



ATLAS  
BY BNP PARIBAS

## CASH MANAGEMENT

[www.cashmanagement.bnpparibas.com/cg](http://www.cashmanagement.bnpparibas.com/cg)



**BNP PARIBAS**

The bank  
for a changing  
world

# Disclaimer

This document has been prepared by BNP PARIBAS for informational purposes only. Although the information in this document has been obtained from sources which BNP PARIBAS believes to be reliable, we do not represent or warrant its accuracy, and such information may be incomplete or condensed. This document does not constitute a prospectus or solicitation.

All estimates and opinions included in this document constitute our judgement as of the date of the document and may be subject to change without notice. Changes to assumptions may have a material impact on any recommendations made herein.

This document is confidential and is being submitted to selected recipients only. It may not be reproduced (in whole or in part) to any other person without the prior written permission of BNP PARIBAS.

**Make sure to always check the latest updates on the [Atlas website](#)**

Hong Kong is a free market economy with a liberal regulatory framework, an efficient payment system and sound macroeconomic fundamentals. Hong Kong's high degree of trade and financial openness makes it highly reliant on world demand and global capital flows while its currency board system (the HKD is pegged to the USD) means its monetary policy is tied to that of the US Federal Reserve. At the same time, the Hong Kong economy is highly integrated with Mainland China, through trade, tourism and financial links.

Annual average real GDP growth slowed to 2.8% in 2014-2018 from 3.5% in 2007-2011. The Hong Kong economy fell into recession in 2019 due to slower world trade growth, slower Chinese growth, US-China tensions, social protests and weaker domestic confidence. The COVID-19 shock exacerbated negative growth. Merchandise exports, tourism, private consumption and investment all fell sharply in H1, 2020 after several quarters of decline. Since Q3, 2020, activity (except tourism) has rebounded strongly, driven by large fiscal stimulus, loose monetary conditions and the surge in China's external trade. Real GDP is projected to grow by 7.2% in 2021, after falling by 1.7% in 2019 and 6.1% in 2020. Hong Kong's medium-term economic outlook has been weakened by recent institutional and legal developments. At the same time, it remains supported by its strong macroeconomic fundamentals, high-quality services sector serving as a gateway to Chinese markets and role as a key financial hub for Chinese firms.

## Summary

## BNP Paribas presence

BNP Paribas has been present in Hong Kong since 1958. Hong Kong is one of the bank's key global locations, with 2,500 employees. It is one of only a few major international banks supporting the domestic, regional and global requirements of corporate customers, including cash management and trade finance. BNP Paribas is a member of the local clearing house and provides a comprehensive offering for managing payments and collections, including offshore RMB accounts. In addition, the bank has well-established partnerships with leading local vendors for providing cash in transit, lock box facilities and card issuing and acquiring solutions. BNP Paribas was awarded the Greenwich award for "Quality Leader Large Corporate Cash Management No.1, Total Asia, 2018".

## Currency

## Currency

- Hong Kong dollar (HKD).

## Exchange rates

	2016	2017	2018	2019	2020
Exchange rate: HKD per USD	7.762	7.793	7.839	7.836	7.76

Source: IMF, International Financial Statistics, June 2021.

## Central Bank

- The Hong Kong Monetary Authority (HKMA) acts in the capacity of Hong Kong's central bank (HKMA – [www.hkma.gov.hk](http://www.hkma.gov.hk)).

### Bank accounts

## Resident / non-resident status

- A company is considered resident in Hong Kong if is incorporated in Hong Kong. A resident company must have a registered office with a company secretary that is either an individual or incorporated company resident in Hong Kong.

## Bank accounts for resident entities

	Within HONG KONG S.A.R.	Outside HONG KONG S.A.R.
Local Currency	Permitted without restriction, fully convertible	Permitted without restriction, fully convertible
Foreign Currency	Permitted without restriction, fully convertible	Permitted without restriction, fully convertible

## Bank accounts for non-resident entities

	Within HONG KONG S.A.R.	Outside HONG KONG S.A.R.
Local Currency	Permitted without restriction, fully convertible	Permitted without restriction, fully convertible
Foreign Currency	Permitted without restriction, fully convertible	Not applicable

## Lifting fees

- Per item-based charges and/or subscription fees are applied on payments.
- Larger companies are able to negotiate [lifting fees](#).











## BNP Paribas Cash Management Capabilities

## Collections


Cash collections	✓
Cheque collections	✓
Direct debit collections	✓
Domestic incoming transfers	✓
Virtual IBAN	●
Virtual accounts	✓
International incoming transfers	✓
Card acquiring	✓



## Payments

Cash withdrawals	
Cheque payments	
Direct debit payments	
Domestic outgoing transfers	
Commercial cards	
Virtual cards	
International outgoing transfers	
SWIFT gpi	
Real-time international payments through BNP Paribas' network	
Card issuing	

## Channels

Local e-Banking	
Global e-Banking - Connexis	
SWIFT/ host to host	

Payments & collections

## Market overview

Cash remains an important payment instrument for low-value transactions in Hong Kong. However, the use of digital payments is on the increase. In February 2021, there were more than 7.3 million personal users of the FPS, which enables users to make payments in HKD and RMB with just a mobile phone number or email address, and over 84,000 corporate users.

Adoption of digital wallets, such as Alipay HK and WeChat Pay HK, are on the rise, while Octopus, Hong Kong's most popular e-money card, is encouraging the use of digital payments through its integration into Apple Pay.

Electronic banking services are available from most banks. There is no national electronic banking standard in Hong Kong, so companies use banks' proprietary services. Online and mobile banking services are available. Of the eight virtual banking licences granted, seven banks are operational. Hong Kong's EBPP platform allows individuals and companies to pay for transactions through online banking and mobile banking accounts.

## Payment Systems

HKD CHATS	Type	<ul style="list-style-type: none"> <li>Real-time gross settlement.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>162 direct.</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>High-value and urgent HK-denominated electronic payments.</li> <li>Bulk clearing of stock market transactions.</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>08:30 to 18:30 HKT, Monday to Friday.</li> </ul>
	Clearing cycle details (e.g. cut-off times)	<ul style="list-style-type: none"> <li>Payments are cleared and settled in real time.</li> <li>Interbank payment cut-off time = 18:30 HKT.</li> </ul>
	System holidays	<ul style="list-style-type: none"> <li>HKD CHATS is closed on all Hong Kong bank holidays.</li> <li>Hong Kong's bank holidays are: <ul style="list-style-type: none"> <li>2nd half 2021: July 1, September 22*, October 1, 14*, December 25, 27.</li> <li>2022: January 1, February 1-3, April 5, 15, 16, 18, May 2, 9*, June 3*, July 1, September 12*, October 1, 14*, December 26, 27.</li> </ul> </li> </ul> <p><i>The date shown may vary by plus or minus one day. These dates are derived by converting from a non-Gregorian calendar (e.g., Muslim or Hindu) to the Gregorian calendar. Some of these dates cannot be determined in advance with absolute accuracy, even by the governing authorities. In the case of Muslim dates in particular, the feast days are determined by the sighting of a new/full moon.</i></p>

<i>EURO CHATS</i>	Type	<ul style="list-style-type: none"> <li>• Real-time gross settlement.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>• 38 direct, 17 indirect.</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>• High value and urgent EUR-denominated electronic payments.</li> <li>• Low-value bulk clearing items.</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>• 08:30 to 18:30 HKT, Monday to Friday.</li> </ul>
	Clearing cycle details (e.g. cut-off times)	<ul style="list-style-type: none"> <li>• Payments are cleared and settled in real time.</li> <li>• Interbank payment cut-off time = 17:30 HKT.</li> <li>• Standard Chartered Bank (HK) is the settlement institution.</li> </ul>
	System holidays	<ul style="list-style-type: none"> <li>• EUR CHATS is closed on all Hong Kong holidays. (Dates as above)</li> </ul>
<i>USD CHATS</i>	Type	<ul style="list-style-type: none"> <li>• Real-time gross settlement.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>• 113 direct, 20 indirect.</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>• High-value and urgent EUR-denominated electronic payments.</li> <li>• Low-value bulk clearing items.</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>• 08:30 to 18:30 HKT, Monday to Friday</li> </ul>
	Clearing cycle details (e.g. cut-off times)	<ul style="list-style-type: none"> <li>• Payments are cleared and settled in real time.</li> <li>• Interbank payment cut-off time = 17:30 HKT.</li> <li>• HSBC is the settlement institution.</li> </ul>
	System holidays	<ul style="list-style-type: none"> <li>• USD CHATS is closed on all Hong Kong holidays. (Dates as above)</li> </ul>
<i>RMB CHATS</i>	Type	<ul style="list-style-type: none"> <li>• Real-time gross settlement.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>• 145 domestic, 65 overseas.</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>• RMB-denominated payments (local and cross-border cheques, interbank fund transfers and low-value bulk clearing items).</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>• 08:30–05:00 T+1 HKT, Monday to Friday.</li> <li>• The RMB RTGS is now open on special Saturdays and Sundays which are designated as working days in Mainland China with operating window between 08:30 hours and 21:00 hours.</li> </ul>



	Clearing cycle details (e.g. cut-off times)	<ul style="list-style-type: none"> <li>• Payments are cleared and settled in real-time.</li> <li>• Interbank payment cut-off time = 17:30 HKT.</li> <li>• Bank of China (HK) is the settlement institution.</li> </ul>
	System holidays	<ul style="list-style-type: none"> <li>• RMB CHATS is closed on all Hong Kong holidays. (Dates as above)</li> </ul>
CLG	Type	<ul style="list-style-type: none"> <li>• <a href="#">Net settlement system</a>.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>• 128 direct for HKD-denominated items, 109 direct for USD-denominated items and 81 direct for RMB-denominated items</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>• Paper-based payments (cheques, demand drafts, cashier's orders and remittance advices).</li> <li>• Cheques are truncated into electronic items before being processed.</li> <li>• Paper-based payments (primarily checks) must be truncated into electronic items before processing. High-value checks (i.e. checks greater than HKD 100,000 in value) and special items (such as suspicious checks, regardless of their value) are still presented physically along with their image to the paying banks.</li> <li>• Two-way cheque clearing is also available with Guandong and Shenzhen provinces for HKD checks.</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>• Monday to Friday.</li> </ul>
	Clearing cycle details (e.g. cut off times)	<ul style="list-style-type: none"> <li>• Payments (excluding autodebits) are settled on a next-day basis.</li> <li>• autocredit cut-off time = 08:45 HKT.</li> <li>• JETCO ATM cut-off time = 09:00 and 11:30 HKT.</li> <li>• EPSCO POS cut-off time = 10:00 HKT.</li> <li>• autodebit items (direct debits) are cleared each Friday and settled the following Monday. Cut-off time = 09:00 HKT.</li> </ul>
	System holidays	<ul style="list-style-type: none"> <li>• CLG is closed on all Hong Kong bank holidays. (Dates as above)</li> </ul>
ECG	Type	<ul style="list-style-type: none"> <li>• <a href="#">Net settlement system</a>.</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>• 130 direct for HKD, 110 direct for USD, 88 direct for RMB.</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>• Low-value and bulk electronic payments (autopay, JETCO <a href="#">ATM</a>, EPSCO <a href="#">POS</a>).</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>• Monday to Friday.</li> </ul>

	Clearing cycle details (e.g. cut-off times)	<ul style="list-style-type: none"> <li>• Payments (excluding autodebits) are settled on a next day basis.</li> <li>• autocredit cut-off time = 08:45 HKT.</li> <li>• JETCO <a href="#">ATM</a> cut-off time = 09:00 and 11:30 HKT.</li> <li>• EPSCO <a href="#">POS</a> cut-off time = 10:00 HKT.</li> <li>• autodebit items are cleared each Friday and settled the following Monday. Cut-off time = 09:00 HKT.</li> </ul>
	System holidays	<ul style="list-style-type: none"> <li>• ECG is closed on all Hong Kong bank holidays. (Dates as above).</li> </ul>
<i>Faster Payment System</i>	Type	<ul style="list-style-type: none"> <li>• Real-time gross settlement</li> </ul>
	Participants	<ul style="list-style-type: none"> <li>• 161 HKD, 56 RMB FPS</li> </ul>
	Transaction types processed	<ul style="list-style-type: none"> <li>• Low-value credit and debit transfers</li> </ul>
	Operating hours	<ul style="list-style-type: none"> <li>• 24/7/365</li> </ul>
	Clearing cycle details (e.g cut-off times)	<ul style="list-style-type: none"> <li>• Payments are cleared and settled in real time.</li> </ul>
	System Holidays	<ul style="list-style-type: none"> <li>• Faster Payment System is closed on all Hong Kong bank holidays. (Dates as above).</li> </ul>

## Credit transfers

- Credit transfers are used by companies to pay salaries and suppliers, and to make tax and treasury payments.
- High-value and urgent HKD-denominated credit transfers are settled in real time via HKD CHATS.
- EUR, RMB or USD-denominated credit transfers are settled in real time via EUR CHATS, RMB CHATS or USD CHATS.
- HKD, USD and RMB-denominated credit transfers between merchants and their customers can also be settled on a domestic and cross-border basis via the EBPP platform. The system enables the straight through processing of electronic bill payments from individuals and companies.
- Cross-border transfers can also be made via SWIFT and settled through correspondent banking relationships.
- Standard Chartered, the settlement bank for EUR CHATS, has a direct connection to the pan European TARGET2 RTGS system. HSBC, the settlement bank for USD CHATS has a connection to the CHIPS RTGS system in the USA.

- Low-value and non-urgent credit transfers are processed via the ECG system or via the FPS (transfers in HKD and RMB).

## Direct debits

- Direct debits (autodebits) are used for regular payments, such as utility bills.
- Direct debits settled via the ECG system are cleared each Friday and settled the following Monday. Direct debits are also available via the FPS.
- RMB-denominated autodebits are available in Hong Kong. Hong Kong residents can make RMB-denominated payments to merchants in mainland China's Shenzhen region and the wider Guangdong Province by debiting either a China UnionPay HKD/RMB debit card or via an RMB bank account in Hong Kong.
- Direct debit payments are also supported by the FPS.

## Cheques

- The cheque remains a popular cashless payment instrument, used by both consumers and companies.
- Cheques are truncated into electronic items before being processed via the CLG system.
- HKD-denominated cheques between Hong Kong and the Guangdong Province (including the Shenzhen Special Economic Zone) are settled within two business days via a cheque clearing process agreement between HKICL, the Guangzhou Electronic Banking Settlement Centre and the Shenzhen Financial Electronic Settlement Centre.
- A one-way joint clearing facility between Hong Kong and Macao for HKD and USD cheques also operates.
- A cross-border, one-way, e-cheque clearing service of HKD, USD and RMB-denominated e-Checks between Hong Kong-Guangdong and Hong Kong-Shenzhen is in operation.
- Twelve banks currently offer the e-Cheque issuance service via their internet/mobile banking platforms. Corporate e-checks accounted for 71% of the total number of e-checks issued at the end of 2019, compared with 56% at end-2018.
- RMB-denominated cheques are cleared and settled via RMB CHATS.

## Card payments

- Card payments are popular in Hong Kong, especially for retail transactions.
- There were 19.3 million credit card accounts at the end of Q3 2020.
- Total volume and value of credit transactions for Q3 2020 was 207 million (a 1.9% increase on Q2) and HKD 147.8 billion (a 2.9% increase on Q2).

- China UnionPay, Visa and MasterCard-branded credit cards are the most widely issued.
- Debit cards in Hong Kong can carry more than one debit card brand, so the total number of debit cards in circulation is not available due to overlapping statistics from different card operators. In Q3 2020, the total number of debit card transactions totalled 36.2 million (a 2.2% increase on Q2) with a value of HKD 73.2 billion (an 6.1% decrease on Q1).

## ATM/POS

- ATM/POS transactions can be settled via a bulk settlement system for various card schemes. Participants (which include VISA, MasterCard and China UnionPay) run separate settlement times.
- There are over 30,000 EPS terminals in Hong Kong.
- JETCO operates over 3,000 ATMs across over 30 member banks.

## Electronic wallet

- The dominant electronic wallet scheme is the Octopus card, which can be used on public transport and in vending machines. There are over 33 million Octopus cards currently in circulation.
- E-money payments are settled via their individual schemes.
- There are currently 18 stored value facilities (SVF) licensees. At the end of Q3 2020, there were 64 million SVF accounts. The total number of transactions was approximately 1.3 billion, with a value of HKD 56.3 billion, a decrease of 0.8% and an increase of 1.4% respectively on the previous quarter.
- Mobile payment services such as Alipay HK, Apple Pay and O! e-pay, are popular in Hong Kong and most banks offer e-wallet payment apps to customers.
- A Hong Kong Common QR Code (HKQR) for retail payments is used by merchants and payment service providers.

## Short term investments

## Market overview

### Interest payable on credit balances

- Interest-bearing current accounts are permitted for residents and non-residents.

## **Demand deposits**

- Demand deposits denominated in HKD or major foreign currencies are available for various terms.

## **Time deposits**

- Time deposits are available in HKD or major foreign currencies for any length term. Terms between one day and one year are typically offered.
- Restricted licensed banks are limited to offering time deposits of HKD 500,000 or more while deposit-taking companies are confined to offering deposits of HKD 100,000 or more, with a maturity of at least three months.

## **Certificates of deposit**

- Domestic banks offer certificates of deposit in major currencies including the RMB. The minimum investment amount is HKD 50,000.
- Certificates of deposit can be issued paying fixed or floating interest.

## **Treasury (government) bills**

- The HKMA issues Treasury bills (Exchange Fund Bills) for terms of one week, one, three and six months and one year.
- Bills are a popular short-term investment instrument for companies because they are tax-free, low risk, can be used for investment, trading or hedging and are exempt from profit tax and stamp duty.
- The minimum investment amount is HKD 500,000.

## **Commercial paper**

- Commercial paper is not generally issued in Hong Kong.

## **Money market funds**

- Money market funds are popular short-term investment instruments.

## **Repurchase agreements**

- Repurchase agreements are available.

## **Banker's acceptances**

- Banker's acceptances denominated in USD are available in Hong Kong, although they are not commonly used for short-term investments.

## BNP Paribas Trade Finance Capabilities

### Trade payments

Documentary credits	✓
Documentary collections	✓

### Guarantees

Bank guarantees	✓
Standby letters of credit	✓

### Supply chain management

Receivables	✓
Payables	✓
Inventory	✓

### Trade channels

Connexis Trade	✓
Connexis Supply Chain	✓
SWIFTNet Trade for Corporates	✓
Connexis Connect	✓




- BNP Paribas Global Trade Solutions' (GTS) team in Hong Kong comprises 6 trade professionals. The GTS team in Hong Kong has established expertise in supporting corporates headquartered in, or doing business in Hong Kong in their export letters of credit requirements, and is complemented by excellent service delivery through the bank's ISO-certified middle and back offices.

## International trade

### General trade rules

- Hong Kong is a duty-free port.
- As a member of the Asia-Pacific Economic Cooperation (APEC) forum, Hong Kong has agreed to liberalise trade and investment rules between members.

### Trade agreements

- Hong Kong has signed eight free trade agreements: Mainland China (June 2003), New Zealand (March 2010), European Free Trade Association (EFTA) member states (June 2011), Chile (September 2012), Macao (October 2017), Association of Southeast Asia Nations (ASEAN, June 2019), Georgia (February 2019) and Australia (January 2020). Hong Kong has concluded FTA negotiations with the Maldives.
- Hong Kong has signed a Closer Economic Partnership Agreement with China.

### Imports / exports

Imports	Broadcasting equipment	Integrated circuits	Telephones	Diamonds	Office machinery
---------	------------------------	---------------------	------------	----------	------------------

Primary Import sources	China (46.0%)	Taiwan (7.0%)	Singapore (7.0%)	South Korea (5.0%)	USA (5.0%)
Exports	Gold	Broadcasting equipment	Integrated circuits	Diamonds	Telephones
Export markets	China (23%)	India (14%)	Netherlands (6.0%)	UK (5.0%)	

## Import / export volumes

		2016	2017	2018	2019	2020
Exports	- goods USD m	501,550	540,460	568,131	547,844	552,091
	- services USD m	98,533	104,096	113,149	101,179	63,790
Imports	- goods USD m	518,254	563,387	600,403	563,910	558,109
	- services USD m	74,478	77,739	81,643	78,891	51,022
Current account as % GDP		4.0	4.6	3.7	6.1	6.6

Source: IMF, International Financial Statistics, June 2021.

## Trade finance - Imports

## Documentation

- The following documentation is required in order to import goods into Hong Kong:

- customs declaration
- commercial invoice
- bill of lading.
- A company must file an import declaration with the Commissioner of Customs and Excise within 14 days of goods being imported into Hong Kong, unless the imported item is an exempted article.

## Import licences

- Licenses are required for some items to protect public health and safety, the environment or national security. Licenses are available from the Director General of Trade and Industry.

## Import taxes and tariffs

- Tariffs are generally not set on imports.
- Excise taxes are set on methyl alcohol, hydrocarbon oils, certain alcohol and tobacco.

## Financing requirements

- None

## Risk mitigation

- None

## Prohibited imports

- Prohibited imports are published on a negative list.
- Hong Kong prohibits the import of certain items in order to protect fauna and flora, for health and safety reasons, and/or for national security.

## Documentation

- The following documentation is required in order to export goods from outside Hong Kong:
  - customs declaration
  - commercial invoice
  - bill of lading.

## Export licences

- Licences are required when exporting items that impact on health and safety and the environment.

## Export taxes and tariffs

- None

## Financing requirements

- None

## Risk mitigation

- The Export Credit Insurance Cooperation (ECIC) provides state-guaranteed export credit insurance.
- Export credit insurance and financing is also available from private companies and commercial banks.

## Prohibited exports

- Prohibited exports are published on a negative list.
- Hong Kong prohibits the export of certain items in order to protect fauna and flora, for health and safety reasons, and/or for national security.

## Regulatory requirements

### Reporting regulations

- Automatic reporting requirements are not applied in Hong Kong.
- The Census and Statistics Department's (C&SD) Survey of External Claims, Liabilities and Income gathers balance of payments data between residents and non-residents on a quarterly basis.

### Exchange controls

- Hong Kong does not apply [exchange controls](#).

## Taxation

### Resident / non-resident

- A corporation (or other entity) is resident if it is incorporated in Hong Kong or managed and controlled in Hong Kong.

#### Tax authority

- Inland Revenue Department (IRD).

#### Tax year/filing

- The tax year runs from 1 April to 31 March. Taxable profits are assessed based on the company's accounting year that ended in the tax year.
- Normally the corporate 'profits tax return' is issued on the first working day in April following the tax year. Companies whose financial years end between 1 December and 31 March normally are granted an extended period within which to file their tax returns. Companies are required to file a tax return within a prescribed period, and a final tax assessment is then issued.
- Companies also must pay a provisional profits tax based on the preceding year's profits. This payment is credited against the final profits tax liability. Any excess payment is applied against the provisional profits tax payable for the following year.
- The same applies for unincorporated businesses.

- Hong Kong does not allow groups of companies to file consolidated returns and there is no group loss relief for members of a group of companies.

## Financial instruments

- The tax treatment of gains/losses depends upon the nature of the financial instrument. Gains/losses arising from capital instruments are non-taxable/non-deductible. It is a question of fact and degree whether an instrument is of a capital or revenue nature, and all the surrounding circumstances (generally with reference to the 'badges of trade'), including the accounting treatment, have to be considered.
- Gains/losses arising from financial instruments used for hedging purposes would generally follow the treatment of the underlying hedged asset/liability.

## Interest and financing costs

- From 1 April 2016, qualifying Regional Treasury Centers (RTCs) in Hong Kong benefit from a reduced tax rate from 16.5% to 8.25%. Interest expenses for intra-group financing business can become deductible under specific conditions.

### Debt instruments

- Interest received or receivable on the provision of a medium-term or short-term qualifying debt instrument, and any gain or profit on the sale/disposal/redemption on maturity/presentment of the medium-term or short-term debt instrument, are chargeable to tax at half the normal tax rate.

## Foreign exchange

- Not applicable

## Advance tax ruling availability

- Companies may apply to the Commissioner of the IRD for an advance tax ruling regarding transactions, operations or arrangements that are under serious consideration. The application can determine how the provisions of the Inland Revenue Ordinance apply to a specific scenario. Full details need to be provided before an advance ruling can be given.
- There is an advance pricing arrangement program.

## Capital gains tax



- There is no capital gains tax in Hong Kong.

## Withholding tax (subject to tax treaties)

Payments to:	Interest	Dividends	Royalties	Other income
Resident entities	None	None	None	None
Non-resident entities	None	None	4.5%/4.95%/16.5%	See withholding tax notes

- There is no [withholding tax](#) on interest and dividends paid to resident or non-resident companies.
- There is no requirement to withhold tax on royalties paid to Hong Kong companies. Royalties received by or accrued to non-residents are subject to profits tax at a deemed profit rate of 30%. Applying the corporate tax rate of 16.5%, the amount of tax withheld by the Hong Kong company is normally 4.95% of royalties paid (4.5% for a non-corporate entity). The Hong Kong company paying royalties to the non-resident company is required to withhold a sufficient amount from the payment to meet the tax liability of the non-resident.
- The deemed profit rate on royalties paid by a Hong Kong company to an associated non-resident company is 100% where the intellectual property was once owned by any person carrying out business in Hong Kong. In this case, the withholding rate is 16.5% of royalties paid (15% for a non-corporate entity).

## Tax treaties / tax information exchange agreements (TIEAs)

- Hong Kong has entered in to 43 tax treaties with different jurisdictions. It has eight TIEAs.

## Thin capitalisation

- There are no thin capitalisation rules in Hong Kong. However, there are special rules relating to the deduction of interest expenses:
  - Interest paid to non-financial institutions is deductible only when the interest is subject to Hong Kong profits tax in the hands of the recipients.
  - To fulfil the 'secured-loan test', the borrowing must not be secured by a non-taxable income-generating loan or deposit that is made by associates.

- The 'interest flow-back test' requires that the interest paid on the borrowing will not flow back to an associate of the borrower.
- If any of these conditions applies, the interest paid is not deductible. An exception to the interest flow-back test is when the recipient of the interest is subject to Hong Kong profits tax.
- Interest paid on debentures or other financial instruments marketed in Hong Kong or in other major financial centres is also subject to the interest flow-back test. If the associate that receives the interest is a registered securities dealer, it can be excluded from the interest flow-back test in order to allow genuine commercial external financing arrangements to proceed.
- The above interest deduction rules do not apply to financial institutions. Interest expenses incurred by financial institutions are generally deductible.

## Transfer pricing

- Formal codified transfer pricing rules became effective on July 13, 2018. The rules generally follow the OECD guidelines and require transactions with related parties to be on arm's length terms. The rules allow the IRD to adjust the profits or losses of an enterprise where the actual compensation made or imposed between two related persons differs from what would have been agreed between independent persons, and the difference results in a tax advantage. The transfer pricing rules apply to related party transactions involving the sale, transfer and use of assets and the provision of services. Domestic transactions that do not give rise to a Hong Kong tax difference may be exempt from the transfer pricing rules.
- Hong Kong has adopted the OECD's recommended three-tiered documentation structure, comprising a master file, local files and country-by-country (CbC) reporting for constituent entities of certain multinational entity groups.
- The advance pricing agreement (APA) regime has been codified, and the legislation provides for unilateral, bilateral and multilateral APAs.

## Stamp duty

- Stamp duty is charged on documents connected with the lease, sale or transfer of immovable property in Hong Kong and the sale of shares. If they are transferred at less than market value, stamp duty may be imposed based on the market value at the date of transfer.
- Stamp duty on the transfer of Hong Kong shares is 0.2% of the value of the shares transferred, which is shared equally between the buyer and seller. An exemption may be available for an intragroup transaction if certain conditions are satisfied.
- The rate on the lease of immovable property ranges from 0.25% of the total rent payable for a short-term lease (one year or less); 0.5% of the annual or average annual rent for a one to three-year lease; and 1% of the annual or average annual rent for a lease exceeding three years.
- The maximum ad valorem stamp duty (AVD) on the sale and conveyance of non-residential property is 4.25% of the value of property transferred. The AVD on residential property is a flat rate of 15%, with exceptions under certain circumstances.

- A special stamp duty (SSD) ranging from 5% to 20% is levied if the residential property is sold within 36 months. In addition to AVD and SSD, a buyer's stamp duty at a flat rate of 15% applies to residential property if it is acquired by any person (including a limited company), except a Hong Kong permanent resident.

## Cash pooling

- Hong Kong has no specific tax rules that apply to [cash pooling](#) arrangements.

## Financial transactions / Banking services tax

*All tax information supplied by Deloitte Touche Tohmatsu and Deloitte Highlight 2021 ([www.deloitte.com](http://www.deloitte.com)).*



**BNP PARIBAS**

The bank  
for a changing  
world