

HONG KONG TAX ALERT

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Hong Kong signs comprehensive double taxation agreement with Italy

Hong Kong signed a double taxation agreement (DTA) with Italy on 14 January 2013, taking the number of DTAs concluded by Hong Kong to 27. The DTA will enter into force when both jurisdictions have completed their formal ratification procedures.

From a Hong Kong perspective, taxpayers will benefit from the reduced withholding tax rates that apply to profit flows from Italy.

Under the DTA with Italy, the withholding tax on dividends, interest and royalties is as follows:

	Italy non-treaty withholding rate	Treaty withholding rate
Dividends	20%	10%
Interest	20%	0% ¹ / 12.5%
Royalties	22.5%	15%

(1) Withholding tax on interest reduced to nil where the interest is paid (i) by the Government of a Contracting Party or a local authority thereof; (ii) to the Government of a Contracting Party or any of its political or administrative subdivision or local authority; or (iii) to any agency or instrumentality (including a financial institution) wholly owned or appointed by the Government of a Contracting Party or any of its political or administrative subdivision or local authority and which carries out activities of a governmental nature.

The DTA will further strengthen the economic and trade ties between Hong Kong and Italy, and provide added incentives for companies in Italy to do business or invest in Hong Kong, and vice versa. From an Italian perspective, the DTA should benefit Italian residents doing business with Hong Kong as Hong Kong should no longer be seen as a 'blacklisted' jurisdiction. Instead, Hong Kong should become a 'white-listed' jurisdiction with the result that transactions by Italian residents with Hong Kong should no longer be subject to Italy's controlled foreign company rules.

The DTA clearly sets out the allocation of taxing rights between Hong Kong and Italy and will help investors better assess their potential tax liabilities from cross-border economic activities.

Effective date

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 Italy, the DTA will have effect (i) in respect of taxes withheld at source, to income derived on or after 1 January in the calendar year following the year in which the DTA enters into force; and (ii) in respect of other taxes on income, to taxes chargeable on or after 1 January in the calendar following the year in which the DTA enters into force.

The DTA is available at:

http://www.ird.gov.hk/eng/pdf/Agreement_Italy_HongKong.pdf



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