



Business 101: Questions to ask your accountant in Hong Kong



Get ready to unlock your
entrepreneurship  superpower?
And no, it's not flying or teleporting
(sadly), but it's just as useful:
Simply Asking  the right questions.

There's a difference between known unknowns — these are the things you realise you don't know — and unknown unknowns. The latter is usually an enormous challenge to any small business owner. The thing is, if you know of the challenge, at least it's something you can prepare for. To get to a place of knowing, it just takes asking the right questions.

Specifically; asking the right questions of your accountant. If you start here, you'll get the best out of working with your accountant.

So what are the right questions? Don't fret, Osome's accounting team have pulled together the only list you'll need. Plus, it also comes with guidance on the answers.

Remember: this is just the beginning. If you'd like to grow your business rather than groaning over accounting, we're here to help.

→ [Talk with an Osome accountant](#)

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① What are the different business structures available for setting up a company in Hong Kong?

Hong Kong offers different business structures including Sole Proprietorship, Business Partnership, and Representative / Liaison offices.

Think of **Sole Proprietorship** as the simplest form of business, owned and operated by one person with complete creative and financial control. In the eyes of Hong Kong Companies Registry, the company and owner are seen as one entity.

On the other hand, a **Business Partnership** forms when two or more individuals combine forces to build a business and split the profits. There are two types of business partnerships in Hong Kong – a **limited partnership** and a **general partnership**.

- In a **limited partnership**, there are both general and limited partners. The general partners take on unlimited liability, whereas the limited partners are only held liable to the amount of their capital contribution. This also means that only the general partners can have a say in the business operations.
- A **general partnership** implies the partners are personally liable for profits and debts, and also accountable for the actions of other partners.

Lastly, **Representative / Liaison offices** would be a mandatory corporate structure if you already have an existing established business and are looking to set up a Representative Office in Hong Kong. This Representative / Liaison office would then carry an identical name to its overseas sister.

② When should my Financial Year-End (FYE) date be?

Your first financial year-end date should fall within **18 months** after your date of incorporation. You can choose any date in the year, typically at the end of the month. Commonly used FYE dates are **31 Dec, 31 Mar, 30 Jun, 30 Sep**.

When you are trying to determine your company's financial year end date, consider thinking from an accounting and tax perspective to set a date that's most beneficial for your business, e.g. to align your fiscal year-end date with affiliated companies for consolidation purposes, or to choose a date same as your personal tax filing year in your home country.

Once your FYE is determined, the same date would be applied every year. While it will not make a difference in terms of tax filing requirements, there would be different tax filing deadlines applied on different year-end dates.

Pro-tip

Pick either **31 Dec** or **31 Mar** – one is the calendar year-end and the other coincides with the financial year of the Hong Kong Government. This is also the reason why the Inland Revenue Department would offer an extension for corporations with these two financial year-ends.

Alternatively, pick the end of a month. As financial statements follow the calendar months, companies should always pick the end of a month as the fiscal year-end date. If you choose an FYE in the middle of the month, it could complicate your accounting process.

③ Do I need to prepare the accounts for my company annually?

You will have to prepare the accounts for your company on an annual basis. According to Company Ordinance, all the limited companies are required to prepare the accounts and get them audited annually.

Additionally, it is necessary to have audited accounts for filing with the Profits Tax Return, in accordance with [Section 9](#).

In the event that you have not prepared any accounting reports previously, you are still required to proceed with the accounting from the date of incorporation – even if you have filed a NIL Profits Tax Return.



④ Do I need to audit my company? If so, what regulations should I follow?

Yes, you will have to audit your company.

According to [Company Ordinance Part 9 Accounts and Audit, Subdivision 3 Financial Statements, Section 379](#), directors are required to prepare financial statements that comply with sections 380 and 383.

Additionally, a company's auditor is also required to prepare a report for the members on any financial statements prepared by the directors, a copy of which is laid before the company in the general meeting under [section 429](#), or is sent to a member under section 430 or otherwise circulated, published or issued by the company, during the auditor's term of office.

⑤ What are the tax implications of a company limited by shares? Limited Liability Company (LLC)?

If your business structure is a company limited by shares, it will be taxed as a corporation and is subject to corporate tax on its profits, which is currently set at 16.5%. You will also have to file a tax return annually and pay the appropriate taxes by the deadline. The government determines the deadlines, usually between November of the current year and April of the following year.

In Hong Kong, there are three types of taxes – namely the Profits Tax, [Salaries Tax](#), and Property Tax.

The tax rate for incorporated businesses (starting from the year of assessment 2018/19) is 8.25% for a corporation's first HK\$2 million of profits, and profits above that amount will be subject to the tax rate of 16.5%.

If you have control (over 50% shares) on more than 1 company, then only one of these Connected Entities could be nominated for a 2-tier tax rate.

Additionally, there is no capital gains tax, no sales tax or VAT, and no withholding of tax on dividends in Hong Kong.

⑥ Or, what are the tax implications for Sole Proprietorship?

If your business structure is a Sole Proprietorship (starting from the year of assessment 2018/19), it will be taxed as an unincorporated business under the two-tiered tax rates. The tax rate is 7.5% for an unincorporated business's first HK\$2 million of profits, and profits above that amount will be subject to the tax rate of 15%.

Additionally, you will have to declare your business income when it comes to personal tax returns. The tax rate for personal income tax in Hong Kong ranges from 2% to 17%.



⑦ What are my tax filing requirements and dates?

Tax filing requirements and dates can be a headache, but we've got you covered.

All companies are required to submit Profits Tax Return annually. In Hong Kong, corporate income tax is assessed in relation to a tax year or Year of Assessment (YA). The YA starts on 1 April in a year, and ends on 31 March the following year.

A newly incorporated company will receive the first Profits Tax Return after 18 months of incorporation. Three months will be allowed for preparing the accounts and audit report for the first profits tax filing. Thereafter, the tax return should be filed with the deadline depending on the Company's Accounting Year End Date.

Accounting date	Standard deadline
1 April - 30 November (N code)	2 May of next year
1 - 31 December (D code)	15 August of next year
1 January - 31 March (M code)	15 November of the same year

Employer's Return of Remuneration & Pensions is required annually as well. Companies that have hired employees should report the salary and wages paid to employees for each fiscal year (April to March) in April every year.

⑧ How do I get money out of my company?

Withdrawing money from your company varies depending on your business structure. There are several ways you can withdraw money from your company:

Drawings

Drawings refer to money taken out of the business for personal use. This method is typically used by sole proprietors and partners.

Salary

This is one of the most straightforward ways you can withdraw your money. If you have incorporated your business as a Limited Liability Company (LLC), you can pay yourself a salary, which is taxed as personal income.

Director's fees

If you are a director of your Limited Liability Company (LLC), you can also receive director's fees, which will be taxed as personal income.

Reimbursement of expenses

If you incur a cost that is meant for company use – such as business mileage, insurance, or equipment – you may be able to reimburse yourself. However, in the course of running your business, it is important to keep accurate records of all expenses to avoid any potential tax issues.

Dividends

If your business is a Limited Liability Company (LLC), you can also receive dividends, which are taxed as personal income. However, it is important to ensure that your company has sufficient profits after tax paid to pay dividends and that you comply with all relevant laws and regulations regarding dividend payments.

⑨ What type of expenses could count as business expenses?

Certain expenses can be counted as business expenses, and these business expenses incurred for producing assessable profits are allowable under profits tax.

For instance, your company can claim an amount as a business expense as long as your Chief Financial Officer (CFO) or an authorised person within the company allows it – and it can be proved that the expense is not a personal expense.

However, in the event that the company is being investigated by the Inland Revenue Department (IRD), the IRD will question the necessity for such expenses. Therefore, these expenses must be supported with their respective receipts, including the reason for spending it, and whether it is a business treat.

Additionally, you might need to include the client's name, the number of sales that the client could have raised, and whether the company could form a deal with the said client.



Reminder: You didn't get into business to be an accountant



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