Tax Avoidance

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Tax Avoidance, legal VS illegal

- Knowingly fail to report income or you don't file an income tax return
- Deliberately underpaying taxes owed.
- Under-reporting income
- Not reporting an income source.
- Providing false information to the IRS about business income or expenses
- Overstating the amount of deductions.

HK Tax Avoidance

Two-tiered profits tax rates

The profits tax rate for the first $2 million of assessable profits will be lowered to 8.25%.

HK Tax Avoidance

Salaries tax/profits tax distribution

The company distributes the company's profits to the directors' salaries tax through the remuneration of directors.

example:

If the limited company's profit is within 2 million and your personal allowance is only a basic allowance of $132,000, the company can give you a director's salary of $232,000 ($132,000+100,000).

HK Tax Avoidance

- **Corporatize expenditures (commonly used by self-employed persons)**

- Salaries tax income deductible, such as working expenses such as meals, rides, entertainment.

- As long as such expenses are related to your business and used to generate your taxable income, such expenses can be used for tax deduction.

HK Tax Avoidance

- **Use a loss-making business to cut taxes**

According to the guidelines of the Hong Kong Inland Revenue Department, losses incurred by a company in a tax year can be used to offset the profits of the industry in subsequent years.

That is, if you have a company whose business is at a loss, inject profitable business into the company, and the loss and profit will be deducted to save tax.

HK Tax Policy

- Minimizing taxable income
- Controlling the timing of earnings and expenses

HK Tax Avoidance Example

B company (Hong Kong)

- Register a company B company in Hong Kong
- Registration of a HK trademark in both HK and the China.

Result

- A company have their own international trademark.
- Tax avoidance in China.
- Listing and financing in HK.

A company (China)

- Pay high trademark usage fee.
- Special taxation policies in China's
- Not famous in international market.

C company (China-HK)

- Establish a Chinese-foreign joint company with shareholders A and B.
- Company B take up 25% of capital contribution
- Company A invests in the garment production factory

Country’s Taxation Policy

Principle:
Guaranteed fiscal revenue
Promote economic development

The factors on making Taxation policy
1. The country's overall financial resources.
2. Taxpayer's ability and psychological endurance.
3. Economic development needs.
4. Industrial structure.
5. No mercy on tax evasion.

Reference

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