Double Tax Treaty: Luxembourg-Hong Kong

Luxembourg recently concluded a new double tax treaty with Hong Kong.

An attractive feature of the treaty is the exemption from withholding tax of dividends paid by a Luxembourg company to a Hong Kong resident parent company shareholder. The planning opportunities made available by this provision are illustrated in the diagram opposite.

A SOPARFI (Sociéte de Participations Financiers) (a Luxembourg company which holds shares in other companies) is exempt from Luxembourg tax on dividends received by the SOPARFI from companies based in countries with which Luxembourg has a double tax treaty.

Dividends exempted from corporation tax in Luxembourg can be paid without any Luxembourg withholding tax (normally 15%) to the parent company established in Hong Kong.

As Hong Kong does not withhold tax at source on dividends received from outside of Hong Kong and paid to shareholders it is possible for dividends paid by the underlying holding or operating company to be received by the ultimate shareholder free of Luxembourg or Hong Kong tax.

Another aspect of the treaty is that 1929 holding companies and SPFs (family operated private asset management companies) can take advantage of the treaty. These entities are normally excluded from the benefits of Luxembourg's tax treaties.

Luxembourg currently is a party to 54 double tax treaties. The Luxembourg government has announced its intention to extend its treaty network to make Luxembourg the leading domicile for the establishment of holding companies in Europe.