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Global Tax Alert

Hong Kong enacts tax concession legislation for ship lessors and ship leasing managers

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Hong Kong gazetted the Inland Revenue (Amendment) (Ship leasing tax concessions) Bill 2020 (the New Law)[1] on 19 June 2020, which seeks to attract ship leasing and ship leasing management businesses to Hong Kong.

The New Law applies retrospectively to transactions occurring on or after 1 April 2020.

This Alert summarizes the key provisions of the tax concessions.

Summary of tax concessions

(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 (including a sale-and-leaseback arrangement), is 0%. A qualifying ship leasing activity is broadly defined to include leasing of a ship to a ship lessor (i.e., a sub-lessor), a ship leasing manager or a ship operator.[2]

(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 is 8.25% (i.e., 50% of the current regular corporate tax rate of 16.5%). The tax rate is reduced to 0% if the qualifying ship lessor is an associated corporation.

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(iii) The deemed taxable amount in respect of the qualifying ship leasing income of a qualifying ship owner-lessor derived from an operating lease is equal to 20% of rental income less deductible expenses (excluding depreciation).

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

Eligibility

To be eligible for the new concessionary tax regime, the following requirements[3] must be met:

Qualifying activities	Average number of full-time qualified persons employed in Hong Kong	Annual operating expenditure incurred in Hong Kong
Ship leasing	2	HK$7.8 million
Ship leasing management	1	HK$1 million

Outsourced activities could also qualify if: (i) the outsourced activities are undertaken in Hong Kong; and (ii) the taxpayer adequately monitors the outsourced activities in Hong Kong.

Tax deductions for amounts paid by a closely connected person

Under the New Law, if a taxpayer is connected with a qualifying ship lessor or a qualifying ship leasing manager, and the said lessor or manager is only chargeable to tax at the concessionary tax rates (0% or 8.25%) in respect of a sum paid, the amount of tax deduction that can be claimed by the payer in Hong Kong will be reduced by the amount of tax savings obtained by the lessor or manager.

Endnotes

1. See EY Global Tax Alert, *Hong Kong introduces tax concessions for ship lessors and ship leasing managers*, dated 28 February 2020.
2. The term "ship leasing activity" also includes any of the following activities:

   (i) Agreeing on funding terms in relation to the lease concerned

   (ii) Identifying or acquiring the ship to be so leased

   (iii) Setting the terms and duration of that lease

   (iv) Monitoring or revising any funding or other agreements in relation to that lease

   (v) Managing any risks associated with that lease or with an activity mentioned in sub paragraph (i), (ii), (iii) or (iv)
3. As the minimum requirements are only pre-requisite requirements, the satisfaction of the requirements does not guarantee the benefits under the concessionary regime.

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