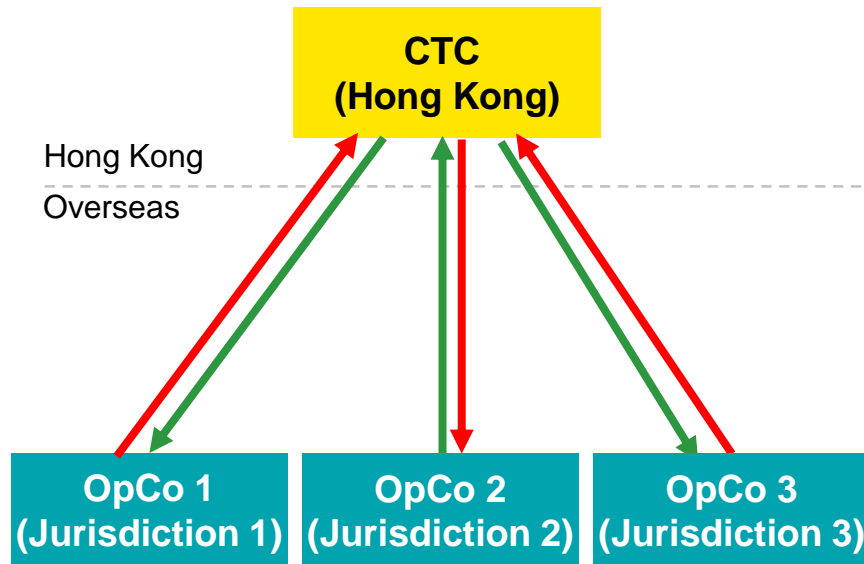


Tax benefits of setting up a corporate treasury centre (CTC) in Hong Kong

26 April 2017

Tax benefits of setting up a CTC in Hong Kong

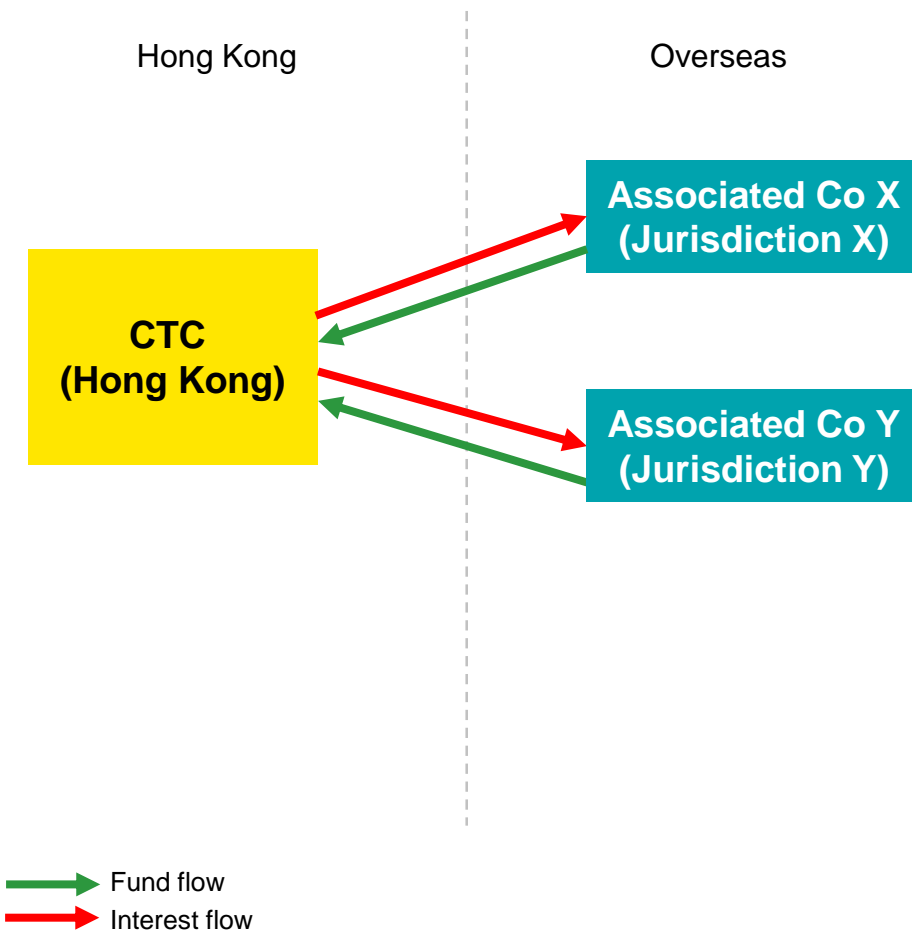


Hong Kong

- ▶ No GST/VAT
- ▶ No thin capitalization rule
- ▶ No interest withholding tax
- ▶ Withholding tax paid overseas is creditable (if tax treaty is available)
- ▶ Interest paid to overseas associated corporations is tax deductible
- ▶ Qualifying profits are taxed at 8.25%

→ Fund/corporate treasury services flow
→ Interest/service fee flow

Interest deduction in respect of intra-group financing businesses

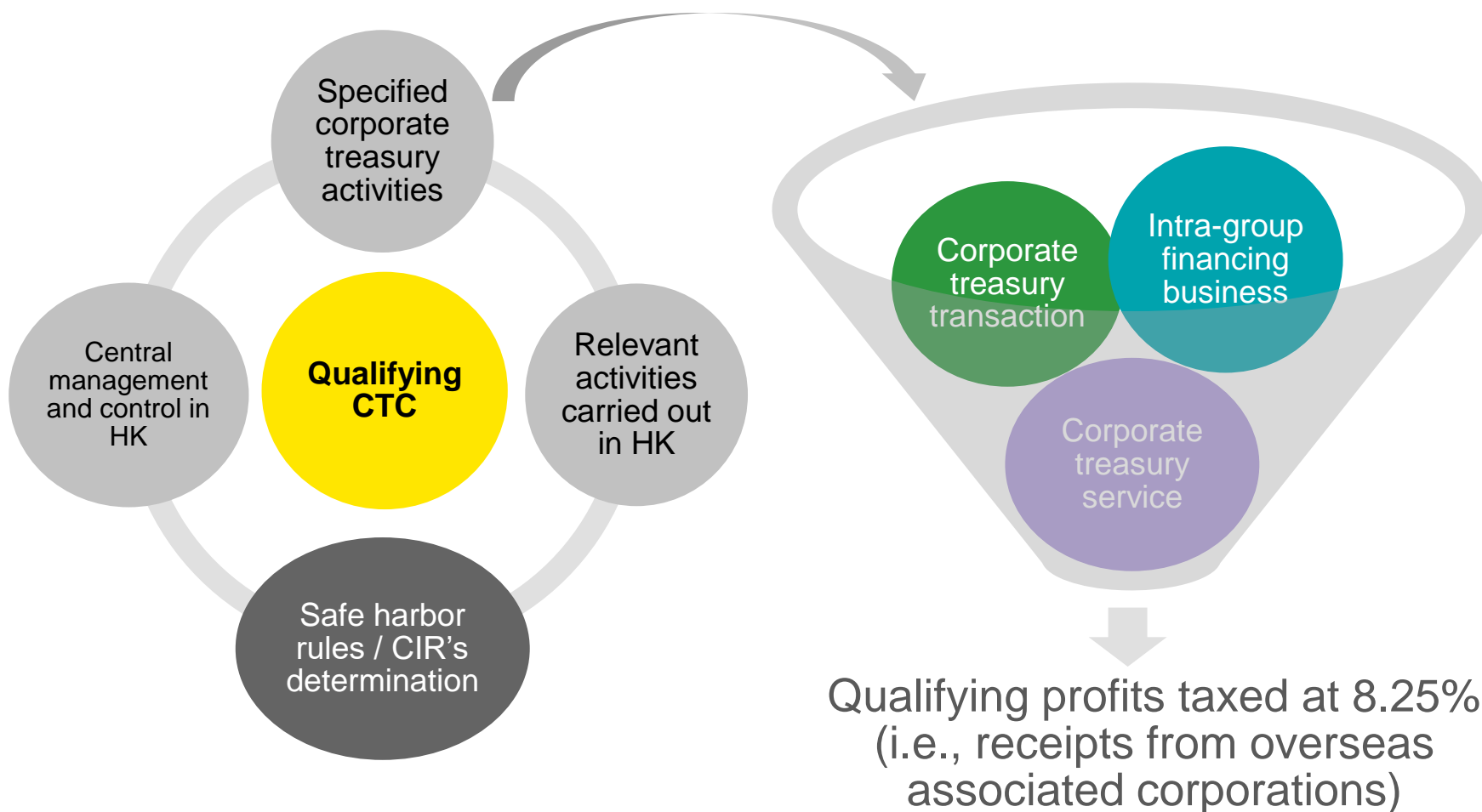


Deduction conditions

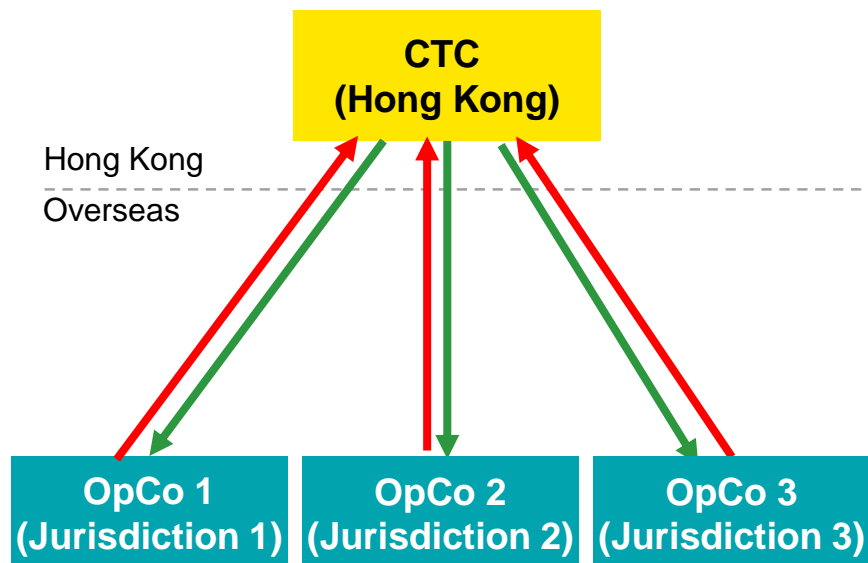
- ▶ Interest is incurred in the production of assessable profits
- ▶ Interest received by the overseas associated corporation is subject to tax at a rate not lower than the tax rate applicable to the CTC
- ▶ Overseas associated corporation is the beneficial owner of the interest received
- ▶ Other anti-avoidance provisions

Concessionary tax rate for qualifying CTC

Qualifying CTC and profits:



Tax benefits of setting up a CTC in Hong Kong



→ Fund/corporate treasury services flow
→ Interest/service fee flow

Overseas

- ▶ Interest/service fee paid by OpCos is tax deductible
- ▶ Reduction in withholding tax (if tax treaty is available)
- ▶ Certain short-term activities is exempt from tax (if tax treaty is available)

Hong Kong's CDTAs with Belt and Road jurisdictions

Central and Eastern Europe

Albania, Armenia, Azerbaijan, **Belarus**, Bosnia & Herzegovina, Bulgaria, Croatia, **Czech Republic**, Estonia, Georgia, **Hungary**, **Latvia**, Lithuania, **Macedonia**, Moldova, Montenegro, Poland, **Romania**, Serbia, Slovakia, Slovenia, Ukraine

Central Asia

Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan

West Asia and North Africa

Bahrain, Egypt, Iran, Iraq, **Israel**, Jordan, **Kuwait**, Lebanon, Oman, Palestine, **Qatar**, **Saudi Arabia**, Syrian Arab Republic, **Turkey**, **UAE**, Yemen

South Asia

Afghanistan, **Bangladesh**, Bhutan, **India**, Maldives, Nepal, **Pakistan**, Sri Lanka

Northeast Asia

Mainland China, **Russian Federation**, **Mongolia**

Southeast Asia

Brunei, Cambodia, **Indonesia**, Laos, **Malaysia**, Myanmar, Philippines, Singapore, **Thailand**, Timor-Leste, **Vietnam**

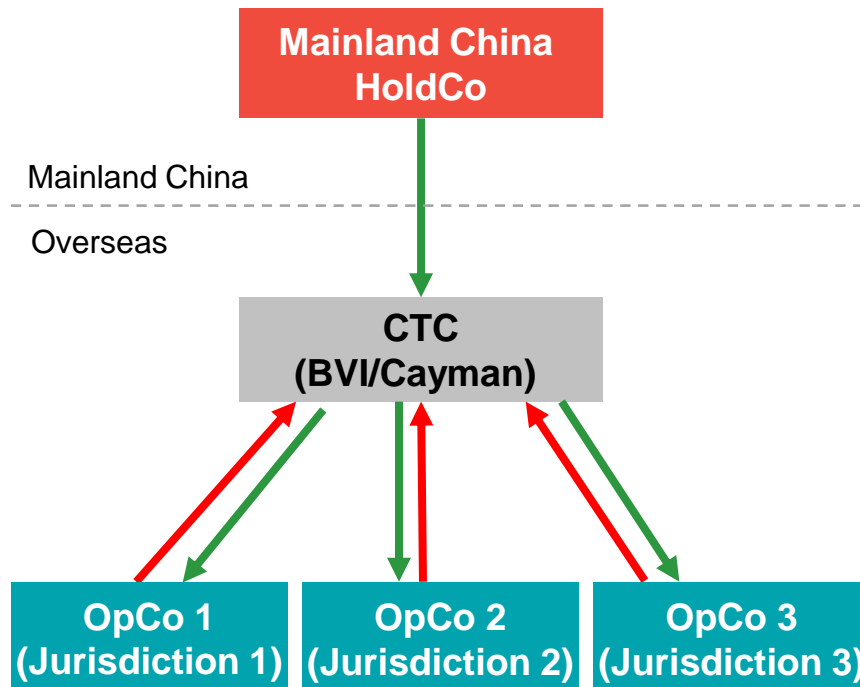


Jurisdictions highlighted in red: CDTAs concluded (Totalled 16)

Jurisdictions highlighted in blue – CDTAs under negotiation (Totalled 7)

Information as of 3 April 2017

Tax issues of funding overseas operating companies through a tax haven company



Tax issues

- ▶ Interest-free loans – no interest deduction for OpCo
- ▶ Interest-bearing loans – no reduction of withholding tax in respect of interest paid to CTC BVI/Cayman
- ▶ CFC rules in mainland China

Hong Kong vs Singapore

	Hong Kong	Singapore (Finance and Treasury Centre incentive)
Concessionary tax rate	8.25%	8%
Entity-based / activity-based	Entity-based (subject to safe-harbour rules and CIR's determination)	Activity-based
GST rate	Nil	7%
Tax treaty network	37 <i>(source: Inland Revenue Department as at 18 April 2017)</i>	85 <i>(source: Inland Revenue Authority of Singapore as at 18 April 2017)</i>
Application for profits tax concession	Election in writing; irrevocable for so long as the corporation remains as a qualifying CTC	Application lodged with the Economic Development Board of Singapore (EDB) for an incentive period up to 5 years. However, incentive period may be extended, subject to the FTC company's commitment to undertake further expansion plans on its FTC activities/services (with a sunset clause on 31 March 2021)
Reporting obligations	Normal profits tax filing obligations	<ul style="list-style-type: none"> ▶ Normal corporate tax filing obligations ▶ Regular progress reports and financial statements are required to be submitted to the EDB for the evaluation of performance.
Changes to the scope of activities	No approval is required	Need to seek approval from the EDB
Requirements on business spending and recruitment of staff	Yes	No
Other preferential tax treatment	N/A (no WHT in Hong Kong)	Exemption on WHT (including prescribed payments and interest)

What EY can help


Phase I Fact finding and analysis

- ▶ Identify the current and / or potential corporate treasury activities;
- ▶ Review the eligibility to establish a CTC;
- ▶ Advise on the proposed / possible operating structure of the CTC;
- ▶ Formulate the business case of setting up a CTC;
- ▶ Perform a gap analysis between existing state and target operating structure.

Phase II Detailed design and analysis

- ▶ Articulate the scope of business of the CTC;
- ▶ Detailed design of the step plan of setting up the CTC;
- ▶ Design the transfer pricing model and perform benchmarking study;
- ▶ Assist in applying advance rulings from the Inland Revenue Department if applicable; and
- ▶ Prepare an operation manual.

Phase III Implementation support

- ▶ Assist on legal entity set up;
 - ▶ Assist on the transfer of assets, personnel and / or business to the CTC;
 - ▶ Review the relevant agreements; and
 - ▶ Review and comment on treasury related policies.
- 

Contact details



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Appendix I

Intra-group financing business

- ▶ **“Intra-group financing business”** means the business of the borrowing of money from and lending of money to its associated corporations.

Appendix II

Corporate treasury services

“**Corporate treasury services**” mean the following services provided to an associated corporation:

- 1 Managing the cash and liquidity position**, including cash forecasting or pooling, of the associated corporation **and providing related advice**
- 2 Processing payments** to the vendors or suppliers of the associated corporation
- 3 Managing the associated corporation’s relationships with financial institutions**
- 4 Providing corporate finance advisory service**, including (i) activities supporting the raising of capital, such as by way of debt or equity, by the associated corporation; and (ii) capital budgeting for the associated corporation

Appendix II

Corporate treasury services

“**Corporate treasury services**” mean the following services provided to an associated corporation (cont’d):

- 5 Advising on the management of the investment of the funds of the associated corporation
- 6 Managing investor relations regarding the investors in the debt or equity instruments issued by the associated corporation
- 7 **Providing service in relation to (i) the provision of guarantees**, performance bonds, standby letters of credit or other credit risk instruments to or on behalf of the associated corporation or (ii) remittances to or on behalf of the associated corporation
- 8 **Providing advice or service in relation to the management** of interest rate risk, foreign exchange risk, liquidity risk, credit risk, commodity risk or any other **financial risk** of the associated corporation

Appendix II

Corporate treasury services

“**Corporate treasury services**” mean the following services provided to an associated corporation (cont’d):

9 Providing assistance in the merger or acquisition of a business by the associated corporation

10 Providing advice or service in relation to the associated corporation’s compliance with— (i) accounting standards; (ii) internal treasury policies; or (iii) regulatory requirements in relation to treasury management

11 Providing advice or service in relation to the operations of the treasury management system of the associated corporation

12 Providing business planning and co-ordination, including economic or investment research and analysis, for the associated corporation in connection with any of the activities specified in paragraphs (1) to (11)

Appendix III

Corporate treasury transactions

“**Corporate treasury transactions**” mean the following transactions entered into on a CTC’s own account and related to the business of an associated corporation:

- 1 A transaction in relation to the **provision of guarantees**, performance bonds, standby letters of credit or other credit risk instruments **in respect of the borrowing of money** by the associated corporation
- 2 A transaction **investing the funds of the corporation or the associated corporation** in any of the following **financial instruments for managing the cash and liquidity position** of the corporation or the associated corporation— (i) deposits; (ii) certificates of deposit; (iii) bonds; (iv) notes; (v) debentures; (vi) money-market funds; (vii) other financial instruments (except securities issued by a private company as defined by section 20ACA(2))
- 3 A transaction in respect of any of the following **contracts that are entered into for the purpose of hedging** interest rate risk, foreign exchange risk, liquidity risk, credit risk, commodity risk or any other **financial risk** of the associated corporation— (i) contracts for difference; (ii) foreign exchange contracts; (iii) forward or futures contracts; (iv) swap contracts; (v) options contracts
- 4 A factoring or forfaiting transaction

Questions and answers



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