



Independent legal & accounting firms

Doing Business in Hong Kong

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MSI's guide on Doing Business in Hong Kong provides current information about the financial, regulatory and legal considerations that could affect business dealings within Hong Kong. For further assistance please contact our MSI member firm in Hong Kong.

Country overview

Population

Hong Kong has a total population of approximately 7.50 million inhabitants (August 2023).

Government

The Government of the Hong Kong Special Administrative Region, commonly known as HKSAR, is the executive authorities of Hong Kong. It was formed on 1 July 1997 in accordance with the Sino-British Joint Declaration of 1983, and Hong Kong became a Special Administrative Region of the People's Republic of China. The Basic Law is the constitutional document of HKSAR. It enshrines within a legal document the important concepts of "one country, two systems", "Hong Kong people administering Hong Kong" and a high degree of autonomy. According to the Basic Law, the HKSAR enjoys executive, legislative and independent judicial power, including that of final adjudication, and its political system and way of life remains unchanged for 50 years.

Languages

Chinese and English are the official languages of Hong Kong. English is widely used in the Government and by the legal, professional and business sectors.

Currency

The currency is Hong Kong dollar, and it is officially pegged to the U.S. dollar at a rate of HK\$7.8 = US\$1.

Economic summary

GDP: US\$363.4 billion

Income per capita: US\$49,464

Inflation: 1.9%

Main sectors of the economy

Hong Kong's economy is characterised by free trade, low taxation and minimum government intervention. It is the world's 10th largest trading economy, with the mainland of China as its most significant trading partner. Hong Kong is also a major service economy, with particularly strong links to mainland China and the rest of the Asia-Pacific region.

The traditional four key industries in Hong Kong, including financial services, tourism, trading and logistics, and professional and producer services, have been the driving force of Hong Kong's economic growth, providing impetus to growth of other sectors and creating employment.

Hong Kong is a leading international financial centre. It is also a global offshore Renminbi (RMB) business hub, an international asset management centre and a risk management centre.

The Hong Kong Stock Exchange is a stock exchange based in Hong Kong and is one of the world's largest securities markets by market capitalisation. The exchange is home to different securities that investors can choose from, including equities, debt securities, derivatives, exchange-traded products, real estate investment trusts (REITs), and warrants.

Greater Bay Area

The Guangdong-Hong Kong-Macao Greater Bay Area (Greater Bay Area) comprises the two Special Administrative Regions of Hong Kong and Macao, and the nine municipalities of Guangzhou,

Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province. By leveraging each city's unique strengths, the Greater Bay Area initiative aims to develop the region into a world-class innovation and technology hub and a fast-moving city cluster for emerging industries offering regional competitive advantages on living, working and travelling. The initiative consolidates and enhances Hong Kong's status as a global financial centre, transportation centre, and trade centre while simultaneously building its capabilities in technology and innovation.

Setting up a business

In Hong Kong, individuals and foreign entities are welcome to set up various legal types of businesses, including private limited companies, sole proprietorships, partnerships, and branches of foreign companies. Private limited companies, also known as limited liability companies, are the most common and preferred choice for businesses due to their separate legal entity status and limited liability protection.

There is no minimum share capital requirement, with the flexibility to determine the amount based on the company's needs. A private limited company must have at least one director, who can be an individual or a corporate entity, and there is no restriction on the director's nationality or residency. Shareholders can also be individuals or corporate entities, and a minimum of one shareholder is required, with no restrictions on their residency or nationality. Additionally,

every company in Hong Kong must appoint a company secretary, who can be an individual or a corporate entity, to ensure compliance with statutory requirements and maintain necessary corporate records. The company secretary must be a resident of Hong Kong or have its registered office in Hong Kong. Speaking of registered office, every company in Hong Kong must have a registered office address within the territory, which will be the official correspondence address for legal and government matters.

Financial year of taxes and financial accounts

For a Hong Kong company, it is free to choose any date as its financial year end. The financial year is normally a period of any 12 consecutive months that a company uses for accounting purposes and preparing financial statements. The financial year of Hong Kong government begins on 1 April of a year and ends on 31 March of the following year.

Accounting and auditing

A yearly statutory audit of financial statements is required for all companies in Hong Kong except for “dormant” companies. This includes companies that are eligible for certain reporting exemptions and simplified reporting procedures.

Economic and fiscal incentives

Companies in Hong Kong can benefit from a myriad of government support and funding schemes. They include funding programs to boost business competitiveness, support research and innovation, cultivate talent, and nurture startups. Some of the government funding schemes and incentive policies currently available include:

1. Dedicated Fund on Branding, Upgrading and Domestic Sales (to help Hong Kong-based companies seize opportunities in the Chinese mainland)
2. SME Export Marketing Fund (to assist small and medium enterprises (“SME”) based in Hong Kong to expand to overseas markets)
3. Innovation and Technology Fund (to provides funding for companies for a

wide range of activities related to technology and R&D)

4. SME Financing Guarantee Scheme (to help SMEs and non-listed companies receive financing from approved participating lenders to meet business needs.)

Taxation

HKSAR does not impose income tax based on an individual's total income. Instead, the three main types of income derived by individuals are taxed under different income taxes. That is, business or trading profits are taxed under profits tax, income from employment, office, or pension is taxed under salaries tax, and rental income from immovable property is taxed under property tax.

Hong Kong follows a territorial principle of taxation. Individuals or corporations are taxed only on income that has been “earned in Hong Kong”. There is no value-added, sales taxes, net wealth taxes, estate duty or a gift tax imposed in Hong Kong.

Salaries tax

All individuals, whether a resident or non-resident of HKSAR, are subject to Hong Kong salaries tax on (i) Hong Kong-sourced employment income, (ii) income from an office held in HKSAR, and (iii) income from a Hong Kong pension.

A person has Hong Kong-sourced employment income if the employment is a Hong Kong employment or in case the employment is a non-Hong Kong employment, the employment services are rendered by the person in HKSAR.

The source of income from an office (e.g. directors' fees) is determined by the location at which the company paying the fees is centrally managed and controlled.

Pensions are, in practice, subject to Hong Kong salaries tax if the funds out of which the payment is made are managed and controlled in HKSAR, and the pensions (other than a government pension) are related to services rendered in HKSAR.

Salaries tax payable is calculated at progressive rates (ranging from 2% to 17%) on net chargeable income or at standard rate (15%) on net income, whichever is lower

Corporate income tax

Profits tax is payable by every person (defined to include corporation, partnership, and sole proprietorship) carrying on a trade, profession, or business in HKSAR on profits arising in or derived from HKSAR from that trade, profession, or business. In general, the tax residence of a person is irrelevant, and there is no distinction between residents and non-residents when it comes to liability to profits tax. Non-residents carrying on a trade, profession, or business in HKSAR are chargeable to tax on profits arising in or derived from HKSAR unless they are from jurisdictions with which HKSAR has a tax treaty and are protected by the treaty.

Gains and receipts that are capital in nature are generally not subject to tax. Dividends from local companies chargeable to tax are exempt, whereas dividends from overseas companies are generally offshore in nature and not subject to tax in HKSAR.

Certain income that would not otherwise be subject to Hong Kong profits tax is deemed to arise in or be derived from HKSAR from a trade, profession, or business carried on in HKSAR and thus becomes taxable in HKSAR. This includes royalties received by a non-resident for the use of or right to use a patent, design, trademark, copyright material, layout-design of an integrated circuit, performer's right, plant variety right, secret process or formula, or other property of a similar nature in HKSAR, or for the use of or right to use such intellectual property (IP) outside HKSAR, but the royalties paid can be claimed as a deduction by a person for Hong Kong profits tax purposes.

There is a two-tiered profits tax rates regime in HKSAR, the first HK\$2 million of a company's profits are taxed at a lower profits tax rate of 8.25%, while profits above HK\$2 million are taxed at the standard profits tax rate of 16.5%.

Property tax

Property tax is charged to the owner of any land or buildings (except government and consular properties) in HKSAR at the standard rate of 15% on the net assessable value of such land or buildings.

Withholding taxes

There is no withholding tax on dividends and interest. Royalties received by non-residents are subject to withholding tax.

HR/ Labour Law

Employment law

The Employment Ordinance in Hong Kong is the legislation that sets out conditions in regard to employment in Hong Kong, and it is important that employers comply with the conditions specified in the ordinance.

Employees in Hong Kong companies are entitled to the leave including annual leave, sick leave, maternity leave, maternity leave, statutory holidays and rest days.

There is no standard requirement regarding regular work hours or overtime work hours in Hong Kong. However, working hours can be agreed upon between the employer and employee.

Long service payment

An employee who has been employed for at least five years is eligible for long service payment if the employee:

1. Is dismissed
2. Terminates the contract and is under the age of 65 and has been employed for not less than five years.

The maximum amount of long service payment is \$390,000.

Pension

Mandatory Provident Fund ("MPF") is a compulsory saving scheme (pension fund) for the retirement of residents in Hong Kong. Most employees and their employers are required to contribute monthly to mandatory provident fund schemes provided by approved private organisations, according to their salaries and the period of employment.

An employer is required to enrol both full-time and part-time employees aged 18 to below 65 and employed for 60 days or more in an MPF scheme. The employer and the employee each contribute 5% of the employee's relevant income, with maximum MPF contributions of monthly \$1,500 each.

Payroll

Before the commencement of employment, the employer must inform the employee of the conditions of employment, including wages (e.g. rate of wages, overtime rate, etc), wage period, length of termination notice and any entitlement to year-end payment.

Business owners are required to keep business records, including payroll records, for at least seven years.

Employers are required to file the annual employer's return with Inland Revenue Department, the Hong Kong tax authority. In addition, an employer has to include a return for each individual employee with the annual employer's return.

Hong Kong has had a statutory minimum wage, which is currently HK\$40 per hour.

Visa and work permits

In general, unless a person has the right of abode or right to land in the HKSAR, he/she requires a visa/entry permit to work, study, establish or join in any business, take up residence or to stay in the HKSAR as a visitor longer than the allowed visa free period.

Any foreigner wishing to take up employment and the company intending to employ a foreigner may need to apply for the applicable visa with the Immigration Department. An employer must ensure that the employee is allowed to take up the employment (in other words is legally employable). The employment cannot start until the employee has a valid visa or HK identity status permitting the holder to work.

Contact us

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Hong Kong should seek professional advice from our member firms before making any business or investment decision.

Contact our member firm in Hong Kong to discuss your requirements:

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