

Profits Tax Return Guide - Hong Kong Limited Companies

This guide will help you better understand the tax filing process.

Time for Filing

"NIL" Profits tax Return

Offshore Tax exemption Claim

All Hong Kong companies are required to file a Profits Tax Return ("PTR") with the Inland Revenue Department

Time for filing

The first Profits Tax Return is issued by the Inland Revenue Department ("IRD") Hong Kong Tax Authority within 1-2 months before the 2nd anniversary of the company's incorporation date, or around 20 months from when you incorporate. For instance, if a company incorporated in January 2018, it would receive its first PTR from the government around November 2019. Once the PTR is issued, Startupr will send you an email notification advising you to submit the PTR within 3 months. If the PTR is issued after this 3 month period, penalties may occur for the company for the late filing.

1. Determine the date of your company's fiscal year

The company has the authority to choose its own fiscal year end, however the most common year ends in Hong Kong are March

31st and December 31st. The reason for this is these two financial year ends can enjoy tax filing extensions to November 15th and August 15th respectively.

2. If your company has commenced business you will need to prepare the following documents:

- All bank statements
- All invoices
- All expense receipts
- General ledger and management account (Balance sheet, trial balance, income statement)

3. Submit the PTR to IRD

The submission deadline of the annual PTR, together with the audited financial statements for your second PTR and thereafter, is shown in the following example:

| Financial year end (example) | Tax filing date | Documents ready for audit |
|---|-----------------|------------------------------|
| 1) Jan. 1st, 2018- Mar. 31st, 2018 | Nov. 15th, 2019 | No later than Sep 1st, 2019 |
| 2) Dec. 31st, 2018 | Aug. 15th, 2019 | No later than June 1st, 2019 |
| 3) Dates other than (1) or (2) above: e.g. June 30th 2018 | Apr. 30th, 2019 | No later than Feb 1st, 2019 |

The profits tax rate is 8.25% on profits up to HKD\$ 2,000,000 (approx. USD\$ 256,000)
The profits tax rate is 16.5% on profits thereafter

“NIL” Profits Tax Return

Companies that have not commenced any business transactions throughout the period, a “NIL” Profits Tax Return may be filed. The commencement of business is when the company starts its business activities. The exact day of business commencement is not easy to determine, however in general it would be when a business undergoes activities in relation to the business.

If the company has not commenced business of any kind, then it may file a “NIL” PTR as declaring no business activity yet for the company. Filing the PTR form as “NIL” in effect states that the company has not conducted business, neither in Hong Kong nor anywhere else for the company.

It’s often misunderstood that a “NIL” PTR return are filed for businesses that have not carried out business activities in Hong Kong. This notion is incorrect, and it could lead to further tax implications, heavy tax penalties and possible court summons for

businesses down the road. Companies should file a “NIL” PTR that have not commenced any business transactions throughout the period, whereas the commencement of business is when the company starts its business activities.

In the case the company has commenced business and conducted it’s activities solely outside of Hong Kong, it may apply for the Offshore Profits Tax exemption. This is different from the “NIL” PTR as the company states it has conducted business with the financial figures filed in the PTR, however applies for these to be exempt from profits tax under the Hong Kong regulations. The application for the profits tax exemption is made at the same time with the submission of the Audit Report and PTR.

Offshore Tax Exemption Claim

If all the company's income is from outside Hong Kong, you may claim offshore exemption, relieving your firm of Hong Kong tax. The company's business operations would need to fulfil certain requirements to deem its activities as occurring outside of Hong Kong.

Along with this, the company would need to keep records and documentation showing that its operations did not occur within Hong Kong.

-The company must submit the PTR and financial statements

-The company must file an offshore exemption claim

-IRD will issue an offshore claim query letter for the company to establish proof of these activities

-The company must provide the IRD with passports of all company director's and/or all company sales representatives, company invoices, contracts, arrangements, company invoices, contracts, arrangements, shipping documents, etc.

-If verified, the IRD will confirm your company's Hong Kong offshore tax exemption

-Offshore tax exemption is effective for approximately 5 years for offshore profits only

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