Hong Kong, France DTA Comes Into Effect

By Mary Swire, LawAndTax.com, Hong Kong
Monday, December 05, 2011

The double taxation agreement (DTA) between Hong Kong and France, which was originally signed by Hong Kong's Financial Secretary, John C Tsang, and the then French Minister of Economy, Industry and Employment, Christine Lagarde, on October 21, 2010, came into effect on December 1, 2011.

Tsang pointed out that the French business community in Hong Kong is one of the largest in the Asia Pacific. He added that French companies are doing well in all major sectors of Hong Kong's economy including banking, finance, transport, media, construction, catering and tourism.

In the absence of the DTA, profits earned by French residents in Hong Kong were subject to both Hong Kong and French income tax. Profits of French companies doing business through a branch in Hong Kong were fully taxed in both places. Under the agreement, double taxation will be avoided as the income taxed in Hong Kong is allowed as a tax credit against French tax attributable to such income.

Hong Kong residents receiving dividends from France not attributable to a permanent establishment in France were subject to a French withholding tax, which is currently 25%. Under the agreement, such withholding tax rate is reduced to 10%.

The agreement will have effect in Hong Kong for any year of assessment beginning on or after April 1, 2012.

Hong Kong Grows As International Arbitration Centre

by Mary Swire, Tax-News.com, Hong Kong
Monday, December 12, 2011

In a recent address in Seoul, Hong Kong's Secretary for Justice, Wong Yan Lung, has expressed the government's determination to develop Hong Kong into a regional dispute resolution centre, in particular as an international arbitration hub in the Asia Pacific.

He had already remarked on a previous occasion that, with the commencement of the Arbitration Ordinance on June 1, 2011, Hong Kong had a brand new regulatory framework to enable arbitration to realize its full potential as a dispute resolution mechanism, and to further strengthen the city's credentials as the regional hub for international arbitration.

Wong now confirmed that the arbitration body, the Hong Kong International Arbitration Centre, had already handled more than 170 international arbitration cases, and was ranked second in Asia in terms of the number of its cases in 2010.

With the strong presence of foreign lawyers in Hong Kong, he said that Hong Kong has long been opening its doors to major international arbitration bodies. For example, the International Court of Arbitration of the International Chamber of Commerce opened the first branch of its Secretariat in Hong Kong in 2008, and has recently been benefiting from the increase of arbitration cases involving Mainland Chinese parties.

In addition, he added that Hong Kong has received significant support in this respect from the Chinese government. Wong cited the initiatives implemented in Qianhai to encourage Hong Kong arbitration bodies to provide services to Chinese enterprises there, and to widen the use of Hong Kong law in resolving commercial disputes, as a recent example of that support.

Hong Kong's Inward FDI Soars

by Mary Swire, Tax-News.com, Hong Kong
Tuesday, December 13, 2011

Recently released figures show that, at the end of last year, the stock of Hong Kong's inward foreign direct investment (FDI) increased by 16.7% from a year earlier, to almost HKD8.5 trillion (USD1.09 trillion) at market value.

The increase in the stock of Hong Kong's FDI in 2010 was mainly attributable to a positive FDI inflow into Hong Kong, and a rise in the total market value of Hong Kong enterprise groups (HKEGs) that have previously received such investment. In 2010, the total FDI inflow amounted to over HKD550bn, larger than the HKD406bn seen in 2009.

Analyzed by immediate source of investment, the Mainland of China accounted for the largest share of the total stock at end-2010, at 36.9%, reflecting the importance of investment from mainland China into Hong Kong. Its investment in Hong Kong covered a wide range of economic activities, including investment holding, real estate, professional and business services, import/export, wholesale and retail trades, and banking.

Other major immediate sources of investment included the British Virgin Islands (BVI) and the Netherlands, accounting for 32.5% and 7.1% respectively.

Looking ahead, it was said that investment ties between China and Hong Kong should strengthen further with the deepening economic integration between the two places and the rapid development of offshore renminbi business in Hong Kong. Meanwhile, the government confirmed that it will continue to foster economic links with other parts of the world, particularly the emerging markets.

Hong Kong Rated Leading Financial Centre

by Mary Swire, Tax-News.com, Hong Kong
Thursday, December 15, 2011

The World Economic Forum (WEF) has disclosed that Hong Kong has overtaken the United States and the United Kingdom to top its 2011 fourth annual Financial Development Report.

The WEF's study ranks 60 of the world's leading financial systems and capital markets, analysing the drivers of financial system development that support economic growth. The seven pillars assessed are: institutional environment, business environment, financial stability, banking financial services, non-banking financial services, financial markets and financial access.

It was said that, as the first Asian financial centre to achieve this rank with a score of 5.16 (out of 7), Hong Kong's position (up from fourth in 2010) was bolstered by strong scores in non-banking financial services, such as initial public offerings (IPOs) and insurance.

Hong Kong's Financial Secretary, John C Tsang said: "We welcome the WEF's recognition of Hong Kong's rising competitiveness as an international financial centre. We are pleased with the WEF's encouraging acknowledgement of our strengths in financial access, business environment and banking financial services, and in particular, our strong performance in some financial services such as IPO activity and insurance."

"We will continue to strengthen Hong Kong on various aspects as a leading financial centre and as the Mainland's offshore renminbi centre," he added.

China, Hong Kong Sign CEPA Supplement VIII

by Mary Swire, Tax-News.com, Hong Kong
Friday, December 16, 2011

The Hong Kong and Chinese governments have agreed to boost their economic and trade co-operation by signing the eighth Supplement under their bilateral Closer Economic Partnership Arrangement (CEPA).

The CEPA gives preferential treatment to Hong Kong enterprises to enter Mainland markets, and, currently, covers more than 1,600 products and 40 services sectors. It adopts a building block approach, and the two sides have been working closely to introduce further liberalization measures continually.

Witnessed by Hong Kong's Chief Executive Donald Tsang, its Financial Secretary John Tsang and China's Vice-Minister of Commerce Jiang Yaoping signed Supplement VIII to the CEPA on December 13. The new Supplement further opens the Mainland's service-sector market to Hong Kong and enhances bilateral trade.

Supplement VIII provides for a total of 32 services liberalisation and trade and investment facilitation measures, including 23 liberalisation measures in 16 service sectors, while it also strengthens co-operation in areas such as finance, tourism, innovation and technology.

Both sides also agreed to enhance origin criteria in trade in goods. The new Supplement allows Hong Kong's traders to include the value of raw materials and component parts originated from the Mainland when calculating 'value-added content', such that they will be able to utilize the zero tariff preferential treatment offered to Hong Kong goods under the CEPA.

In addition, the new Supplement allows Mainland banks to make use of Hong Kong's international financial platform to develop their international businesses, and supports Hong Kong insurance companies entering the market through the setting up establishments or taking capital participations, to participate and share in the development of the Mainland insurance market.

Hong Kong Discusses Tax Support For SMEs

by Mary Swire, Tax-News.com, Hong Kong
Friday, December 16, 2011

In his reply to a question in the Legislative Council, Hong Kong's Secretary for Commerce and Economic Development, Gregory So, confirmed that the government would, in formulating the 2012-13 Budget, consider whether further measures were required to help small and medium-sized enterprises (SMEs) to overcome the challenges faced in the current economic environment.

The question was, with many SMEs facing a series of problems, such as decreases in orders, high costs, difficulties in financing, and arrears from clients in payments for goods, whether the government would consider allowing more SMEs to defer prepayment of profits tax and offering concessionary tax rates to SMEs with turnover or profits below a certain threshold.

So's reply pointed out that the principle of "earning more, paying more; earning less, paying less" is already included in the existing single profits tax rate. In 2009-10, only about 83,000 corporations, accounting for 12% of registered corporations, paid profits tax, he said, explaining that the majority of SMEs either do not have to pay any tax or pay a very small amount of tax.

Ching, Pakistan Sign Currency Swap Deal

RTHK English News, Hong Kong
Saturday, December 24, 2011

China has announced a currency swap with Pakistan in a new step to gradually expand use of its tightly controlled yuan abroad. The mainland's central bank said it had agreed with its Pakistani counterpart to swap 10 billion yuan (US$1.6 billion) for 140 billion Pakistani rupees. It said the money would promote investment and trade but gave no details of how it would be used.

Beijing has begun allowing limited use of yuan in trade with Hong Kong and Southeast Asia in a move that could help to boost exports. It has signed swap currency deals with central banks in Thailand, Argentina and some other countries.

Beijing Hit for HK Yuan Hub Hopes

by Victor Cheung, The Standard, Hong Kong
Wednesday, December 28, 2011

Rising levels of yuan liquidity in Hong Kong are likely to have a profound impact on Chin's domestic interest and exchange rates, the Chinese Academy of Social Sciences said in its annual report yesterday.

However, the lack of yuan-denominated investment products in the SAR will continue to hinder its development as the premier offshore center for trade in the currency, the academy said.

The lack of yuan products leads to "extremely low interest rates" for offshore yuan deposits, Beijing's top think-tank said in a report, pointing out that 60 percent of the yuan funds in the SAR is invested in low-yielding time deposits.

The think-tank recommends more channels be created to let yuan floating overseas flow back to the mainland.

Beijing has designed Hong Kong as the sole offshore yuan center in the 12th five-year plan for between 2011 and 2015. But before that, Shanghai and Tianjin had applied to take the role.

Beijing To Ban All But Two Gold Exchanges

by REUTERS, The Standard, Hong Kong
Wednesday, December 28, 2011

Gold exchanges in China outside of two in Shanghai are to be banned, authorities said yesterday.

People's Bank of Chian posted the announcement on its website.

The notice which jointly issued by the PBoC, the Ministry of Public Security, State Administration for Industry and Commerce, China Banking Regulatory Commission, and China Securities Regulatory Commission states that no local authority, institution of individual is allowed to set up gold exchanges.

The notice also said that Shanghai Gold Exchange and the Shanghai Futures Exchange are sufficient to meet domestic investor demand for spot gold and future trading.

Existing exchanges were told to stop offering new services.