

# Setting Up a Business in Hong Kong 2019



# Why Setting Up a Business in Hong Kong?



Major advantages of setting up a company in Hong Kong:

1. Robust Legal and Financial System
2. Free Capital Flow without Restrictions
3. Well-established Infrastructure
4. Low Tax Rates
5. Access to Global Capital Markets

As an international financial centre and business hub in the Asia Pacific Region with well-established infrastructure, robust legal and financial system as well as simple tax system, Hong Kong is the preferred location for business establishment. The Hong Kong Stock Exchange is the prime fundraising platform in Asia and is the key link to global capital markets for enterprises, especially Mainland China companies.

According to the World Trade Organization (WTO), Hong Kong is the world's 8th largest exporter of merchandise trade and the world's 15th largest exporter of commercial services in 2018. Moreover, as revealed in the World Investment Report 2019 published by the United Nations Conference on Trade and Development (UNCTAD), the global Foreign Direct Investment (FDI) inflows to Hong Kong amounted to US\$115.7 billion in 2018, ranked third globally, behind only Mainland China and Asia. \*\*

Hong Kong is also a global offshore RMB business hub. According to SWIFT, Hong Kong is the largest offshore RMB clearing centre in 2018, sharing about 79% of the world's RMB payments. As of the end of 2018, 1,146 Mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies, with total market capitalization of around US\$2.6 trillion, or 68% of the market total. \*\*

\*\* Extracted from the information released by the Hong Kong Trade Development Council (HKTDC)

## What is the Best Form of Investment in Hong Kong?

Foreign investors intending to establish business presence in Hong Kong can choose to set up a private limited company, partnership, liaison office or branch. The most appropriate business structure would depend on the particular circumstances such as tax planning, strategic plans, business succession, compliance requirements and liabilities of shareholders.

While each form of business establishment has its pros and cons, generally speaking, setting up a private company limited by shares in Hong Kong ("HKCo") may have certain advantages over other forms of business establishment. Since it is a separate legal entity, its shareholders enjoy limited liabilities. Another advantage of operating through a Hong Kong incorporated company is that reorganization of group activities and tax planning are often easier.

## How to Set Up a Hong Kong Company?

We can help you set up a HKCo from scratch with your desired company name. Alternatively, you can purchase a "shelf company" from our available list so that you can start your business within a couple of days.

A HKCo has the following characteristics:

### Capital Requirements:

- Low capital entrance requirement (initial capital can be as low as HK\$1.00);
- No need to state the maximum authorised capital in the constitution documents

### Shareholders:

- At least have one shareholder;
- Corporate shareholder is allowed;
- Nominee shareholder is permitted;
- No restriction on the residency of shareholders

### Directors:

- At least have one director;
- Corporate director is allowed, but at least one of the directors shall be a natural person;
- Nominee director is permitted;
- No restriction on the residency of directors;
- No restriction on the location of Board meetings

### Statutory Requirements:

- Must maintain a registered office address in HK;
- Must appoint a company secretary, either a natural person ordinarily reside in HK or a body corporate have its registered office or place of business in HK

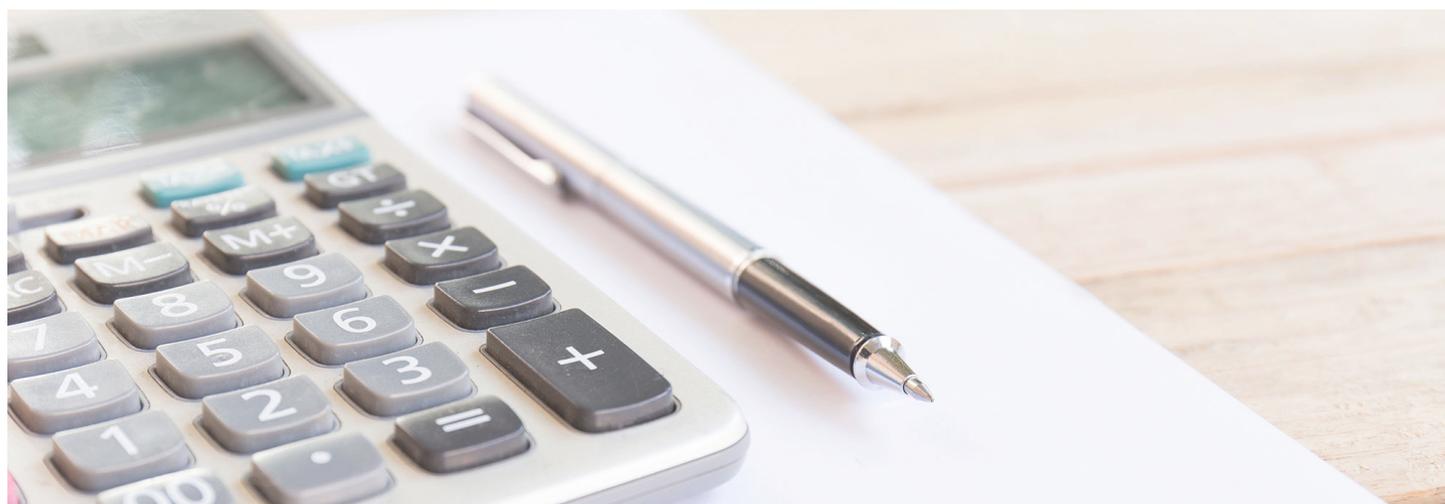
### Subsequent Statutory Obligations:

- File Annual Return, which provides updated information on the directors and shareholders, to the Companies Registry;
- Prepare a full set of annual audited financial statements;
- File tax returns to the Hong Kong Inland Revenue Department ("IRD");
- Participate in the Mandatory Provident Fund Scheme by enrolling its staff and contributing 5% of the staffs' relevant income (capped at HK\$1,500) to the Scheme on a monthly basis



## What are the Tax Implications in Hong Kong?

1. Hong Kong operates on a territorial system of taxation. Corporate tax is only charged on Hong Kong sourced income (and a few types of income deemed to have a Hong Kong source). Starting from the year of assessment 2018/19, the corporate tax rate is 8.25% on assessable profits up to HK\$2,000,000 and 16.5% on any part of assessable profits over HK\$2,000,000. However, only one entity among connected entities could be nominated to be chargeable at the two-tiered rates. Other connected entities will be subject to the rate of 16.5%.
2. There is no capital gain tax, sales tax or value-added tax. Dividend income received by HKCo is specifically tax exempt.
3. Profits tax return is issued annually to the taxpayer (usually on the first working day of April every year) for completion.
4. The return must be submitted together with the supporting profits tax computation and the audited financial statements to the IRD within the specified period.
5. Under the common practice, the first set of profits tax return would usually be issued 18 months after the incorporation of HKCo for completion.
6. Employer's Return must be submitted within stipulated time limit.
7. HKCo is not required to withhold tax for its employees (unless the employee intends to leave Hong Kong).



## How to Mitigate Tax Liability in Hong Kong?

1. HKCo may apply to the IRD for tax exemption on its offshore-sourced income.
2. In determining the locality of profits derived from a Hong Kong business, the IRD will look at what the taxpayer has done to earn the profits in question and where he has done it.
3. The place where the contract for purchase and sale are initially negotiated, concluded and subsequently executed and all the relevant operations that produce the trading profits must be looked at to determine the locality of the profits.
4. As far as service income is concerned, the IRD will look at where the taxpayer performs the profit generating activities to determine the chargeability of service income.
5. Establishing an offshore income claim is never easy in the current environment. In Hong Kong, the onus of proof rests with the taxpayers. Proper and sufficient documents have to be provided to the IRD to clearly demonstrate how, where and by whom each of the income-generating activities are carried out.

Due to the complicated nature and long-term impact of the set-up of a HKCo, it is advisable to seek professional advice before implementation of any business and tax plans in Hong Kong.

### Contact us:

PKF consists of over 400 offices, operating in 150 countries across five regions. We specialise in providing high quality audit, accounting, tax, and business advisory solutions to international and domestic organisations in all our markets.

PKF Hong Kong can help you set up business in Hong Kong with the best one-stop service from our professionals. If you require assistance in this regard, please feel free to contact us.



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