

# **Profile——The Hong Kong Special Administrative Region of the People's Republic of China**

## **I . Jurisdiction Background**

Hong Kong, officially known as the Hong Kong Special Administrative Region of the People's Republic of China, is a vibrant and dynamic city known for its towering skyscrapers, bustling harbor, and rich cultural heritage. Situated at the southeast coast of China, Hong Kong is a major global financial hub and a gateway between the East and the West.

Hong Kong was a British colony from 1842 to 1997 and returned to Chinese sovereignty under the principle of “one country, two systems” since 1 July 1997. This arrangement allows Hong Kong to maintain a separate legal and economic system from mainland China.

Hong Kong holds significant international influence across various domains:

### **Financial influence**

- 1) Global Financial Center: Hong Kong is one of the world's leading financial hubs, often ranks among the top three alongside New York and London. It hosts a large concentration of international banks, financial institutions and investment firms.
- 2) Stock Market: The Hong Kong Stock Exchange is one of the largest and most active stock markets in the world, attracting numerous international companies to list and raise capital. It is a critical gateway for Chinese companies seeking international investors.
- 3) Currency Peg: The Hong Kong dollar is pegged to the US dollar, providing stability and confidence for international investors and traders.

### **Trade and logistics**

- 1) Major Trading Hub: The port of Hong Kong is among the busiest globally, serving as a vital transit point for goods moving between Asia and the rest of the world. The city's free port status and low tariffs facilitate high volumes of trade.

- 2) Gateway to mainland China: Hong Kong serves as a major platform to connect trade and investment between mainland China and the global market. It is often the first stop for businesses entering the market of mainland China and for companies of mainland China expanding internationally.

### **Cultural influence**

- 1) East-West bridge: Chinese and English are the official languages of Hong Kong. English is widely used in government offices, legal professionals and business sectors. Hong Kong's unique blend of the Eastern and Western cultures makes it a significant cultural bridge. This is reflected in its diverse cuisine, arts, media, and entertainment industries, which enjoy international acclaim.
- 2) Tourism and hospitality: Hong Kong is a major international tourist destination, attracting millions of visitors annually with its vibrant culture, shopping and iconic landmarks like the Victoria Harbour and The Peak.

## **II. Organizational Structure of the Tax Authority**

The tax authority of Hong Kong, known as the Inland Revenue Department (IRD), is responsible for administering the tax laws in Hong Kong. The IRD is an executive arm of the Government of Hong Kong and it is under the oversight of the Financial Services and the Treasury Bureau (FSTB). Below is a detailed description of its organizational structure:

- 1) Commissioner of Inland Revenue (CIR): The head of the IRD, overseeing all its operations.
- 2) Deputy Commissioners of Inland Revenue (DCIRs): There are two DCIRs who assist CIR in the supervision, management and control of the work of the various units in the IRD. They are responsible for the technical and operations aspects of tax administration.
- 3) Office / Units: The IRD comprises the CIR's Office and six component units, each focusing on specific areas of tax administration:
  - CIR's Office: Responsible for appeals, complaints and departmental administration work.
  - International and Taxation Development Unit: Responsible for technical design strategy of tax initiatives, tax compliance strategy, treaty negotiations, international tax co-operation related matters, charitable donations and internal audit.
  - Headquarters Unit: Responsible for information systems, training, enquiry services, document processing, property tax and special support.

- Unit 1: Responsible for assessment and review of profits tax for corporations and partnerships.
- Unit 2: Responsible for assessment and review of salaries tax, profits tax for sole proprietorships, property tax for sole individual owner and personal assessment.
- Unit 3: Responsible for tax collection and refund, tax inspection, estate duty, stamp duty and business registration.
- Unit 4: Responsible for combating tax evasion and avoidance and promoting voluntary compliance through conducting tax audits and investigations on businesses and individuals.

The structure of the IRD is designed to ensure efficient and effective administration of tax laws, providing high quality services to taxpayers while ensuring compliance and addressing issues related to tax evasion and avoidance.

### **III. Current Tax System**

Hong Kong has long been renowned for its simple and transparent tax system. Here's an overview of the key components of Hong Kong's tax system:

#### **Tax principles**

- 1) Territorial source principle: Only income and profits derived from or arising in Hong Kong are subject to tax.
- 2) Relatively low tax rates: Hong Kong is known for its relatively low tax rates compared to many other jurisdictions.

#### **Major types of taxes**

- 1) Profits tax: Levied on individuals, corporations, bodies of persons and partnerships, in respect of assessable profits arising in or derived from Hong Kong.
- 2) Salaries tax: Charged on all income from any office or employment and pension arising in or derived from Hong Kong.
- 3) Property tax: Levied on rental income derived from property in Hong Kong.
- 4) Stamp duty: Charged on instruments effecting property transactions, stock transactions and leasing of property in Hong Kong.

#### **No value-added tax (VAT) / goods and services tax (GST) or capital gains tax**

- 1) Hong Kong does not impose VAT or GST.
- 2) There is no capital gains tax on the sale of assets.

Overall, Hong Kong's tax system is designed to be simple, certain, transparent, business-friendly and conducive to economic growth, with a view to reinforcing Hong Kong's role as a premier hub for doing business and investment.

#### **IV. Overview of Preferential Tax Policies**

##### **Profits tax**

- 1) With effect from the year of assessment 2018/19, Hong Kong has implemented a two-tier profits tax rate regime. Under this regime, the tax rates for assessable profits of corporations and unincorporated businesses (mostly partnerships and sole proprietorships) are reduced to 8.25% and 7.5%, respectively, for the first HKD2 million. Assessable profits exceeding this amount are taxed at 16.5% and 15%, respectively.
- 2) Dividends received from Hong Kong corporations which are subject to profits tax are exempt from profits tax.
- 3) Interest income derived from any deposit placed in Hong Kong with an authorized institution is exempt from profits tax, excluding interest received or accrued to a financial institution.
- 4) Losses arising in Hong Kong from the carrying on of a trade, profession or business in Hong Kong can be carried forward to set off against chargeable profits of future years of assessment.
- 5) Profits tax deductions are available for certain capital expenditures.
- 6) Various preferential policies are available to promote different industries or activities, such as enhanced deduction for qualified research and development expenditure and concessionary tax rate. For instance,
  - (a) Profits tax concessionary tax rate of 8.25% for qualifying corporate treasury centres on profits derived from certain corporate treasury activities;
  - (b) Profits tax concessionary tax rate of 8.25% for all general reinsurance business of direct insurers, selected general insurance business of direct insurers and selected insurance brokerage business;
  - (c) Profits tax concessionary tax rate of 8.25% on qualifying profits derived by a qualifying aircraft lessor from its qualifying aircraft leasing activity, or by a qualifying aircraft leasing manager from its qualifying aircraft leasing management activity;
  - (d) Profits tax concessionary tax rate of 0% on qualifying profits derived by a qualifying ship lessor from its qualifying ship leasing activity. Profits tax concessionary tax rate of 0% or 8.25% on qualifying profits derived by a qualifying ship leasing manager from its qualifying ship leasing management activity;
  - (e) Profits tax concessionary tax rate of 0% or 8.25% for qualifying shipping commercial principals (i.e. ship agents, ship managers and ship brokers);

- (f) Profits tax concessionary tax rate of 0% for eligible family-owned investment holding vehicles managed by eligible single family offices in Hong Kong and family-owned special purpose entities; and
  - (g) Profits tax concessionary tax rate of 5% for concessionary portion of the assessable profits from eligible IP income with respect to an eligible intellectual property.
- 7) Foreign-sourced income exemption (FSIE): With effect from 1 January 2023, specified foreign-sourced income is deemed to be sourced from Hong Kong and chargeable to profits tax if the income is received in Hong Kong by a multinational enterprise (MNE) carrying on a trade, profession or business in Hong Kong, and the economic substance requirement (for interest, dividend and disposal gains on non-IP assets), the nexus requirement (for IP income and disposal gains on IP assets), or participation requirement (for dividend and disposal gains on equity interests) under the FSIE regime are not satisfied. The regime covers 4 types of foreign-sourced passive income, namely dividend, interest, income from intellectual properties and disposal gains in relation to shares on equity interests. With effect from 1 January 2024, the scope of passive income under the regime is expanded to cover disposal gains derived from the sale of property.

### **Salaries tax**

Income earned from any office (e.g. a directorship) or employment and pension arising in or derived from Hong Kong is subject to salaries tax. Generous allowances and deductions are available to individuals to reduce their salaries tax liability, such as allowances for dependents, deductions on self-education expenses, home loan interest and mandatory provident fund contributions.

Salaries tax is charged at the lower of progressive tax rates ranging from 2% to 17% on net chargeable income (i.e. income after deductions and allowances) or standard rate on net income without allowances. With effect from the year of assessment 2024/25, the standard rate is 15% on the first HKD5 million of net income and 16% on the remainder. Remuneration derived by a Mainland resident in respect of an employment exercised in Hong Kong is exempt from salaries tax if he is present in Hong Kong for no more than 183 days in any 12 month period commencing or ending in the taxable period concerned, given other criteria met.

### **Property tax**

Property tax is charged on the owners of land and/or buildings in Hong Kong and is computed at the standard rate of 15% on the net assessable value of the property. Corporations carrying on a trade, profession or business in Hong Kong can apply for exemption from property tax if the income from that property is assessable under profits tax.

### **Stamp duty**

Stamp duty is chargeable on certain documents specified in the First Schedule to the Stamp Duty Ordinance which imposes fixed duty from HKD3 to HKD100 and ad valorem stamp duty from 0.1% to 15%. Stamp duty relief is available for the transfer of immovable property or shares from one associated body corporate to another, subject to the fulfilment of certain conditions.

## **V. Tax Collection and Administration**

The law governing the imposition of tax is the Inland Revenue Ordinance (IRO), which is administered by the IRD. The IRD is responsible for tax collection, management, administration, business registration, declaration, tax audits and other related duties. The process for tax administration and collection is designed to be effective, efficient and transparent. Here is an overview of the key steps involved:

- 1) Taxpayer registration: Every person who carries on business in Hong Kong must register with the Business Registration Office and obtain a Business Registration Certificate. Employers must notify the IRD of the remunerations paid to employees.
- 2) Notice to file tax returns: The IRD issues tax returns to taxpayers annually.
- 3) Filing tax returns: Taxpayers must complete and submit their tax returns by the specified deadlines. Tax return can be submitted electronically via the eTAX Portal or in paper form.
- 4) Assessment of taxes: The IRD reviews the tax returns submitted and may issue a notice of assessment. However, the issue of the notice of assessment in accordance with the tax return does not necessarily signify that an agreement has been reached. The IRD reserves the right to raise queries on the tax return in the future and raise an additional assessment in an amount it considers justified. The normal time limit for making an additional assessment is within six years after the expiration of the year of assessment.
- 5) Objections and appeals: A taxpayer who is aggrieved by an assessment may lodge an objection in writing to the Commissioner within one month after the date of the notice of assessment. All objections will be considered by the assessor in the first instance. Most of the objection cases are settled promptly by agreement between the taxpayer and the assessor. In the case where agreement could not be reached, the case will be referred to the Commissioner for determination. A taxpayer who is dissatisfied with the Commissioner's determination of his objection may appeal to the Board of Review (Board), an independent tribunal that acts as a trial court, within one month after the transmission to him of the determination. If either the appellant or the Commissioner is dissatisfied with a decision of the Board, he may apply to the Court of First Instance of the High Court for leave to appeal against the Board's decision on a question of law.
- 6) Payment of taxes: A demand note will be sent with the notice of assessment indicating the amount of tax payable and the due date. Taxes can be paid through various methods, including online payments, bank transfers, post office payments, bank ATM payments, convenience stores payments or Faster Payment System

(FPS)<sup>1</sup>.

- 7) Refunds and adjustments: If a taxpayer has overpaid taxes, the IRD will issue a Notice of Assessment and Refund of Tax together with a cheque of the overpaid tax.
- 8) Penalties and prosecutions: The IRD imposes penalties for late filing, late payment, incorrect statement, omission or understatement of income or profits and other forms of non-compliance. In cases of serious tax evasion or fraud, the IRD may initiate legal proceedings against the taxpayer.
- 9) Audits and investigations: The IRD may select tax returns for audit based on risk assessment or specific criteria indicating potential non-compliance.

## **VI. Taxpayer Services**

The IRD offers a range of taxpayer services designed to facilitate compliance, provide assistance and enhance the overall experience of the taxpayers. Here is an overview of the key taxpayer services provided by the IRD:

### **eTAX Portal**

- 1) Online filing: Taxpayers can file their tax returns electronically through the eTAX Portal. This service is available for salaries tax, profits tax and property tax.
- 2) E-alerts: Taxpayers can receive electronic messages and reminders about filing deadlines and other important tax-related information.
- 3) Members of the public may now login eTAX accounts to handle tax affairs with “iAM Smart”<sup>2</sup> directly without applying password from the IRD. “iAM Smart+” users may sign and submit tax returns online with digital signing function easily.

### **Taxpayer service center**

- 1) Face-to-face assistance: The IRD operates enquiry service counter where taxpayers can receive in-person assistance concerning tax matters, including completing tax returns and addressing specific tax queries.
- 2) Drop-in box: For the convenience of taxpayers, drop-in box is available on the ground floor of the IRD office for submitting paper tax returns and other documents to the IRD.

### **Hotline and email support**

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<sup>1</sup> The FPS is a payment financial infrastructure to enable instant payments in Hong Kong. Taxpayers can simply scan the FPS QR code printed on the demand note issued by the IRD using supporting mobile applications of the banks or stored value facilities.

<sup>2</sup> “iAM Smart” platform, a one-stop personalized digital services platform, enables users to log in and use online services by their personal mobile phone in a smart and convenient way.

- 1) Tax enquiry service: The IRD provides general enquiry telephone hotlines and email service for answering taxpayer inquiries. This service offers assistance with understanding tax obligations, filing requirements and other tax-related matters.
- 2) Business hotline: A dedicated hotline for business-related tax queries, offering specialized support for corporate taxpayers.

### **Guidance and publications**

- 1) Tax guides and pamphlets: The IRD publishes a variety of tax guides and pamphlets to help taxpayers understand their tax obligations and the procedures for filing returns. These materials are available on the IRD's website<sup>3</sup> and at service center.
- 2) Frequently Asked Questions (FAQs): A comprehensive list of FAQs on the IRD's website provides quick answers to general tax questions.

### **Workshops and seminars**

- 1) Taxpayer education programs: The IRD conducts workshops and seminars to educate taxpayers about their rights and obligations, recent changes in tax laws and best practices for tax compliance.
- 2) Outreach programs: Targeted programs aimed at specific groups, such as financial institutions, to provide tailored tax information and support.

### **Chatbot**

The IRD has provided in its website a real time interactive service, a Chatbot named "Iris". "Iris" provides round-the-clock instant service in answering general queries relating to tax on individuals.

## **VII. Tax Legislation Process**

The IRO, which was enacted on 3 May 1947 and is currently in force, has been revised multiple times over the years. Nevertheless, the IRO retains its characteristic features of simple, low-rate taxation and territorial source principles, which are considered the key strengths of Hong Kong's tax system.

Hong Kong primarily adopts the principles of common law and relies on the judicial precedents to interpret and apply the principles in tax cases.

## **VIII. Future Tax Reform Plan**

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<sup>3</sup> <https://www.ird.gov.hk>



Hong Kong is currently advancing the following tax reforms to continuously optimize its business and tax environment:

### **Global minimum tax and Hong Kong minimum top-up tax**

The Organisation for Economic Co-operation and Development (OECD) announced in July 2021 the international tax reform framework of a two-pillar solution to tackle the base erosion and profit shifting (BEPS) risks arising from digitalization of economy (known as BEPS 2.0). Pillar Two involves implementing a global minimum tax rate for MNEs with annual consolidated revenue of EUR750 million or more, aiming to curb harmful tax competition and create a fairer tax environment.

The Financial Secretary announced in the 2023-24 Budget that Hong Kong will apply the global minimum effective tax rate of 15% on large MNE groups with global turnover of at least EUR750 million and implement the domestic minimum top-up tax on these MNE groups starting from 2025 onwards. The FSTB and the IRD launched a 3-months consultation exercise from December 2023 to March 2024 to gauge public views on the implementation of the global minimum tax and the Hong Kong minimum top-up tax, as well as their corresponding changes to Hong Kong's tax administration regime. It is expected that an amendment bill will be introduced into the Legislative Council by January 2025.

## **IX. International Tax Cooperation**

As an international financial and commercial center, Hong Kong has all along supported international efforts to enhance tax transparency and combat tax evasion, and has implemented the relevant international tax standards.

### **Tax treaty network**

Double taxation arises where the same item of income or profit of a taxpayer is subject to tax in Hong Kong as well as in another tax jurisdiction. As at 30 November 2024, Hong Kong has signed comprehensive avoidance of double taxation agreements / arrangements (DTAs) with 51 jurisdictions. Hong Kong also makes use of tax information exchange agreements (TIEAs) as instruments for exchange of information with appropriate partners. As at 30 November 2024, Hong Kong has signed TIEAs with 7 jurisdictions.

The Convention on Mutual Administrative Assistance in Tax Matters (MAC) entered into force in Hong Kong on 1 September 2018. Hong Kong can ride on a multilateral platform under the MAC to implement various forms of administrative co-operation in the assessment and collection of taxes, including exchange on request, automatic exchange of financial account information and automatic exchange of country-by-country reports and spontaneous exchange of information on tax rulings under the BEPS package promulgated by the OECD.

The Multilateral Convention to Implement Tax Treaty Related measures to Prevent Base Erosion and Profit Shifting (BEPS MLI) takes effect in Hong Kong with respect to covered DTA on 1 April 2023 (for taxes withheld at source) or on 1 April 2024 (for other taxes) at the earliest, depending on the timing of the completion of the

ratification and other relevant procedures by the DTA partners. The BEPS MLI modifies the application of the covered DTAs of Hong Kong so as to swiftly implement the BEPS measures to prevent tax treaty abuse and improve dispute resolution mechanism.

### **Advance pricing arrangement**

An advance pricing arrangement (APA) is an arrangement that determines, in advance of controlled transactions, an appropriate set of criteria for the determination of the transfer pricing for those transactions over a fixed period of time. It provides a tool for MNEs to manage and mitigate the transfer pricing risk on a prospective basis.

The IRD rolled out the APA program in April 2012 and introduced a statutory APA regime in July 2018.

The IRD has received quite a number of unilateral and bilateral APA applications which involve DTA with different partners including mainland China, Indonesia, Italy, Japan, Korea, Malaysia, the Netherlands, Thailand and the United Kingdom. These cases are currently under different stages of the APA program and some of them have already been completed.

### **Automatic exchange of financial account information (AEOI)**

For the purposes of enhancing tax transparency and combating cross-border tax evasion, the OECD released in July 2014 a new international standard for AEOI. In September 2014, Hong Kong indicated its support for implementing AEOI on a reciprocal basis with appropriate partners with a view to commencing the first exchanges in 2018.

After putting in place a legislative framework and information technology systems for implementing AEOI, Hong Kong conducted the first AEOI in 2018. Up to 2024, Hong Kong smoothly completed seven rounds of AEOI with other jurisdictions through the OECD Common Transmission System. As at 31 October 2024, Hong Kong has activated reciprocal exchange relationships with 85 jurisdictions and non-reciprocal exchange relationships with 18 jurisdictions.

### **Automatic exchange of Country-by-Country reports (CbCR)**

Hong Kong has put in place a legislative framework and information technology systems for implementing CbCR in 2018. Up to 2024, Hong Kong smoothly completed the automatic exchange of CbCR for 2018 to 2022 with other jurisdictions through the OECD Common Transmission System. As at 31 October 2024, Hong Kong has activated reciprocal exchange relationships with 77 jurisdictions and non-reciprocal exchange relationships with 12 jurisdictions.

## **X. Others**

### **Anti-tax avoidance legislation**

Transactions that are artificial, fictitious, or primarily aimed at tax savings may be denied under general anti-avoidance tax measures. Additionally, if changes in shareholding by company shareholders are primarily intended to utilize tax losses, the offset of tax losses cannot be used. Other specific anti-avoidance measures include investigating certain leverage and cross-border leasing transactions between local companies in Hong Kong and foreign affiliated companies, unreasonable transactions, and measures using private service companies to disguise employer-employee relationships.

### **Foreign exchange controls**

Hong Kong does not implement foreign exchange controls.