

# 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 Government Tax Department) within 1-2 months before the 2nd anniversary date, or around 20 months from the date of incorporation. For instance, if a company incorporated in January 2020, you will receive the first PTR from the IRD around November 2021. Once the PTR is received, Startupr will notify you by an email advising you to submit the PTR within 3 months. If the PTR is submitted after this 3-month period, penalties may be imposed to the company for the late filing.

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

Each company is authorized to choose its own fiscal year end, however the most common year ends in Hong Kong are March 31st or 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. Prepare documents to proceed further

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 the 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) 31st Dec 2019	15th Aug 2020	No later than 1st Jun 2020-
2) 1st Jan 2020 – 31st Mar 2020	15th Nov 2020	No later than 1st Sep 2020-
3) Dates other than (1) or (2) above: e.g. 30th Jun 2019	30th Jun 2020	No later than 1st Feb 2020-

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

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. Companies that have not commenced any business transactions throughout the period in any country, a “NIL” Profits Tax Return may be filed.



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 its 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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