Hong Kong and Macao enter into tax pact

A spokesman for the Government announced today (November 25) that Hong Kong and Macao have signed a comprehensive avoidance of double taxation arrangement (Arrangement), signifying enhanced tax co-operation between Hong Kong and Macao.

This Arrangement is the 43rd comprehensive avoidance of the double taxation agreement/arrangement that Hong Kong has signed with its trading partners. It will help deepen the economic and trade ties between Hong Kong and Macao, offer additional incentives for the business sector of both sides to do business and invest, promote nurturing and exchanges of talents, and further drive the development of the Guangdong-Hong Kong-Macao Greater Bay Area.

In 2018, Macao was Hong Kong's 19th largest trading partner. Following the conclusion of the Arrangement between Hong Kong and Macao, Hong Kong has signed relevant agreements with 14 of its top 20 trading partners.

Under the Arrangement, any Macao tax paid by Hong Kong residents in respect of income derived from sources in Macao will be allowed as a credit against the Hong Kong tax payable on the same income, subject to the provisions of the tax laws of Hong Kong. For Macao residents, double taxation will be avoided by way of exemption of the income taxed in Hong Kong from the Macao tax, or by crediting the Hong Kong tax paid against the Macao tax payable in respect of the same income.

Moreover, the Arrangement provides the following tax relief arrangements:

(a) Profits earned by Hong Kong residents in Macao from cross-boundary shipping, air and land transport will not be taxed in Macao; and

(b) An eligible teacher or researcher who is employed in Hong Kong and engages in teaching and research activities at a recognised educational or scientific research institution in Macao shall be exempt from tax in Macao for a period of three years, provided that the relevant income has been subject to tax in Hong Kong.

The Arrangement will come into force after the completion of ratification procedures by both sides. In the case of Hong Kong, the Arrangement 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-Macao Arrangement (Chinese version only) can be found on the Inland Revenue Department's website (www.ird.gov.hk/chi/pdf/Arrangement_Macao_HongKong.pdf).