

GST may boost offshore deals

Property experts believe more investors will do business through overseas firms to avoid paying proposed levy

Offshore companies by investors to buy Hong Kong could surge should the goods and services tax reduced, according to and property consul-

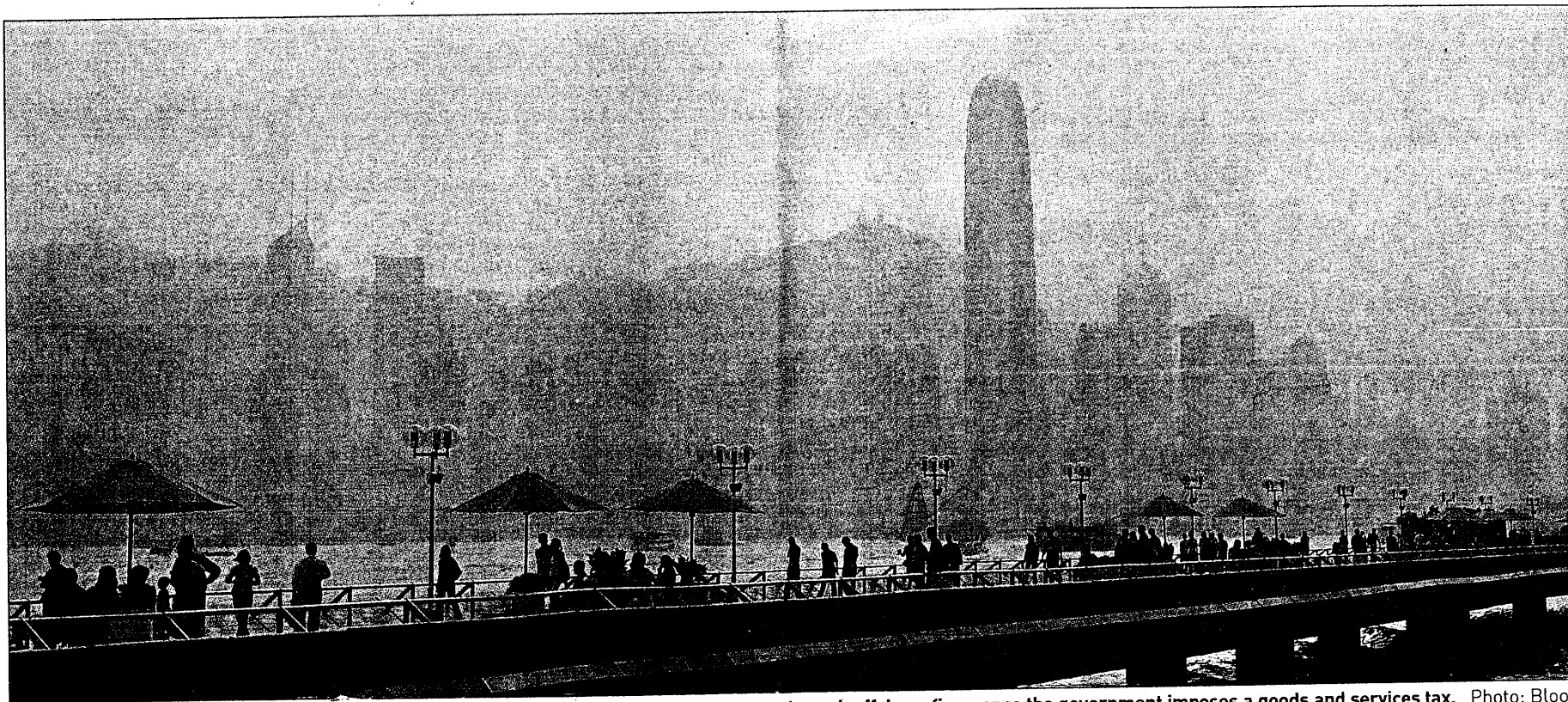
tion. The move may help the buyer avoid paying stamp duty land tax and seller profits tax relief under the new tax system.

Once the government introduces a commercial property transaction tax on retail shops and other additional tax on top of the stamp duty - it will encourage more investors to use this channel to reduce their costs, the experts say.

The investment market is expected to see a rise in tax income from property transactions, they predict. A tax agent illustrated how transactions were carried out through an offshore trust, particularly a for-profit fund, sets up a British Virgin Islands offshore company through another offshore firm that buys Hong Kong property to be sold to acquire," he said.

The arrangement is a win-win for both parties to the deal and purchase agreement. Investors can acquire shares outside Hong Kong as in Macau."

In the past few years, investors, particularly investors, had bought properties through offshore companies. Some investors had bought properties through offshore firms to avoid paying stamp duty and services tax



Experts expect an increase in the number of investors buying Hong Kong property assets through offshore firms once the government imposes a goods and services tax. Photo: Bloomberg

dent of the Hong Kong Institute of Certified Public Accountants.

Compared with the stamp duty of 3.75 per cent for property transactions, buyers could save money in share transfer transactions.

PricewaterhouseCoopers tax partner Tim Lui Tim-leung said: "If the British Virgin Islands firm is not managed or controlled in Hong

Kong and its mother company is not registered here, it can argue that the transaction of shares [does not involve] a Hong Kong asset and can ask for exemption from profit tax.

"That's why many investors buy large-scale properties through offshore transactions."

Mr Lui said offshore firms were likely to be exempt from goods and

services tax, so more investors would consider buying properties through them if the government imposed the tax. "However, I don't think the government would lose income from stamp duty," he said.

He said most investors would not buy properties through offshore firms and offshore transactions because doing so "might not justify the cost of setting up offshore companies"

Accountant Simon Cheung Chun-kwok said: "The buyer has to pay the licence fee and fees of the corresponding accountant and lawyer for an offshore transaction. As the company share transaction is more complicated than a property transaction, the buyer will take two or three months to investigate the offshore firm's debt before signing the sale and purchase agreement.

"Generally, a property transac-

tion takes just one to two weeks. The buyer bears the investment risk but the costs will be justified for large property transactions."

Knight Frank Petty executive director Alex Ng Siu-lam said: "Some buyers prefer offshore transactions to avoid taxation and disclosure of their identities or shareholders. Offshore transactions also help buyers planning short-term investment to avoid profit tax."