

# A Quick Guide of Setting Up A Quick Guide of Setting Up A Business A Business in Hong Kong



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## Why Setting Up a Business in Hong Kong ?

Hong Kong is located at the geographical and economic center of Asia. The followings are some of the major advantages for setting up a company in Hong Kong : -

1. Excellent Banking Facilities and Legal System
2. Anonymity Directorship and Ownership
3. Low Tax Jurisdictions
4. Unrivalled Access to the Mainland Market
5. Famous Investment Vehicle in China with Lower Withholding Tax Rate in the Mainland China



According to the “World Investment Report 2008” released by the United Nations Conference on Trade and Development, Hong Kong was the second largest FDI recipient in Asia after the Mainland China. \*\*

Hong Kong was the world's seventh and Asia's second largest FDI recipient, attracting US\$54.4 billion inward investment in 2007. Hong Kong was also ranked Number 1 globally in the report's Inward FDI Performance Index, which measures the amount of FDI relative to the size of the economy. \*\*

Like trade, Hong Kong and the Mainland China are key to one another's success. Hong Kong is the largest investor in the Mainland China, and Mainland investment in Hong Kong amounts to some 2,000 enterprises and over 25% of the total stock. \*\*

\*\* extracted from InvestHK

## What Is the Best Form of Investment in Hong Kong ?

Foreign investors intending to establish business presence in Hong Kong can either choose to set up a private limited company, partnership, liaison office or branch. The most appropriate would depend on tax issues, strategic plan, financial aspects, obligations and liability.

Generally speaking, a Hong Kong incorporated private limited company (“HKCo”) may have certain advantages over the other forms. Since it is a separate legal entity, its shareholders enjoy limited liability. Another advantage of operating through a Hong Kong incorporated company is that reorganization of group activities and tax planning is often easier.

## How to Set Up a Hong Kong Company ?

In establishing a HKCo, our associate (operated in the name of Hongkong Managers & Secretaries Limited) will be very pleased to offer assistance to you. We also provide “shelf company” to facilitate immediate business operation in Hong Kong.

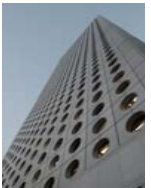
A privately-held HKCo has the following characteristics:

### Capital Requirements:

- ◆ No minimum capital amount is required.

### Shareholders:

- ◆ Minimum of 1 shareholder is required.
- ◆ Corporate shareholder is allowed.
- ◆ Anonymous shareholder is permitted.



### Directors:

- ◆ Minimum of one director.
- ◆ Corporate director is allowed.
- ◆ Anonymous director is permitted.
- ◆ No requirement on the residency of the directors.
- ◆ No restriction on the place of holding the Board meetings.

### Local Requirements:

- ◆ Registered office address in HK must be maintained.
- ◆ Local resident statutory secretary must be appointed.

### Statutory Reporting:

- ◆ Annual return providing updated information of the directors and shareholders has to be filed to the Companies Registry.
- ◆ Full set of audited financial accounts has to be prepared on an annual basis.
- ◆ Annual tax returns have to be filed to the Hong Kong Inland Revenue Department ("IRD").
- ◆ Being an employer, HKCo has to enroll its staff into the Mandatory Provident Fund Scheme and to contribute 5% of the staff salary (capped at HK\$1,000) to the Scheme on a monthly basis.

## What Are the Tax Implications in Hong Kong ?

1. Hong Kong operates a territorial basis of taxation system. Corporate tax is currently at 16.5% and is essentially charged only on Hong Kong sourced income (and a few type of income deemed to have a Hong Kong source).



2. There is no capital gain tax, sales tax or value-added tax. Dividend income received by HKCo is specifically tax exempt.
3. Profits tax return is issued annually to the taxpayer (usually on the first working day of April every year) for completion.
4. The return must be submitted together with the supporting profits tax computation and the audited financial statements to the IRD within the specified period.
5. Under the common practice, the first set of profits tax return would usually be issued 18 months after the incorporation of HKCo for completion.
6. If HKCo employs staff in Hong Kong, it is required to file the required tax forms within stipulated time limit.
7. HKCo is not required to withhold the taxes for its employees (unless the staff is going to leave Hong Kong).

## How to Mitigate Tax Liability in Hong Kong ?

1. It is possible for HKCo to apply to the IRD for tax exemption in Hong Kong on its offshore-sourced income.
2. In determining the locality of profits derived from a Hong Kong business, the IRD will look at what the taxpayer has done to earn the profits in question and where he has done it.

3. Source of trading profits is determined by the place where the contracts for purchase and sale are initially negotiated, concluded and subsequently executed.
4. As far as service income is concerned, the IRD will look at the place where the profit generating activities are performed by the taxpayer to determine the chargeability of service income.
5. Establishing an offshore income claim is never easy in the present environment. In Hong Kong, the onus of proof always rests with the taxpayers. Proper and sufficient documents have to be provided to the IRD to clearly demonstrate how, where and by whom each of the activities are carried out to generate the income in question.

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Because of the complicated and long term impact of the setup, it is advisable to seek professional advice before implementation of any business and tax plans in Hong Kong.

**PKF**

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