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TAX COMPLIANCE FOR HONG KONG COMPANIES: PREPARING FINANCIAL STATEMENTS, CONDUCTING ANNUAL AUDITS AND OTHER OBLIGATIONS

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Incorporating a company in Hong Kong offers companies a favourable tax regime, but at the same time imposes certain obligations in terms of tax compliance. This alert will examine what constitutes the annual tax compliance obligations of a Hong Kong company, as well as the mandatory independent audit, the deadlines for conducting it, and the notifications to be submitted to the Hong Kong Inland Revenue Department (hereinafter 'IRD') when hiring staff.

This material is based on information from public sources and is for reference purposes only. It does not constitute advice or a legal opinion. If you have any questions regarding this alert, please contact us at: info@whitesquarepartners.com.

1. Correlation between the financial year and the tax period

In Hong Kong, it is extremely important to clearly distinguish between a company's **financial year** (Year of Assessment) and the government's **tax year** (Fiscal Year).

When registering a business, or at a later date, a company is entitled to choose the end date of its financial year. This can be any 12-month period; for example, the financial year may end on 31 December (coinciding with the calendar year), 31 March (coinciding with the tax period), or 30 June (coinciding with tax periods in other jurisdictions, such as Australia).

Unlike the financial year, the tax year in Hong Kong is strictly fixed by the government and always runs from 1 April to 31 March of the following year. Under the tax legislation, a company is required to file a profits tax return (Profits Tax Return, PTR) with the IRD, together with completed audited financial statements for the company's financial year that **ended** within or coincided with the standard tax period. The PTR is issued in the company's name and is sent by the IRD to companies annually in early April.

Consequently, the independent audit is conducted strictly for the company's chosen financial year within the tax period. For example, if a company's financial year runs from 1 January to 31 December, the audit report for the purposes of filing the tax return within the 2025/2026 tax period is prepared specifically for those 12 months (from 1 January to 31 December 2025), and the return itself is filed in April 2026. If a company's financial year runs from 1 July to 30 June, then for the purposes of filing the return for the same 2025/2026 tax period, the audited financial statements will be prepared for the 12-month period ending within that tax period — that is, from 1 July 2024 to 30 June 2025, and the tax return itself is filed in exactly the same way following the issuance of PTR forms in April 2026.

Thus, the audit and profit declaration periods always coincide entirely, based on the company's chosen financial year rather than the Hong Kong tax year.

2. Mandatory Audits in Hong Kong

All limited liability companies in Hong Kong, with the exception of those with 'dormant' status, are required to submit an annual audit report. When a company submits its PTR, it must be accompanied by finalised audited financial statements for the reporting period; if the company submits the PTR without having undergone an independent audit by a certified Hong Kong auditor (CPA), the return will be deemed to have been filed improperly.

There is an important practical point to note: if a company's previous PTRs showed a loss or zero taxable profit, the IRD may not send a PTR form every year, but may issue it once every three or four years. Consequently, there are companies on the market that are not carrying out any business activities and have not been audited for many years, as the IRD has not issued PTRs in the names of these companies. In practice, such breach may remain undetected, as the Registrar becomes aware of it when a complaint is made by a member of the company, whereas where the shareholder and the director are the same person or have a friendly relationship, such complaint is generally not made. At the same time, failing to conduct an annual audit still constitutes a violation, given that at the end of each financial year, directors are required to prepare financial statements[1], which are subject to a mandatory audit[2], and to lay them before the company at a general meeting or send them to the company's members[3].

Consequently, buying 'shelf companies' in Hong Kong often loses its purpose: to transfer shares and calculate stamp duty, the Inland Revenue Department will require an audit. If a company has not undergone one for years, the new owner will have to reconstruct the financial reporting,

[1] Article 379 Companies Ordinance (Cap. 622) ("**Companies Ordinance**"). Access via the link.

[2] Article 405 of the Companies Ordinance.

[3] Article 430 of the Companies Ordinance.

which deprives the transaction of its main advantage – speed.

Companies with ‘dormant’ status are an exception to the rules. Under Article 5 of the Companies Ordinance, a qualified private company may acquire ‘dormant’ status by passing a special resolution and registering it with the Company Registry. Such companies are fully exempt from preparing financial statements, directors’ reports, appointing auditors, holding Annual General Meetings (AGMs) and even from filing the Annual Return. However, they are still required to renew their Business Registration Certificate (BRC), pay the annual fee, report any changes of address or directors, and – if they receive Form PTR (BIR51) – submit it as a nil return, though without an audit. Any accounting transaction immediately removes the company’s ‘dormant’ status. To change its status, the company must also pass a special resolution and register it with the Registrar. However, information that the company previously held ‘dormant’ status is retained by the Registrar even after the status has been changed.

The company is also required to retain accounting records following the end of the financial year to which they relate and to maintain adequate records of its operations for seven years.

3. Deadlines for filing returns and the Block Extension Scheme (BES)

For a newly incorporated company, the first ever tax return is issued exactly 18 months after the date of registration. A strictly fixed deadline of 3 months from the date of issue of the form is given for completing the return and carrying out the very first audit, and this initial deadline cannot be extended.

For subsequent periods, the standard deadline for submitting the return for all companies is one month from the date of issue on 1 April each year, i.e. by 2 May.

This deadline may be extended under the Block Extension Scheme (BES) if the company has an officially appointed Hong Kong tax representative – a company secretary service provider or a CPA auditor – who can submit an official application for an extension on behalf of their clients via the Tax Department’s portal (TRP). If, however, the company does not have a tax representative and attempts to submit a paper return directly, the deadline will be just one month (until the start of May), regardless of the chosen financial year.

Without using any extensions, a company always has exactly **one month** to submit its documents from the date the tax return is issued in early April. The period from the end of the financial year to the deadline in early May is divided as follows:

If the financial year ends in **December**, the company has **4 months** in total (from 31 December to early May) to carry out the audit. The form arrives in early April, leaving the final month for submission.

If the financial year ends in **March,** the company has just **one month** in total (the whole of April) to carry out the audit. The financial year closes on 31 March; the return is issued immediately in early April and must be submitted, together with the audited financial statements, by the start of May. In practice, meeting this deadline can be difficult even for companies that are not currently operating.

If the financial year ends in **June**, the company has **10 months** in total (from 30 June until the start of May the following year). The audit may well be carried out between the summer and March, but in April, when the form arrives, there will be exactly one month left to sign everything and submit it.

If a company’s tax representative has submitted an application under the BES scheme on time, the filing deadlines are extended depending on the reporting codes. For companies with code ‘D’ (December companies), whose financial year ends between 1 December and 31 December, the filing deadline is extended to 15 August. For companies with code ‘M’ (March companies), whose financial year coincides with the government’s and ends between 1 January and 31 March, the deadline is extended to 15 November. For all other companies with the code “N”, whose financial year ends between April and November, no extension is provided under the BES scheme, and the filing deadline remains the standard one – one month from the date of issue of the tax return (until 2 May). This is precisely why most international companies in Hong Kong choose 31 December or 31 March as their financial year-end, as – provided they have a tax representative – this allows them to extend the document preparation period to 7–8 months from the actual end of the financial year, enabling them to compile their accounts and complete the audit without rushing.

4. Employer obligations when hiring staff

In addition, the company must comply with its employer's tax reporting obligations in respect of its employees, including the annual filing of the Annual Employer's Return and other notifications described in further detail below. This requirement applies to the hiring of both local and remote staff.

There are four key forms for this purpose:

- Form IR 56E (Notification of Employment) must be submitted to the IRD no later than three months after the employee's start date.
- Form IR 56F (Notice of Termination of Employment) must be submitted to the IRD no later than one month before the termination of employment.
- Form IR 56G (Notification of an employee's departure from Hong Kong permanently or for a substantial period) must be submitted one month before the employee's departure.
- The annual report on payments to employees, known as the Annual Employee Return (Form BIR 56A), is sent to the employer at the beginning of April each year, and this return must be submitted within one month. Based on this report, tax enquiries are subsequently sent to the employees themselves, regardless of whether they are local or remote.

Failure to comply with any of these requirements may result in the employer being subject to a Level 3 fine of 10,000 Hong Kong dollars (approximately 1,300 USD), as well as a court order to fulfil the relevant obligations.

5. Conclusion

Accordingly, the tax compliance obligations of a Hong Kong company include maintaining accounting records, preparing financial statements, conducting an annual audit, and fulfilling employer obligations to notify the IRD of the employment, termination and other relevant events relating to employees.

The timing for the preparation and submission of documents depends on the company's end of financial year and the availability of an extension under the BES.

Companies should plan their audit process in advance and ensure that accounting records are maintained and kept up to date, as the obligation to prepare audited financial statements remains even in cases where the IRD does not issue a PTR every year. The only exception applies to companies that have been properly granted 'dormant' status.

Timely compliance with these requirements helps reduce the risk of penalties, IRD inquiries and other consequences arising from non-compliance with tax obligations.

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