Press Release

Hong Kong and Pakistan enter into tax pact (with photos)

Friday, February 17, 2017

The Secretary for Financial Services and the Treasury, Professor K C Chan, on behalf of the Government of the Hong Kong Special Administrative Region, signed in Hong Kong today (February 17) a comprehensive agreement for the avoidance of double taxation (CDTA) with Pakistan, which signifies the Government's sustained efforts in expanding Hong Kong's CDTA network, in particular with economies along the Belt and Road. The Ambassador of the Islamic Republic of Pakistan for the People's Republic of China, Mr Masood Khalid, signed the agreement on behalf of his Government.

The CDTA sets out clearly the allocation of taxing rights between the two jurisdictions and will help investors better assess their potential tax liabilities from cross-border economic activities.

Professor Chan said, "This is the 37th CDTA that Hong Kong has signed with its trading partners. With the CDTA coming into force after the completion of ratification procedures on both sides, I have every confidence that the economic and trade connections between the two places will be bolstered."

In the absence of a CDTA, the profits of Hong Kong companies doing business through a permanent establishment in Pakistan may be taxed in both places if the income is Hong Kong sourced. For Pakistani companies, the income earned in Hong Kong is subject to both Hong Kong and Pakistani tax.

Under the agreement, double taxation will be avoided in that any Pakistani tax paid by Hong Kong companies will be allowed as a credit against the tax payable in Hong Kong on the same profits, subject to the provisions of the tax laws of Hong Kong. Likewise, for Pakistani companies, the tax paid in Hong Kong will be allowed as a deduction from the tax payable on the same income in Pakistan.

Moreover, the agreement provides the following tax relief arrangements:

(a) Pakistan's withholding tax rates for Hong Kong residents on royalties and on fees for technical services (both currently at 15 per cent) will be capped at

10 per cent and 12.5 per cent respectively. Pakistan's withholding tax rate for Hong Kong residents on dividends (currently at various rates and can be as high as 25 per cent in some cases) and interest (currently at various rates and can be as high as 17.5 per cent in some cases) will be capped at 10 per cent;

(b) Hong Kong airlines operating flights to Pakistan will be taxed at Hong Kong's corporation tax rate, and will not be taxed in Pakistan; and

(c) Profits from international shipping transport earned by Hong Kong residents that arise in Pakistan, which are currently subject to tax there, will enjoy 50 per cent reduction in tax in Pakistan.

The Hong Kong/Pakistan CDTA has also incorporated an article on exchange of information, which enables Hong Kong to fulfil its international obligations on enhancing tax transparency and combating tax evasion.

The CDTA will come into force after the completion of ratification procedures on both sides. In the case of Hong Kong, the CDTA is implemented by way of an order 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.

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

Ends


Mr Masood Khalid
Professor K C Chan, GBS, JP


Mr Masood Khalid
Ambassador of The Islamic Republic of Pakistan for PRC
Professor K C Chan, GBS, JP
Secretary for Financial Services and the Treasury of the Hong Kong Special Administrative Region