

This report provides helpful information on the current business environment in Hong Kong. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

# Report on Hong Kong

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## Important to Know

### Official language

- › Cantonese
- › English

### Currency

- › Dollar (HKD)

### Bank holidays

2010	
January	1
February	15, 16
April	2, 5, 6
May	21
June	16
July	1
September	23
October	1
December	25, 27

Source: [www.goodbusinessday.com](http://www.goodbusinessday.com).

## Types of Business Structure

Under Hong Kong law, there are several business structures available. There is no requirement to have a minimum amount of share capital to be paid up before the business can be established. All businesses must have a Business Registration Certificate from the Hong Kong Inland Revenue Department.

### Public limited liability company

This is a company whose shares are registered to their owners, or issued in bearer form, and are tradable on a public stock market.

### Private limited liability company

This is a company whose shares are registered to a maximum of 50 shareholders and therefore are not publicly tradable. Initial share capital must be in cash.

### General partnership

In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

### Limited partnership

In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

### Other organizational types

Two or more entities can enter into a joint venture. In most cases, the parties to the joint venture will set up a private limited liability company (see above) through which to conduct operations.

### Branches and representative offices

Non-resident companies are entitled to establish a branch or a representative office in Hong Kong. A branch's activities are subject to Hong Kong company law, although it is considered part of the company's head office and therefore not a separate legal entity. It requires no minimum share capital. To open a branch a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Hong Kong.

## Opening and Operating Bank Accounts

### Residency

To be considered resident, a company must have a registered office in Hong Kong and the company secretary must also be a Hong Kong resident individual or incorporated company.

### Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (HKD) accounts outside Hong Kong and foreign currency accounts both within and outside Hong Kong.

Non-residents are permitted to hold local currency and foreign currency accounts in Hong Kong.

All local currency accounts are fully convertible into foreign currency.

### Anti-money laundering and counter-terrorist financing rules

- › Account opening procedures for individuals require formal identification of the account holder. For legal entities, financial institutions must obtain information which verifies the identity of the principal shareholders, directors and authorized signatories and indicates the nature of their business.
- › Financial institutions are required to establish the identity of the beneficiary where an account is opened or a transaction is performed by a third party.
- › Financial institutions are required to identify and record the details of customers for all transactions. For transactions above HKD 8,000 financial institutions are required to include the details of the customer with the transaction instructions.

Supplied by BCL Burton Copeland ([www.bcl.com](http://www.bcl.com)). Data as at April 2007, reviewed at May 2009.

### Special purpose accounts required by local regulation

None.

### Value-added tax (VAT) on banking services

There is no system of VAT in Hong Kong.

## Payment and Collection Instruments

Other than cash, cheques are the most common payment method in Hong Kong. Post-dated cheques, for up to one month, are often accepted as a means of payment. Cheques drawn on a Hong Kong bank can be presented to a Guangdong bank, and vice versa, as a means of facilitating trade between these two neighbouring areas.

Electronic funds transfers are the most popular payment method among companies and are used for most supplier and wage payments, as well as for treasury and tax purposes.

In the retail sector, despite the dominance of cash, payment cards continue to increase in popularity. Point-of-sale card transactions in Hong Kong, Macau and Shenzhen are all processed by the Electronic Payment Services Co. (EPSCO). There is also a facility for companies to collect retail payments through EPSCO using its bill presentment service. Companies can issue consumers with a bar-coded bill which the consumer can then pay at a POS terminal using a payment card.

Autodebit direct debits are used by companies for fixed regular services such as utility and rent payments. The use of Autodebit is gradually increasing, although it remains low relative to other payment instruments.

### International Payments

Most international payments are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payments between Hong Kong and Guangdong province are processed through a dedicated payment system, allowing settlement within two days.

### Payment Processing Times

Transactions processed (denominations as noted)	Value dating rules	Cut-off time(s) in local Hong Kong Standard Time (HKST)
High-value and urgent electronic payments denominated in HKD, USD, RMB and EUR	Real-time settlement, immediate finality	17:00 HKST
Non-urgent, low-value domestic consumer payments; cheques denominated in RMB drawn on Hong Kong and Guangdong banks	Settled on a next-day basis	17:00 HKST
Cheques, demand drafts, cashier's orders and remittance advices denominated in HKD and USD	Settled on a next-day basis	17:00 HKST (17:30 HKST Friday)
Low-value, bulk electronic items denominated in HKD and USD	All settled on a next-day basis except Autodebit items, which are cleared on Fridays and settled on the following Monday	17:00 HKST

## Central Bank Reporting

Hong Kong's Census and Statistics Department operates a survey based system, the Survey of External Claims, Liabilities and Income, for collecting balance of payments statistics.

Surveys are collected on a monthly, quarterly or annual basis, but companies are only required to report information if instructed to do so by the Census and Statistics Department.

## Exchange Arrangements and Controls

Hong Kong applies no currency exchange controls.

## Cash and Liquidity Management

Hong Kong is a relatively attractive location from which to manage international cash and liquidity management. Most of the large international cash management banks have branches in Hong Kong and there are few regulatory restrictions.

### Physical cash concentration

Physical cash concentration is available in Hong Kong from all large Hong Kong and international banks. Residents and non-residents can participate in the same domestic cash concentration structure located in Hong Kong.

Pools can be denominated in local currency (HKD) and some foreign currencies. A number of banks offer cross-border, cross-currency physical cash concentration.

### Notional cash pooling

Notional cash pooling is available from most large Hong Kong and international banks. Resident and non-resident companies, and accounts held in the names of different legal entities, can participate in the same domestic notional cash pooling structure located in Hong Kong. A number of leading banks offer cross-border notional cash pooling.

## Short-term Investment

### Bank instruments

Interest-bearing current accounts are available to both residents and non-residents. Banks offer time deposits in a range of currencies for terms from overnight to over a year. Banks also issue fixed rate certificates of deposit (CDs), usually from three to five years.

### Non-bank instruments

Commercial paper is scarcely available in Hong Kong, due to the popularity of Exchange Fund Bills which offer a lower credit risk and tax-exempt status.

The Hong Kong Monetary Authority (HKMA) issues Treasury bills, which are exempt from profit and stamp duty. Bills usually have maturities of one week, one, three and six months and one year, although other maturities can be issued at the discretion of the Financial Secretary. The minimum investment amount is HKD 500,000.

Money market funds are also available in Hong Kong.

## Short-term Borrowing

### Bank

Overdrafts, bank lines of credit and bank loans are all available in Hong Kong to both resident and non-resident companies. Banks will charge interest individually often around 0.5 to 1.5 percentage points above the best lending rate (BLR). Other commitment and arrangement fees will also be charged but are negotiable.

### Non-bank

Commercial paper is not common due to the availability of the more favourable Exchange Fund Bills.

Trade bills are commonly discounted, and factoring (disclosed and undisclosed) is available.

## Taxation

### Corporate Taxation

- › The corporate profits tax rate is 16.5%. Unincorporated businesses are taxed at a standard rate of 15%.

### Advance Tax Ruling Availability

- › Companies may apply to the Commissioner of the Inland Revenue for an advance tax ruling regarding transactions, operations or arrangements that are under serious consideration. The application can determine how the provisions of the Inland Revenue Ordinance apply to a specific scenario. Full details need to be provided before an advance ruling can be given.

### Withholding Tax (subject to tax treaties and other exemptions)

Payments to	Interest	Dividends	Royalties/fees	Other income
Resident companies	0%	0%	0%	0%
Non-resident companies	0%	0%	4.95–16.5%	See below

- › There is no withholding tax on interest and dividends paid to resident or non-resident companies.
- › There are no requirements to withhold tax on royalties paid to Hong Kong companies. Royalties received by or accrued to non-residents are subject to profits tax at a deemed profit rate of 30%. Applying the corporate tax rate of 16.5%, the amount of tax withheld by the Hong Kong company is normally 4.95% of royalties paid. The Hong Kong company paying royalties to the non-resident company is required to withhold a sufficient amount from the payment to meet the tax liability of the non-resident.
- › The deemed profit rate on royalties paid by a Hong Kong company to a closely connected non-resident company is 100% where the intellectual property was once owned by any person carrying on business in Hong Kong. In this case, the withholding rate is 16.5% of royalties paid.
- › The trading profits derived by a non-resident company trading through an agent in Hong Kong are also subject to withholding tax. A Hong Kong agent who sells any goods in Hong Kong on behalf of a non-resident is required to pay to the Commissioner a sum equal to 1% of the sale proceeds (or a lesser sum agreed by the Commissioner) on a quarterly basis.

### Capital Gains Tax

- › There is no capital gains tax in Hong Kong.

### Stamp Duty

- › Stamp duty is imposed on the conveyance of Hong Kong property, the agreement for sale of Hong Kong residential property, the lease of immovable property in Hong Kong, the bought and sold notes of Hong Kong shares, and the instrument of transfer of Hong Kong shares.
- › Relief is provided for the transfers of shares or properties between certain group companies.

### Thin Capitalization

- › There are no thin capitalization rules in Hong Kong. However, there are special rules relating to the deduction of interest expenses.
  - › Interest paid to non-financial institutions is deductible only when the interest is subject to Hong Kong profits tax in the hands of the recipients.
  - › The “secured-loan test” requires that the borrowing is not secured by a non-taxable income generating loan or deposit that is made by associates.
  - › The “interest flow-back test” requires that the interest paid on the borrowing will not flow back to an associate of the borrower.
- › If any of these conditions are not met, the interest paid is not deductible. An exception to the interest flow-back test is when the recipient of the interest is subject to Hong Kong profits tax.
- › Interest paid on debentures or other financial instruments marketed in Hong Kong or in a major financial centre is also subject to the interest flow-back test. If the associate that

receives the interest is a registered securities dealer, it can be excluded from the interest flow-back test in order to allow genuine commercial external financing situations.

### Transfer Pricing

- › For transactions between a Hong Kong company and a closely connected non-resident, where the transactions result in no profit or a profit that is less than normal for the Hong Kong company, the non-resident is deemed to carry on a business in Hong Kong through the Hong Kong company.
- › Other than the specific transfer pricing rule that deals with transactions between Hong Kong companies and non-residents, the general anti-avoidance provision is used by the Commissioner to challenge transactions not at arm’s length. Usually, the Organisation for Economic Co-Operation and Development (OECD) transfer pricing guidelines are applied.

### Sales Taxes / VAT

- › There is no sales tax or VAT in Hong Kong.

### Contributions to the Mandatory Provident Fund

- › Employers are required to make monthly contributions to registered provident funds in respect of every employee, other than casual employees or employees who are employed for less than 60 days. The amount of mandatory contribution payable by the employer is the lower of 5% of the total monthly relevant income of the employee or HKD 1,000 per month. The employee is also required to make the same mandatory contribution.
- › The employer’s mandatory contribution is deductible for profits tax purposes.

All tax information supplied by Deloitte LLP ([www.deloitte.com](http://www.deloitte.com)). Data as at April 1, 2009.

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