



UK and Hong Kong Double Tax Treaty

Important Information for UK resident clients

The UK and Hong Kong governments have signed the first comprehensive double taxation treaty. For UK income and capital gains tax purposes it comes into force on 6th April 2011. To follow is a brief outline of the main implications for UK resident taxpayers who have financial interests in Hong Kong.

Hong Kong Pension Income

The treaty contains wonderful news for those who receive a pension from Hong Kong sources, where the pension was derived from employment or self-employment. From 6th April 2011 all such pension income will be subject to tax only in Hong Kong and will be specifically exempt from income tax in the UK. There is no requirement for Hong Kong tax to be paid on the income in order for it to be exempt in the UK.

This is excellent news for two reasons. Firstly, the rate of tax charged in Hong Kong is usually much lower than in the UK. Secondly, by exempting this source of pension income from the UK, other sources of income may be taxed at lower rates in the UK.

For example, if you have been a higher rate taxpayer in the UK on your Hong Kong pension, any investment income you have enjoyed also suffered tax at the higher rate. By removing the Hong Kong pension from tax it may be that the investment income becomes taxable at a lower rate.

Also, income from a Hong Kong QROPS (Qualifying Recognised Overseas Pension Scheme) should also be exempt from tax in the hands of a UK resident. Indeed, if you receive income from a QROPS anywhere else in the world, it could be worth considering a transfer of those rights into a Hong Kong based QROPS, or to a jurisdiction with similar treaty benefits. Do get in touch for more information.

Interest, Dividends, Capital Gains and Other Income

For a UK resident taxpayer who is not also resident in Hong Kong, the treaty establishes the UK as having the primary right to tax income and gains, even if they arise in Hong Kong (subject to one or two minor exceptions).

Employment Income

If you are resident in the UK, employment income relating to duties performed in Hong Kong is taxable only in the UK and is exempt from salaries tax in Hong Kong. However, if certain conditions are met, earnings relating to Hong Kong performed duties can be subject to tax there. Individual advice is vital here.

For those UK residents who work for a Hong Kong based airline, whilst the treaty does imply that Hong Kong has a theoretical right to tax those earnings, the wording is clear in that it does not pass the exclusive taxing right to Hong Kong. Sadly, as a consequence it appears that earnings remain within the reach of UK income tax, albeit with a credit for any Hong Kong tax paid.

Tax Credit Relief

If Hong Kong tax has been paid on income or gains which also need to be reported in a UK tax return, then credit will be given against the UK tax liability for the Hong Kong tax paid.

'Treaty Residence'

The treaty talks in terms of someone being 'resident' in one country or the other. In certain circumstances it is possible to argue that you might be 'treaty resident' in Hong Kong, which could reduce exposure to UK tax on investment income and capital gains. Do let us know if you think that your centre of vital interests is located in Hong Kong rather than the UK and we will be happy to offer further advice.

As with every double tax treaty, the devil is in the detail. If you would like more information, please [click here](#) to get in touch with your usual Fry contact or call 01903 231545.

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