



**PKF**

Setting up  
a business in  
Hong Kong  
2018

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## Why Setting Up a Business in Hong Kong ?

Hong Kong is located at the center of Asia and is the second largest Financial Centre in Asia. It is an open and international business platform, which allows companies from all over the world to do business in Hong Kong.

The Hong Kong Stock Exchange is the prime fundraising venue in Asia and is the key link to global capital markets for many enterprises (especially Mainland China companies).

Below are some of the major advantages for setting up a company in Hong Kong:

1. Excellent Banking and Legal System
2. Free Circulation of Capital without Restrictions
3. Anonymity Directorship and Ownership
4. Low Tax Rates
5. Access to Global Capital Markets

According to the "World Investment Report 2017" released by the United Nations Conference on Trade and Development, Hong Kong was the world's fourth and Asia's second (after the Mainland China) largest Foreign direct investment ( "FDI" ) recipient, attracting US\$108 billion inward investment in 2016. In terms of FDI outflow, Hong Kong ranked third with US\$62 billion in Asia, after the Mainland China and Japan. \*\*

Hong Kong is also a key capital-raising center for Chinese enterprises. As of December 2017, 1,051 mainland companies were listed in Hong Kong, comprising of H-share, red-chip and private companies, with total market capitalization of around US\$2.9 trillion, or 66% of the market total. \*\*

\*\* Extracted from HK TDC

## 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 tax considerations, strategic plans, financial performance, obligations and liabilities.

Generally speaking, a Hong Kong incorporated private limited company ( "HKCo" ) may have certain advantages over the other forms of businesses. Since it is a separate legal entity, its shareholders enjoy limited liability. Another advantage of operating through a Hong Kong incorporated company is that the reorganization of group activities and tax planning are often easier.

## How to Set Up a Hong Kong Company ?

We can help you get started in setting up a HKCo. We also provide "shelf companies" to facilitate immediate business operation in Hong Kong.

A privately-held HKCo has the following characteristics:

Capital Requirements:

× No minimum capital amount is required.

Shareholders:

- × Minimum of 1 shareholder is required;
- × Corporate shareholder is allowed; and
- × Anonymous shareholder is permitted.

Directors:

- × Minimum of one director who is a natural person;
- × Corporate director is allowed.;
- × Anonymous director is permitted;
- × No requirement on the residency of the directors; and



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※ No restriction on the place of holding the Board meetings.

#### Local Requirements:

- ※ Registered office address in HK must be maintained; and
- ※ Local resident statutory secretary must be appointed.

#### Statutory Reporting:

- ※ Annual return, which provides updated information on the directors and shareholders, to be filed to the Companies Registry;
- ※ Preparation of a full set of annual audited financial accounts;
- ※ Annual tax returns to be filed to the Hong Kong Inland Revenue Department ( "IRD" ); and
- ※ Participate in the Mandatory Provident Fund Scheme by enrolling its staff and contributing 5% of the staffs' salary (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.
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 profit 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 the taxes for its employees (unless the staff 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. Source of trading profits is determined by the place where the contract for purchase and sale are initially negotiated, concluded and subsequently executed.
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.

\*Information included in this leaflet is for general reference only. They are not intended to be used, and cannot be used, for avoiding tax and penalty that may be imposed by any tax authorities. Before conducting business and tax plan, professional advice is always recommended. PKF Hong Kong is a member firm of the PKF International Limited network of legally independent firms and does not accept any responsibility or liability for the actions or inactions on the part of any other individual member firm or firms.



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