

Hong Kong and Croatia enter into tax pact (with photos)

The Secretary for Financial Services and the Treasury, Mr Christopher Hui, on behalf of the Hong Kong Special Administrative Region Government, signed in Hong Kong today (January 24) a comprehensive avoidance of double taxation agreement (CDTA) with Croatia, signifying the Government's sustained efforts in expanding Hong Kong's CDTA network, in particular with tax jurisdictions participating in the Belt and Road Initiative. Representing the Government of Croatia was the Minister of Finance of Croatia, Mr Marko Primorac.

This CDTA is the 48th 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. Including Croatia, Hong Kong has signed CDTAs with 17 member states of the European Union.

Mr Hui said, "Croatia is one of the economies participating in the Belt and Road Initiative. I have every confidence that this CDTA will further promote economic and trade connections between Hong Kong and Croatia, and offer additional incentives for the business sectors of both sides to do business or make investments. Hong Kong will continue to negotiate with trading and investment partners with a view to expanding its CDTA network. This could enhance the attractiveness of Hong Kong as a business and investment hub, and consolidate the city's status as an international economic and trade centre."

Under the Hong Kong-Croatia CDTA, Hong Kong companies can enjoy double taxation relief in that any tax paid in Croatia, whether directly or by deduction, in accordance with the CDTA, will be allowed as a credit against the tax payable in Hong Kong in respect of the same income, subject to the provisions of the tax laws of Hong Kong.

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

- (a) Croatia's withholding tax rates for Hong Kong residents on dividends, interest and royalties will be capped at 5 per cent; and
- (b) Profits from international shipping transport earned by Hong Kong residents arising in Croatia will not be taxed in Croatia.

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 (Cap. 112). The order is subject to negative vetting by the Legislative Council.

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

