Press release

Hong Kong signs tax treaty with Switzerland

Monday, December 6, 2010

Hong Kong today (December 6) signed an agreement with Switzerland for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

The Secretary for Financial Services and the Treasury, Professor K C Chan, signed the agreement in Hong Kong on behalf of the Hong Kong Special Administrative Region Government. The Swiss Consul-General, Mrs Rita Hammerli-Weschke, signed on behalf of her Government.

This is the 18th comprehensive agreement for the avoidance of double taxation (CDTA) concluded by Hong Kong with its trading partners, coming after those with Belgium, Thailand, the Mainland of China, Luxembourg, Vietnam, Brunei, the Netherlands, Indonesia, Hungary, Kuwait, Austria, the United Kingdom, Ireland, Liechtenstein, France, Japan and New Zealand.

The CDTA clearly sets out the allocation of taxing rights between the two jurisdictions and the relief on tax rates on different types of passive income. It will help investors better assess their potential tax liabilities from cross-border economic activities, foster closer economic and trade links between the two places, and provide added incentives for companies in Switzerland to do business or invest in Hong Kong, and vice versa.

In the absence of a CDTA, profits earned by Swiss residents in Hong Kong are subject to both Hong Kong and Swiss income tax. Profits of Swiss companies doing business through a branch in Hong Kong are fully taxed in both places. Under the agreement, Switzerland will provide exemption to her residents for such income.

In the absence of a CDTA, Hong Kong residents receiving dividends from Switzerland not attributable to a permanent establishment in Switzerland are subject to a Swiss withholding tax, which is currently at 35%. Under the agreement, such withholding tax rate will be reduced to 10%. The dividends withholding tax will be exempted if the beneficial owner of the dividends is a company holding directly at least 10% of the capital of the company paying the dividends, a pension fund or the Hong Kong Monetary Authority. The Swiss interest withholding tax, currently at 35%, on Hong Kong residents will be exempted.

Under the CDTA, Hong Kong airlines operating flights to Switzerland will be taxed at Hong Kong's corporation tax rate (which is lower than that of Switzerland). Profits from international shipping transport earned by Hong Kong residents that arise in Switzerland, which are currently subject to tax there, will enjoy tax exemption under the agreement.

The Hong Kong/Switzerland CDTA incorporated the latest Organisation for Economic Co-operation and Development standard on exchange of information.

The Hong Kong/Switzerland CDTA will come into force after the completion of ratification procedures on both sides. In the case of Hong Kong, an order is required to be made by the Chief Executive in Council under the Inland Revenue Ordinance. The order is subject to negative vetting by the Legislative Council.

Hong Kong is actively seeking to establish a network of CDTAs with major trading and investment partners. Where CDTA discussions with some jurisdictions cannot be started for the time being, Hong Kong will seek to conclude limited double taxation avoidance arrangements for airline and shipping income with relevant partners. So far, 27 avoidance of double taxation agreements on airline income, six agreements on shipping income and two agreements on airline and shipping income have been reached.

Details of the Hong Kong/Switzerland CDTA can be found on the Inland Revenue Department's website (www.ird.gov.hk/eng/pdf/Agreement_Swiss_HongKong.pdf).

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