Tax Arrangement between the Mainland and Hong Kong Modified

Chinese version According to the second protocol on the tax arrangement between the mainland and Hong Kong released recently by the State Administration of Taxation (SAT), for the incomes generated by the residents of one party from the shares or other rights of the capitals of the companies held by the residents of the other party, if the profit gainers ever participate directly or indirectly in 25% of the capitals of the companies within 12 months prior to their transfers, the tax may be levied on the other party.

In addition, according to the protocol, if enterprises of one party provide labor services directly or via their employees or by employing other personnel for the same projects or related projects in the other party, including consulting labor service, the time limit is modified as 183 days rather than the previous 6 months continuously or accumulatively within 12 months.

The protocol also defined that within 3 year prior to the transfer of shares of a company by shareholders, the real property of the company must at least account for 50%.

(Source: State Administration of Taxation)

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