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AN INTRODUCTION TO Doing Business in Hong Kong 2023





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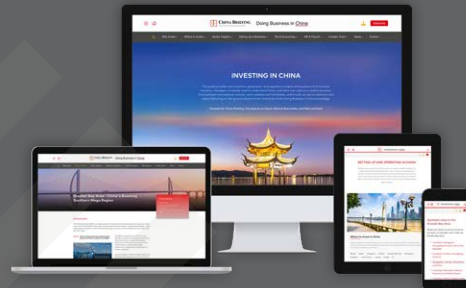
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This Investing Doing Business in Hong Kong guide was produced by a team of professionals at Dezan Shira & Associates, with Zhou Qian as technical editor, and Gigi Wong, Katrina Huang, and Sandy Zhang, and Jennifer Lu as contributors. Creative design of the guide was provided by Aparajita Zadoo.

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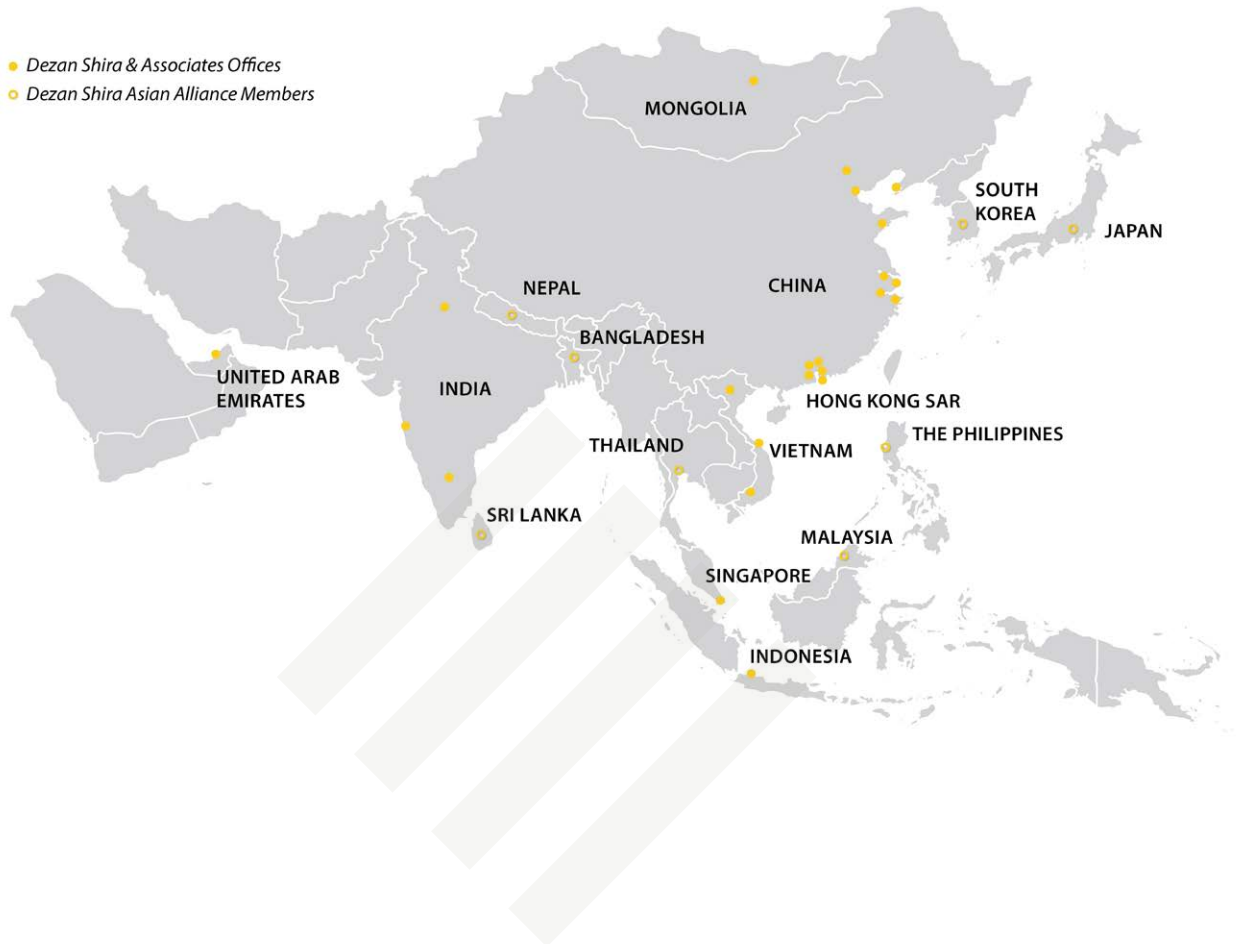
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About Dezan Shira & Associates

Dezan Shira & Associates is a pan-Asia, multi-disciplinary professional services firm, providing legal, tax and operational advisory to international corporate investors. Operational throughout China, India, and ASEAN, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining, and growing their business operations in the region. With more than two decades of on-the-ground experience and a large team of lawyers, tax experts, and auditors, in addition to researchers and business analysts, we are your partner for growth in Asia.

Preface

The People's Republic of China regained sovereignty over Hong Kong from Britain in 1997, from which point it has been a Special Administrative Region (SAR) of the country. However, the way in which the city is governed is still fundamentally different from the Chinese Mainland – a fact that is reflected in its slogan of “One Country, Two Systems”. Hong Kong is largely autonomous from China, and foreign companies will quickly discover that the rules of doing business in the Mainland simply do not apply in Hong Kong, and vice versa.

For this reason, Hong Kong has long served as a dominant “gateway” to the Chinese Mainland. Its geographical proximity to the Chinese mainland, low taxes, business-friendly environment, free flow of capital, rule of law, independent judiciary, and robust intellectual property protection have made it an ideal place for foreign investment. Despite the hardships of the pandemic, Hong Kong remains strong as ever and will continue to function as a free global financial hub, strengthened by the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA).

This publication, designed to introduce the fundamentals of doing business in Hong Kong, was created in April 2023 using the most up-to-date information at the time. It was compiled by Dezan Shira & Associates, a specialist foreign direct investment practice that provides corporate establishment, business advisory, tax advisory and compliance, accounting, payroll, due diligence, and financial review services to multinationals investing in emerging Asia.

Since its establishment in 1992, Dezan Shira & Associates has grown into one of Asia's most versatile full-service consultancies with operational offices across China, Hong Kong, India, Singapore and Vietnam, as well as liaison offices in Italy, Germany and the United States, and partner firms across the ASEAN region. Dezan Shira & Associates' experienced business professionals are committed to improving the understanding and transparency of investing in emerging Asia.



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What's New in This Guide?

Doing Business in Hong Kong 2023 introduces the fundamentals of investing in Hong Kong. Compiled by professionals at Dezan Shira & Associates in April 2023, this comprehensive guide is ideal for businesses looking to enter the Hong Kong market as well as companies who already have a presence there and want to stay updated with the most recent and relevant policy changes.

To be more specific, the below topics have been updated:

Why Hong Kong: We provide a comprehensive roundup of Hong Kong and discuss Hong Kong's key advantages as a dynamic investment gateway to the Chinese and Asia, including its business-friendly environment, low taxes, rule of law, free economy, independent judiciary, modern infrastructure, I&T capabilities, and robust intellectual property protection.

Incorporation and business registration: We include updates to the incorporation and business registration process, including changes in the business registration fee in 2023-24.

The Companies (Amendment) Ordinance 2023: We add a new section introducing the new Companies (Amendment) Ordinance 2023, which comes into operation on April 28, 2023. Fully virtual general meetings without the requirement for presence of members at any physical locations, as well as a mixed mode of such virtual general meetings and members attending at physical location(s), i.e., hybrid general meetings, are allowed under this regime.

Taxes, audit, and accounting: We update this chapter with the tax measures introduced in Hong Kong's 2023-24 Budget, including the reduction of profits tax, salaries tax, and tax under personal assessment for the year of assessment 2022/23. We also add a new section introducing Hong Kong's new rules on foreign source income exemption and amend the section on territorial source principle of taxation accordingly. Moreover, we introduce the application of the global minimum effective tax rate in Hong Kong.

Human resources and payroll: We update the calculation of salaries tax and amend the section on termination pay. We also briefly introduce the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Bill 2022, which will be effective in 2025.

Why Hong Kong?

A highly dynamic city that serves as a gateway to the Chinese Mainland and Asia, Hong Kong is the ideal base for your investment in Asia. Hong Kong's business-friendly environment, low taxes, rule of law, free economy, independent judiciary, modern infrastructure, I&T capabilities, and robust intellectual property protection allow businesses and individuals to succeed in this most competitive and international city.

Why Choose Hong Kong for Your Business?



Largely autonomous political system under the “One Country, Two systems”

Hong Kong is allowed to retain its capitalist economic system and own currency, legal system, legislative system, and governmental system for 50 years till 2047.



Proximity to markets in Asia, including the Chinese Mainland

Hong Kong enjoys an ideal location in Asia that enables businesses to tap into the various opportunities in the Guangdong-Hong Kong-Macao GBA and throughout the rest of the region.



Low, simple, and competitive tax regime

Hong Kong enjoys one of the most tax-friendly systems in the world. It adopts the territorial basis of taxation and does not have any turnover taxes, making it a favorable location for profit shifting and conducting re-invoicing.



Open, fair, and efficient business environment

The absence of exchange controls, corruption-free government, free flow of information, capital, and talents, and low taxation has enabled Hong Kong to maintain a free and efficient environment for business activities and commerce.



A leading international financial hub and a prime location for financial services

Hong Kong's financial markets operate under effective and transparent regulations that are in line with international standards.



Excellent legal and dispute resolution services under rule of law

Hong Kong's strict maintenance of the rule of law and judiciary independence, its common law tradition, and its established English Chinese bilingual legal system has made it an ideal hub for dispute resolution worldwide.



World-class infrastructure with sophisticated support services

Hong Kong provides some of the most advanced business infrastructure in the world. The city is easily accessible with efficient and affordable public transport systems.



Improving data privacy protection

Hong Kong has been ramping up efforts to improve data privacy protection within its jurisdiction. The Personal Data (Privacy) Ordinance, Cap 486 was amended in 2021 to cope with new privacy challenges.



Highly skilled and multicultural talent pool

Hong Kong has a diverse talent pool, equipped with the skills and knowledge to drive business in Hong Kong and beyond. The HKSAR government is also ramping up efforts in pooling more high-quality talents in 2023.



Active participation in the global transition to a green economy

Hong Kong pledges to reach carbon neutrality by 2050. It has been trying to lead by example and making it easier for green bond issuers to come to Hong Kong to raise funds.



Political system

The Hong Kong Special Administrative Region (HKSAR) was established on July 1, 1997, after Great Britain returned it to the People's Republic of China (PRC). HKSAR is currently ruled by the Basic Law of the HKSAR – the constitution adopted by the National People's Congress of the PRC on April 4, 1990.

Under the Basic Law, Hong Kong is allowed to retain the social, economic and legal systems present at the time of the handover for a 50 year period under the principle of “One Country, Two Systems”. Additionally, the Basic Law designates a system of governance led by the Chief Executive, who is the head of the HKSAR, and the Executive Council, which assists the Chief Executive in policy-making issues.

Legal system


Due to its previous status as a British colony, Hong Kong's legal system is largely influenced by English common law. The constitutional framework for Hong Kong's legal system is provided by the Basic Law approved by the National People's Congress, which supplements the common law. The independent judiciary under the Basic Law ensures that Hong Kong remains within the common law system. The Court of Final Appeal is the highest court in HKSAR and is headed by the Chief Justice. Furthermore, reflecting its status as a Special Administrative Region, the HKSAR legal system is separated from the one governing the PRC under the principle of “One Country, Two Systems.”

The PRC national laws will be applied to Hong Kong only if they are listed in Annex III to the Basic Law, after consultation with the Hong Kong Basic Law Committee. For example, in June 2020, the PRC Law on Safeguarding National Security in Hong Kong was added to Annex III.

Economic system

Hong Kong's economic system is defined as a free market economy and characterized by minimum intervention from the government. HKSAR is service oriented, and especially strong in the financial services, international trade, and tourism sectors. Additionally, it has strong economic links to the Chinese Mainland and other major economies in the Asia Pacific region.

The absence of exchange controls, corruption-free government, and free flow of information, capital, and talents has enabled Hong Kong to maintain a free and efficient business environment for business activities and commerce. Further, Hong Kong has a good reputation due to its “free port” and straightforward customs clearing procedure. The city has no tariffs on imported goods, no import quotas, no dumping tax laws, and applies excise duties on only four commodities – hard alcohol, tobacco, oil, and methyl alcohol. Moreover, Hong Kong does not impose taxes on dividends generated from doing business in the region.



Free trade and low taxation have helped Hong Kong become one of the world's freest economies and among the easiest places in the world to do business.

Financial system

The Hong Kong financial system is composed of four different financial regulators, each one governing different parts of the financial sector. These include the Securities and Futures Commission (SFC, an independent body set up to regulate the securities and future markets), the Mandatory Provident Fund Schemes Authority (MPFA, a statutory body set up to assist Hong Kong's workforce to accumulate savings for their retirement), the Insurance Authority (IA, a body set up to protect the interests of policyholders and promotes the general stability of the insurance industry), and the Hong Kong Monetary Authority (HKMA, the government's agency responsible for maintaining monetary and banking stability).

Despite the HKMA's role as the currency board and de facto central bank, it does not print currency notes itself. Instead, it grants Hong Kong dollar printing privileges to HSBC, Standard Chartered Bank, and the Bank of China.

Under the Linked Exchange Rates System (LERS), the Hong Kong dollar has been pegged to the US dollar since 1983, at a rate of HK\$7.80 to US\$1, which has helped maintain monetary stability. Through the exchange rate system, the HKMA authorizes note-issuing banks to issue new banknotes, as long as an equivalent amount of US dollars is deposited with the HKMA.

Tax regime


Hong Kong offers one of the most tax-friendly systems in the world. It imposes only three kinds of direct taxes – profits tax (for incorporated body), salaries tax (for personal income), and property tax (for income sources from Hong Kong property). There are also generous allowances and deductions to reduce the burden of taxpayers.

Data privacy protection

Like other major economies, Hong Kong has been ramping up efforts on improving data privacy protection within the jurisdiction.

In Hong Kong, the Personal Data (Privacy) Ordinance, Cap 486 of the Laws of Hong Kong (PDPO) protects the privacy of individuals in relation to personal data, and was recently amended in 2021 to cope with new privacy challenges and address public concerns.

When the PDPO was drafted, reference was made to the relevant requirements under the 1980 OECD Privacy Guidelines and the European Union (EU) Directive 95/46/EC. It may be noted that the EU's GDPR, in effect since 2018, contains significant new regulatory provisions



impacting data protection and introduced major changes to its 1995 Directive. However, these new requirements are not found under the PDPO.

Geographical proximity to China and the Greater Bay Area

Hong Kong's geographic position enables businesses to easily tap into the various opportunities in the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) and the Chinese Mainland market.

Hong Kong enjoys a highly active and cooperative business relationship with the Mainland. It is both the country's leading conduit for foreign investment and its primary offshore capital raising center – the city, as one of the world's largest IPO markets, is expected to attract more Chinese companies to list amid tensions between the US and China.

The Mainland and Hong Kong Closer Economic Partnership Agreement CEPA provides Hong Kong products and services easier access to the vast Mainland market. The CEPA goes beyond China's WTO commitments, eliminating tariffs and allowing earlier or preferential access to some services sectors. Overseas companies can also benefit from CEPA. For trade in goods, foreign investors can set up production lines in Hong Kong to produce goods that meet the CEPA rules of origin (ROO) requirements. For trade in services, companies incorporated in Hong Kong by foreign investors can make use of CEPA as long as they satisfy eligibility criteria of a "Hong Kong Service Supplier".

In the financial sector, Hong Kong and the Chinese Mainland have made remarkable progress in opening new channels to enhance their financial connectivity, such as establishing the Shanghai-Hong Kong Stock Connect, Shenzhen-Hong Kong Stock Connect and Bond Connect, Mainland-Hong Kong Mutual Recognition of Funds arrangement, and the two-way cross-boundary Wealth Management Connect in the GBA. Thus, Hong Kong's status as an international financial hub is expected to be further strengthened under the GBA development plan.

Table of Contents

Preface	04
What's New in This Guide?	05
Why Hong Kong?	06
Part 1 Establishing and Running a Business	13
What are my options for investment?	14
Hong Kong companies	14
Branch offices	15
Representative offices	16
Sole proprietorship	16
Partnership	17
Restrictions on foreign investment	18
How do I establish a business?	19
Requirements and steps to set up a company in Hong Kong	19
Opening a bank account in Hong Kong	21
Intellectual property	23
What are the key compliance requirements?	27
Annual compliance requirements	27
New regime of significant controller register	27
Compliance of anti-money laundering and counter-terrorist financing requirements for trust or company service providers	28
New inspection regime	29
How do I make changes to my company?	31
Dormant company	31
Changing a company name	31

Changing the company's Articles of Association	32
How do I deregister my company?	33
How do I solve legal disputes?	35
Alternative Dispute Resolution (ADR)	35
Litigation	36

Part 2 | Tax, Audit, and Accounting **38**

What are the major taxes in Hong Kong?	39
Key features of Hong Kong's taxation system	39
Salaries tax	39
Profits tax	42
Property tax	47
Hong Kong's principle of taxation based on territorial source	48
New rules on foreign source income exemption	49
What are the key compliance requirements?	52
Accounting standards	52
Bookkeeping requirements	52
Financial reporting requirements	53
International taxation	55
Hong Kong's new transfer pricing regime	55
AEOI reporting	57
BEPS 2.0	58
Hong Kong's double taxation agreement network	58
Certificate of Resident Status	59

Part 3 | Human Resources and Payroll **64**

What obligations do I have as an employer?	65
Employer's mandatory obligations	65
Other payroll obligations	67
Salaries tax in Hong Kong	69
Employer	69
Employee	69

Case study	70
Visa requirements and procedures in Hong Kong	72
Visitor's visa	72
Employment visa	72
Employee leaves and vacations	74
Statutory holidays	74
Annual leave	75
Sick leave	76
Maternity leave	77
Paternity leave	78
Other Leave	78
Terminating an employee	79
Types of termination	79
Termination payments	81
Long service payment	82

Part 4 | Cybersecurity and Data Protection **83**

What are the major cybersecurity and data protection laws?	84
What are some of the key compliance requirements?	85
Purpose and manner of collection	85
Accuracy and duration of retention	86
Use of data	86
Data security	86
Openness and transparency	87
Access and correction	87
Exemptions	87



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