Hong Kong and Cambodia enter into tax pact

The Secretary for Financial Services and the Treasury, Mr James Lau, on behalf of the Hong Kong Special Administrative Region Government, signed a comprehensive avoidance of double taxation agreement (CDTA) with Cambodia today (June 26), promoting further bilateral investment and trade between the two jurisdictions.

This CDTA is the 41st agreement that Hong Kong has concluded. It 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, "Cambodia was Hong Kong's 38th largest trading partner in 2018. We have all along treasured our economic and trade ties with Cambodia and I have every confidence that this agreement will encourage more bilateral investments and bring our co-operation to a new level."

Under the Hong Kong-Cambodia CDTA, double taxation will be avoided in that any tax paid in Cambodia by Hong Kong companies in accordance with the CDTA will be allowed as a credit against the tax payable in Hong Kong on the same income, subject to the provisions of the tax laws of Hong Kong. Likewise, for Cambodian companies, the tax paid in Hong Kong will be allowed as a deduction from the tax payable on the same income in Cambodia.

Moreover, the Hong Kong-Cambodia CDTA also provides the following tax relief arrangements:

(a) Cambodia's withholding tax rates for Hong Kong residents on dividends, interest, royalties and fees for technical services will be reduced from the current level of 14 per cent to 10 per cent;

(b) Hong Kong airlines operating flights to and from Cambodia will be taxed at Hong Kong's corporation tax rate, and will not be subjected to tax on income in Cambodia; and

(c) Hong Kong residents deriving profits from international shipping transport in Cambodia will enjoy 50 per cent reduction in tax on income in Cambodia in respect of the profits subject to tax there.

The Hong Kong-Cambodia 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.

This CDTA will come into force after the completion of ratification procedures by both jurisdictions. In the case of Hong Kong, it will be implemented by way of an order to be made by the Chief Executive in Council under the Inland Revenue Ordinance. The order is subject to negative vetting by the Legislative Council.

Details of the Hong Kong-Cambodia CDTA are available on the website of the Inland Revenue Department (www.ird.gov.hk/eng/pdf/Agreement_Cambodia_HongKong.pdf).

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