

16 July 2019

Global Tax Alert

Hong Kong and Cambodia sign income tax treaty

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Hong Kong signed, on 26 June 2019, a comprehensive income tax treaty with Cambodia (the Treaty).

The key provisions of the Treaty are highlighted below.

Promoting trade and investment

The Treaty contains provisions which reduce or eliminate withholding taxes on certain passive income between the two jurisdictions.

The following table summarizes the applicable withholding rates for passive income when received from Cambodia by a Hong Kong resident as beneficial owner.¹

Passive income	Dividends	Interest	Royalties	Fees for technical services	Capital gains on disposal of shares
Tax Rate					
Normal withholding rate for companies	14%	14%	14%	14%	20%
Reduced rate under the Treaty	10%	0/10% ²	10%	10%	0% ³

Avoidance of double taxation

Where the income of a Hong Kong resident is subject to tax in both Hong Kong and Cambodia, the Hong Kong resident can credit the tax paid in Cambodia against the Hong Kong tax liability arising on the same income. The available tax credit is, however, limited to the Hong Kong tax imposed on the same income.

Effective date of the Treaty

The Treaty will enter into force in the tax year following the calendar year in which the ratification procedures are completed by both jurisdictions. Assuming the ratification procedures are completed in 2019, the Treaty will become effective as follows:

- ▶ Hong Kong: for any year of assessment beginning on or after April 2020
- ▶ Cambodia: for any income year beginning on or after 1 January 2020

Endnotes

1. Hong Kong withholding rate is 0% on dividends, interest, fees for technical services and capital gains; 4.95% on royalties.
2. A 0% rate applies if the beneficial owner of the interest is the Hong Kong SAR Government, the Hong Kong Monetary Authority, the Exchange Fund, or a financial establishment appointed by the Hong Kong SAR Government and mutually agreed upon by the competent authorities of the contracting parties. For all other cases, a 10% rate applies.
3. Capital gains on the disposal of shares in a Cambodian company derived by a Hong Kong resident investor will generally be exempt from tax in Cambodia. The only exception to this is when the shares being disposed of are in respect of a company holding substantial immovable property located in Cambodia.

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EYG no. 003373-19Gbl

1508-1600216 NY
ED None

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