

## Possibility of Profits Tax Exemption Claim in Hong Kong

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Hong Kong is famous for its low tax rates and territorial taxation principles. Profits arising in or derived from Hong Kong are currently chargeable to Profits Tax at a rate of 16.5%. The first set of profits tax return will usually be issued to taxpayer's registered address about 18 months after the date of incorporation.

### Possibility of Tax Exemption Claim

Under the territorial taxation principles, it is possible and legal for your company to have profits totally tax-free in Hong Kong.

#### *Trading Profits*

In determining the locality of profits derived from a Hong Kong business, the Hong Kong Inland Revenue Department ("IRD") will look at what the taxpayer has done to earn the profits in question and where he has done it. If the contracts for purchase and sale are initially negotiated, concluded and subsequently executed outside Hong Kong, there are grounds to claim the trading profits as offshore sourced and non-taxable.

#### *Service Income*

If the services in question are physically performed outside Hong Kong, it is possible for your company to apply for tax exemption claim on the service fee income. The residence of principals and location of incidental activities performed before or after the income is earned are generally considered as irrelevant.

### Our Professional Services

A successful claim must be supported by proper and sufficient documentations. It is our strategy to submit a full set of documentation for a typical transaction in support of the offshore claim when filing the company's Profits Tax Return.

It is also worthwhile for your company to conduct a preliminary review to plan for the future formal submission and correspondences with the IRD at the start of an operation, or before undertaking a particular transaction. Our preliminary review service will provide our critical professional advice on the improvement of the documentation flow and the completeness of the company's typical transaction. This can help the company to secure a greater chance of success with a minimum of correspondences with the IRD.

To understand the tax position of your company, please click [here to send me an email](#).

