Hong Kong and Finland enter into tax pact

The Secretary for Financial Services and the Treasury, Mr James Lau, on behalf of the Government of the Hong Kong Special Administrative Region, signed in Hong Kong today (May 24) a comprehensive avoidance of double taxation agreement (CDTA) with the Consul-General of Finland in Hong Kong, Mr Jari Sinkari, signifying the Government's sustained efforts in expanding Hong Kong's tax treaty network.

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

Mr Lau said, "This is the 40th CDTA that Hong Kong has signed with its trading partners. Hong Kong has all along treasured the economic and trade ties with Finland, and I have every confidence that the signing of the CDTA will bring our bilateral relations to a new level."

In 2017, Finland was Hong Kong's 50th largest trading partner. Following the conclusion of the CDTA with Finland, Hong Kong has signed CDTAs with 16 member states of the European Union.

Under the CDTA, double taxation will be avoided in that any Finnish 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 Finnish companies, the tax paid in Hong Kong will be allowed as a deduction from the tax payable on the same income in Finland.

Moreover, the agreement provides the following tax relief arrangements:

(a) Finland's withholding tax rates for Hong Kong residents on dividends and royalties (currently at 20 per cent for companies and 30 per cent for individuals) will be capped at 5 per cent/10 per cent on dividends (depending on the percentage of shareholdings) and 3 per cent on royalties;

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

(c) Profits from international shipping transport earned by Hong Kong residents arising in Finland will be exempt from tax in Finland.

The Hong Kong-Finland 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 by both sides. In the case of Hong Kong, the CDTA will be implemented by way of an order to be made by the Chief Executive in Council under the Inland Revenue Ordinance (Cap. 112). The order is subject to negative vetting by the Legislative Council.

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

Hong Kong will continue to negotiate with trading and investment partners, with a view to expanding its CDTA network.