity are generally exempt from tax in Laos under the CDTA, unless the company is land-rich[4]. Nevertheless, capital gains from the disposal of shares in a land-rich company may still be exempt from tax in Laos if the shares are quoted on such stock exchange agreed between HK and Laos.

The HK-Laos CDTA will come into force after the completion of ratification procedures by both jurisdictions. The CDTA can be downloaded from this link.

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[1] The 4.95% rate generally applies. If the royalty is paid to an associated entity and the intellectual property has been owned by a person carrying on business in HK, 16.5% applies. If the taxpayer is eligible for two-tiered tax rates, 2.475% (or 8.25% if higher rate) applies on the first HKD 2 million of assessable profits and 4.95% (or 16.5% if higher rate) on the remaining amount.

[2] Interest earned on deposits, government bonds, and debentures is exempt. Interest paid to non-residents (other than banks and financial institutions) is subject to a 10% withholding tax.

[3] 5% if the beneficial owner is a company which holds directly at least 15% of the capital of the company paying the dividends throughout a 365-day period; 8% in all other cases.

[4] An entity deriving more than 50% of its value directly or indirectly from immovable property situated in Laos during the 365 days preceding the disposal.

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