

ICSID	International Centre for Settlement of Investment Disputes
IIA	International Investment Agreement
IIT	Individual Income Tax
IRD	Inland Revenue Department
IRO	Inland Revenue Ordinance
IRR	Inland Revenue Rules
LDC	Less Developed Countries
MAP	Mutual Agreement Procedure
MC	Model Convention
MFN	Most Favored Nation
MNE	Multinational Enterprise
MTC	Model Tax Convention
NAFTA	North American Free Trade Agreement
NT	National Treatment
OECD	Organization for Economic Co-operation and Development
PE	Permanent Establishment
PITL	Personal Income Tax Law
PRC	People's Republic of China
PTA	Preferential Trade Agreement
PTIA	Preferential Trade and Investment Agreement
SA	Separate Accounting
SAR	Special Administrative Region
SAT	State Administration of Taxation
SEZ	Special Economic Zones
SFTZ	Shanghai Free Trade Zone
SPV	Special Purpose Vehicles
TIEA	Tax Information Exchange Agreement
UN	United Nations
UNCITRAL	United Nations Commission on International Trade Law
UT	Unitary Tax
VAT	Value Added Tax
WFOE	Wholly Foreign-Owned Enterprise
WHT	Withholding Tax

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**Chapter 1 An Overview of International
Taxation Trends and Practices**

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Jurisdictions which have a respectable network of treaties are usually considered as serious players in the tax world. Most countries will only conclude treaties with countries which do not have a reputation as a tax haven, where taxes are collected in a fair and equitable way, where the rule of law is predominant and where taxpayers have access to remedies and are protected otherwise as well. Often non-tax-factors, like the observation of human rights, are taken into account as well. Therefore jurisdictions which are equipped with many tax treaties, concluded with other respectable countries, can demonstrate that their system meets the minimum standards the international tax community expects them to meet. This “signalling effect” must not be underestimated: head of taxes in corporations might face internal difficulties with their executive board or supervisory board members if they propose transactions where jurisdictions are involved which do not have this kind of international recognition. Tax administrations are often very critical when they have to assess such transactions. The existence of a tax treaty network might help a lot. The present Introduction further explains the significance of tax treaties which is the legal and policy instrument on which the present volume focuses, and then takes a closer look at the specific practice of Hong Kong SAR and China. These two players’ tax rules and policies can only be properly assessed if assessed in the broader global context which has undergone important mutations in the last years. Part I provides an overview of the changing global landscape of tax law and policy. Part II provides the reader with a tale of two stories which allow differentiating and comparing Hong Kong with China. Finally, part III presents an overview of the key features of the tax factor in Hong Kong.

1. The Significance of tax treaties in general and from Hong Kong’s perspective in particular

Hong Kong SAR has managed to conclude a significant numbers of tax treaties in an incredible short time. Hong Kong SAR’s tax treaty network is quite remarkable. Many important countries belong to Hong Kong SAR’s tax treaty partners. Tax treaties allocate taxation rights to the two contracting states. Tax treaty provisions make sure that income and property may only be taxed once. The object and purpose of tax treaties is to avoid double taxation. For a jurisdiction like Hong Kong SAR it is not obvious to have such a tax treaty network or to have treaties at all: since Hong Kong SAR has a territorial system of taxation foreign income is not taxed in the hands of Hong Kong SAR residence. They should not suffer under double taxation.