

## **Press release**

### **Agreement in principle on the income tax agreement between Hong Kong and Japan**

Wednesday, March 31, 2010

The Government of the Hong Kong Special Administrative Region of the People's Republic of China and the Government of Japan have reached consensus on the agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income.

This agreement intends to clarify the taxation on investment income and business profits of enterprises operating in each other's places and to avoid instances of double taxation. It promotes further investment and economic exchange between Hong Kong and Japan.

This agreement also enables both tax authorities to carry out effective exchange of information regarding tax matters in accordance with the international standard, with a common objective to prevent international tax evasion and tax abuse.

The key provisions of this agreement are as follows:

\* It clarifies the scope of taxation on business profits of enterprises operating in each other's places.

\* It reduces the withholding tax rates of dividends, interest and royalties paid to residents of the parties:

- the withholding tax rate on dividends is capped at 5% for a company of one side holding at least 10% of the voting shares of the paying company of the other side, and 10% for other cases;

- the withholding tax rate on interest is exempt for government institutions and capped at 10% for others;

- the withholding tax rate for royalties is capped at 5%.

\* It enables both tax authorities to carry out exchange of information regarding tax matters.

\* It includes provisions to prevent abuse of the agreement.

The agreement will be signed after the completion of necessary internal procedures by the respective governments. The agreement will enter into force after ratification (approval by the Legislative Council in the case of Hong Kong and approval by the Diet in the case of Japan).

Ends