

July 2006

## Hong Kong company formation gets boost with new China tax pact

The governments of Hong Kong and China have reached agreement on tax policies for citizens and companies in both countries, in a move which is expected to boost demand for company formation in Hong Kong.

The agreement, posted on the Hong Kong Inland Revenue Service website, is intended to reduce double taxation between the two countries and is widely expected to provide added incentive to organisations and individuals interested in Hong Kong Company Formation.

Some of the salient points of the new agreement, which is an extension of a 1998 pact, include:

- Hong Kong-registered companies which have no fixed place of business in China pay profit taxes only to the Hong Kong government, not to Beijing;
- Hong Kong companies which hold a minimum 25% shareholding in a China mainland company now pay 5% on any dividends they receive on their investments. The previous rate was 10%;
- The tax rate for individual investors who receive dividends from their equity investments on the Chinese Mainland has also been reduced from 20% to 10%;
- Withholding tax rates for royalty or interest incomes from China will be reduced to 7% for both Hong Kong residents and commercial businesses, from 10% to 20% before the agreement. Gains made on share transfers in Mainland companies will only be taxed in Hong Kong.

Aidan Healy, managing director of Healy Consultants, says the new agreement will offer a shot in the arm for company formation in Hong Kong at a time when regional economies are performing so brightly.

'This is likely to spur demand for Hong Kong company formation. Hong Kong is already an ideal gateway into China, with excellent access to growing markets in the mainland's southern provinces. Now, there are further tax incentives to sweeten company formation in Hong Kong,' he explains.

The new agreement comes into effect at the beginning of the Hong Kong tax year on 1 April 2007.

For more information on Hong Kong company formation, kindly follow [this link](#).