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Global Tax Alert

Hong Kong releases 2020/21 Budget

On 26 February 2020, Hong Kong released the budget proposal for the tax year beginning 1 April 2020 (the Budget). The Budget includes tax incentives for ship lessors and ship leasing managers, tax incentives for insurance and reinsurance businesses and tax concessions for private equity (PE) funds.

This Alert summarizes the key tax initiatives relevant to businesses in the Budget.

Promoting ship leasing and ship leasing management in Hong Kong

To promote ship leasing and related maritime business activities in Hong Kong, a legislative bill has been introduced offering a dedicated tax regime providing the following tax concessions:[1]

i. The tax rate on the qualifying profits of qualifying ship lessors derived from a qualifying ship leasing activity, in respect of both an operating lease or a finance lease, will be 0%.

ii. The tax rate on the qualifying profits of qualifying ship leasing managers carrying out qualifying ship leasing management activities for a non-associated qualifying ship lessor will be 8.25% (i.e., 50% of the corporate tax rate of 16.5%). The tax rate is further reduced to 0% if the qualifying ship lessor is an associated corporation.

iii. As tax depreciation will not be available under the regime, the deemed taxable amount in respect of the qualifying ship leasing income of a qualifying ship owner-lessor derived from an operating lease will be equal to 20% of rental income reduced by deductible expenses (excluding depreciation).

iv. The taxable amount in respect of income derived from a finance lease by a qualifying ship lessor will be equal to the relevant finance charges or interest received from the lease reduced by deductible expenses.

Enabling Hong Kong to compete internationally for reinsurance and specialty insurance businesses

To enable Hong Kong to compete in the international market and seize new insurance business opportunities, a legislative bill has been introduced offering the following tax concessions:

i. Profits derived by a direct insurer (referred to as a "specified insurer") from their general insurance business, other than profits from certain local-demand driven business, will be taxed at a concessionary tax rate of 8.25% (i.e., 50% of the corporate tax rate of 16.5%).

ii. The current 8.25% concessionary tax rate provided to professional reinsurers will be extended to cover the general reinsurance business of a specified insurer.

iii. Profits of a licensed insurance broker company that relate to a contract of insurance effected by: (a) a professional reinsurer; or (b) a specified insurer that is eligible for the concessionary tax rate under the bill, will also be taxed at the 8.25% concessionary tax rate.

Promoting the PE fund industry in Hong Kong

To encourage more PE funds to domicile and operate in Hong Kong, the Hong Kong Government will consult the PE industry on a proposal to provide tax concessions for "carried interest"[2] issued by PE funds to their fund managers.

Endnotes

1. See EY Global Tax Alert, *Hong Kong introduces tax concessions for ship lessors and ship leasing managers*, dated 28 February 2020.
2. "Carried interest" generally refers to an equity stake of a fund manager in a PE fund that entitles the fund manager to have a preferential share of the profits of the fund when the financial performance of the fund exceeds a specified hurdle rate.

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