Corporate Tax in Hong Kong

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Taxation System in Hong Kong

- **Low, Simple and Competitive Tax System**
  - Business-friendly jurisdictions
- **Low tax system has been protected by the basic law since 1990**
  - Independent taxation system – separate from that of mainland China

Tax collection	Tax type
Direct tax	Salaries tax, Property tax and Profits tax
Indirect tax	Stamps duty, Betting duty, Estate duty etc.
No VAT ,GST or any other sales, Inheritance tax etc.	

Profits Tax in Hong Kong

Following a **territorial** and **flat-rate principle**

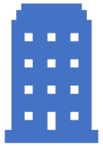
Profits tax is an income tax chargeable to business carried on in Hong Kong

The persons chargeable to profits tax: corporations, partnerships, trustees, and sole proprietors

Capital gains, interest, and dividends are not taxable in Hong Kong

Flat Corporate Tax Rate

Single-Tier Corporate Tax System



Corporations:
16.5%

Unincorporated businesses :

15%

The Two-Tier Profits Tax Rates Regime

- Reduce the tax burden of SMEs
- Big companies pay more corporate tax

Taxpayers	Assessable Profits in HK$	Tax rate
Corporations	$2,000,000	8.25%
	Above $2,000,000	16.5%
Unincorporated businesses	$2,000,000	7.5%
	Above $2,000,000	15%

Territorial Corporate Tax System

Does Hong Kong tax foreign income?

- Tax will be levied only on profits arising in or derived from carrying on a trade, business or profession in Hong Kong
- Offshore profit is non-taxable
- Does not distinguish between residents and non-residents

Why are taxes so low in Hong Kong?

The government has other sources of income

- Huge fiscal reserves
- The interest received on these reserves
- Owning much of the city’s land
  - sells sites to private developers
  - leasing land

ESSCALAND: Corporate Tax Rate & Economics

High corporate tax has adverse economic consequences on Esscaland

Corporate Tax Rate	**35%**
Unemployment rate	12%
Per Capita Income	$1,178 USD
Inflation rate	6.8%
GDP growth rate	-4.5%
Weak currency against the U.S. dollar	
Lack of innovation industry	

Tax System Reform

Proposal: Lower corporate tax rate to 15%

Why?

- Reduce the burden on those who bear the cost of corporate tax (shareholders, employees and customers)
- Boost economic activity especially in innovation industry
- Incentivize investment by firms and growth

Tax System Reform: Growth in Capital Stock

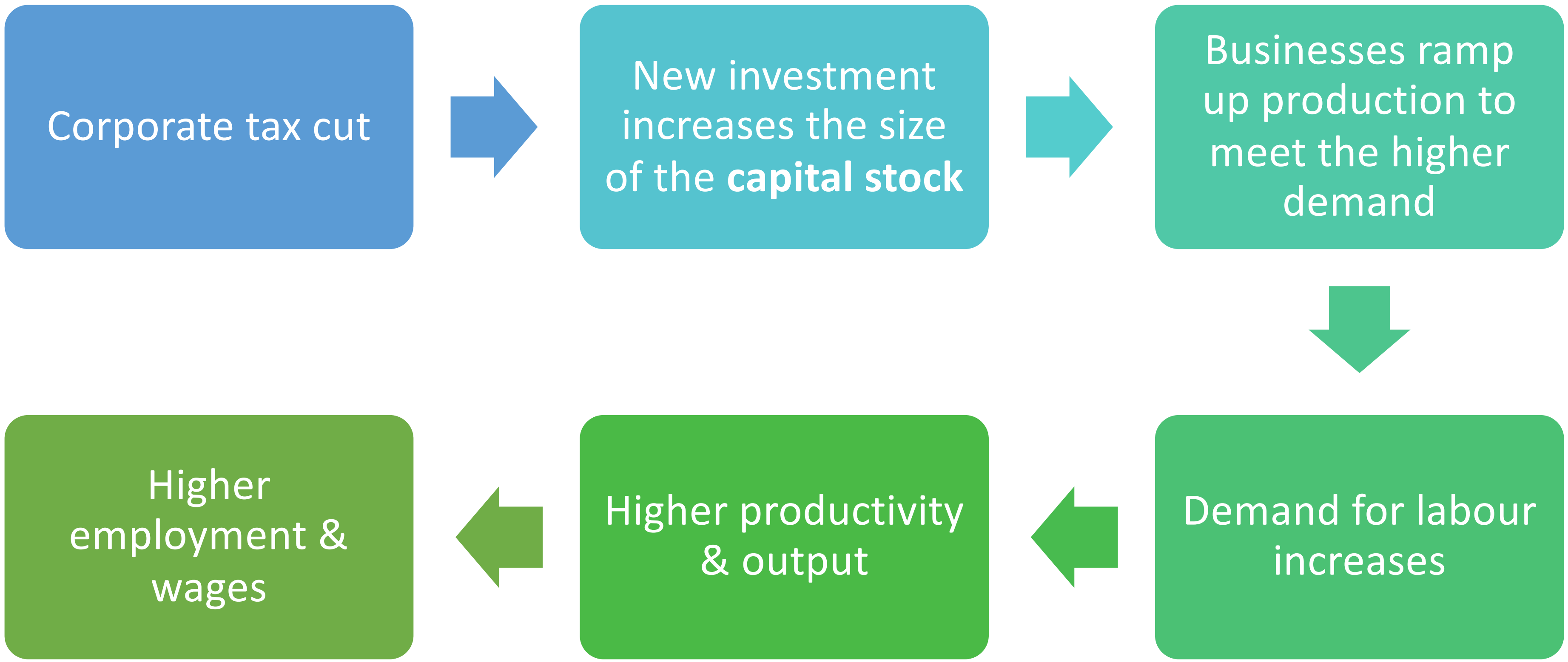
Disadvantages of high corporate tax

- Less foreign direct investment
- Reduce the long-run capital stock
- Reduce the long-run size of the economy

Benefits of a lower corporate rate

- Encourage firm entry and investment in Esscaland
- Discourage profit shifting
- Increase corporate profits and thus stock market returns

Tax System Reform: Workers and Employment



Tax System Reform: Innovation Industry Encouragement

What happens in ESSCALAND?

- The best scientists moved away in response to higher corporate taxes
- Higher taxes reduced the incentive to innovate and discouraged risk-taking

Lower Tax…

- Retain star scientists and inventors increases Esscaland innovation and dynamism in the long run
- Boost GDP: Lower cost on patenting, R & D investment, and new product introductions which lead to an increase in GDP