

HONG KONG TAX ALERT

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Hong Kong and Latvia conclude Double Tax Agreement

A Double Tax Agreement between Hong Kong and Latvia is expected to take effect in 2017.

Summary

- *Hong Kong concluded a Double Tax Agreement (DTA) with Latvia, a significant economy along the Belt and Road*
- *The DTA will come into force after the agreement is ratified by both sides. It is expected to take effect on 1 April 2017 in Hong Kong and 1 January 2017 in Latvia.*
- *The DTA allocates taxing rights between the two jurisdictions, provides for reduced withholding tax rates and gives investors greater certainty on their potential tax liabilities arising from cross-border activities.*
- *The DTA contains a number of favourable provisions that should encourage closer cooperation between Hong Kong and Latvia.*

On 13 April 2016, Hong Kong concluded a Double Tax Agreement (DTA) with Latvia, its 35th overall. The DTA allocates taxing rights between the two jurisdictions, provides for reduced withholding tax rates and gives investors greater certainty on their potential tax liabilities arising from cross-border activities by effectively removing Hong Kong from Latvia's list of low tax jurisdictions.

The DTA will enter into force after the agreement is ratified by both sides. If the ratification process is concluded in 2016, the DTA will become effective on 1 April 2017 in Hong Kong and 1 January 2017 in Latvia.

Active Income

In the absence of the DTA, income earned by Latvian residents in Hong Kong is subject to both Hong Kong and Latvian income tax. Under the DTA however, tax paid in Hong Kong will be offset against tax payable in Latvia by a Latvian resident.

The DTA also provides for tax paid in Latvia to be offset against tax payable in Hong Kong. This rare situation might occur when Hong Kong companies with profits attributable to a permanent establishment in Latvia are liable to pay tax in Hong Kong because such profits are regarded as having derived from Hong Kong.

Passive Income

The dividend and interest withholding tax levied by Latvia on Hong Kong residents will be fixed at 0% for companies and limited to 10% in other cases. Latvian withholding tax on royalties is, under the DTA, 0% for companies and limited to 3% in all other cases.

Other Notable Provisions

The DTA contains a number of other provisions that are worthy of mention:

- Hong Kong airlines operating flights to Latvia will be taxed at Hong Kong's profits tax rate and will not be subject to taxation in Latvia
- profits from international shipping transport earned by Hong Kong residents that arise in Latvia, which are currently subject to tax there, will no longer be taxed in Latvia
- the DTA includes an exchange of information article based on the current OECD model treaty standard.

Latvia's withholding tax on Hong Kong residents:

	Latvian Non-treaty Withholding Rates	Treaty Withholding Rate
Dividends	0%/15%/30%	0%/10%
Interest	0%/10%/15%	0%/10%
Royalties	0%/15%/23%	3%

The conclusion of the DTA is significant as it removes Hong Kong from Latvia's list of low tax jurisdictions. These jurisdictions are subject to higher rates of withholding tax on dividend income paid on Latvian securities. The DTA continues Hong Kong's efforts to expand its DTA network with economies located along the Belt and Road.

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