

# Hong Kong: the Offshore Financial Centre with a Difference

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Dr Zhang examines the advantages of setting up a company in Hong Kong

Earlier last year, *TIME* magazine coined the term ‘Nylonkong’ to depict Hong Kong as one of the world’s prime international financial centres, in the same league as London and New York. Due to its fully developed and highly sophisticated financial market, Hong Kong is home to the largest number of multinational firms in Asia: over 5,000 of such firms maintain regional offices or headquarters on the island and half of the Fortune 500 companies have a presence here.

The rise of Mainland China as a world economic power has also led an increasing number of Mainland companies with regional and global growth ambitions to choose Hong Kong in which to form companies. As a result, Hong Kong has become the most important gateway in Asia for capital flow both into and from China.

In this article, I will highlight some key factors that have given rise to Hong Kong’s competitive edge and then explain some of the major advantages of setting up businesses in Hong Kong, illustrating with examples of the types of business established.

## Hong Kong as a Free Economy: Simple and Low Taxes

In Hong Kong, the freedom to be enjoyed by anyone contemplating doing business here is perhaps second to none: for the past 17 years, the US Heritage Foundation has consistently rated Hong Kong as the world’s freest economy and the best place to do business! There is, for instance, no capital and exchange control and no restriction on foreign ownership of local property. Goods imported into Hong Kong suffer no customs tariffs.

Hong Kong’s simple and low-tax regime highlights the economic freedoms enjoyed by its business community. Currently, there is a complete absence of many types of taxes often found in other free market economies, such as those on goods and consumptions, capital gains, inheritance, dividends and interest earned.

The two major taxes levied in Hong Kong are personal income tax and business profits tax, and both are significantly lower than those in other developed economies. For financial year 2008–2009, the profits tax for companies will be reduced from 17.5% to 16.5% and for unincorporated businesses from 16% to 15%; while personal income tax will be capped at 15%, one percentage point down from the previous year.

## Hong Kong’s Unique Tax System

Hong Kong’s tax system is based on the territorial principle which applies to all companies doing business in Hong Kong, resident or otherwise. Consequently, a company which is incorporated in Hong Kong but derives its profits from outside Hong Kong is not required to pay any tax on those profits. The factor that generally determines the locality of the profits is the place where the contracts for transactions are negotiated and effected.

Largely due to this non-discriminatory nature of its territorial tax system, Hong Kong is not regarded by international communities such as the OECD as a ‘harmful’ offshore tax haven that poses unfair competition to other economies. This has helped Hong Kong to avoid the bad reputation that has often come to be attached to some offshore finance centres (OFCs).

## Advantages of Setting Up Companies in Hong Kong

Setting up in Hong Kong benefits from both the robust protection afforded by business-friendly policies, and high levels of professional support services. In addition, the setting-up process is both fast and straightforward thanks to competent and efficient government agencies such as the Companies Registry. Ready-made companies are available in case of great urgency. Anybody can incorporate in Hong Kong and there is no requirement for a Hong Kong company to appoint a Hong Kong resident director although a Hong Kong resident company secretary is mandatory. The minimum number of shareholders is one.

For most businesses, incorporation under the Companies’ Ordinance is all that is required to enable them to commence trading. Certain categories of business, such as banking, insurance and fund management, will require separate regulatory approval.

Private limited companies are the most common vehicles to structure business. Major advantages to incorporate in Hong Kong include the following:

→Tax saving: Both the territorial principle and the low tax rates afford businesses unique opportunities to structure their operations in such a way that only Hong Kong-sourced income is taxable.

For example, companies set up in Hong Kong to receive consultancy fees and commissions derived from trading activities that take place outside Hong Kong can save significantly by not having to pay taxes on those incomes. Similarly, investment-holding companies established in Hong Kong pay no taxes on dividends received and capital gains realised on the sale of shares in the subsidiary.

→Ease of operation: Companies incorporated in Hong Kong but which do not transact locally are greatly facilitated by the vast pool of professional service providers such as Louvre Fiduciary (Hong Kong) Limited in their operations. For example, business owners can remain hands off in running their business by relying on nominee director services provided by companies like Louvre. Louvre is also able to handle all the compliance issues by acting as Company Secretary.

→High level of confidentiality: The identities of both shareholders and directors are public record in Hong Kong. However, by using nominee services, Hong Kong companies also benefit from their ability to maintain a high level of client confidentiality as only the names of the nominee shareholder and nominee director will appear in the public record. In the case of nominee shareholder, the interest of the beneficial owner is protected by a simple execution of a declaration of trust between the nominee shareholder and the beneficial owner.

## Conclusion

There is little doubt that Hong Kong is one of the few OFCs highly regarded by the international finance community. With a vibrant business community and growing economic link between Mainland and Hong Kong, the benefits and advantages, for Western and Mainland Chinese entrepreneurs alike, of setting up companies in Hong Kong, are becoming increasingly appreciated.



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