Tax alert

Issue 10 – May 2012

Hong Kong signs a comprehensive double taxation agreement with Malaysia

Hong Kong signed a comprehensive double taxation agreement (DTA) with Malaysia on 25 April 2012. The DTA, which will enter into force after the completion of ratification procedures by Hong Kong and Malaysia, is the 24th DTA concluded by Hong Kong.

The DTA allocates taxing rights between Hong Kong and Malaysia and will provide investors with greater certainty on their tax liabilities from cross-border economic activities and boost closer economic and trade ties between Hong Kong and Malaysia. Under the Malaysian DTA, the withholding tax on dividends, interest, royalties and technical fees is as follows:

	Malaysia Non-treaty Withholding Rate	Treaty Withholding Rate
Dividends	0	5%[1] / 10%
Interest	15%	0%[2] 10%
Royalties	10%	8%
Technical Fees	10%	5%

1. Withholding tax on dividends is reduced to five percent where the recipient is a company, which holds directly or indirectly at least 10 percent of the capital of the paying company. However, Malaysia does not currently levy withholding taxes on dividends.

2. Withholding tax on interest reduced to nil where the recipient is the Government of the Hong Kong Special Administrative Region (HKSAR), the Hong Kong Monetary Authority (HKMA) or such other institutions established by the Government of the HKSAR for the discharge of functions of a public purpose normally carried out by a government as may be agreed upon from time to time between the competent authorities of the two Contracting Parties.

The DTA will have effect in Hong Kong, for any year of assessment beginning on or after 1 April in the calendar year following the year in which the DTA enters into force.

In Malaysia, the DTA will have effect for any year of assessment beginning on or after 1 January in the calendar year following the year in which the DTA enters into force.

Details of the DTA can be found at:
http://www.ird.gov.hk/eng/pdf/Agreement_Malaysia_HongKong.pdf

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