

Hong Kong Tax Alert

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Hong Kong passes new legislation to introduce a dedicated tax concession regime to qualifying shipping commercial principals

Yesterday, the Inland Revenue (Amendment) (Tax Concessions for Certain Shipping-related Activities) Bill 2022 (the Bill) passed its third reading in the Legislative Council. The Bill, as passed, is expected to be gazetted and formally become law (the new law) of Hong Kong next Friday.

The new law is essentially identical to the Bill in its original form. Clients may refer to our Hong Kong Tax alert - 10 June 2022 (2022 Issue No. 5) for a detailed discussion of the Bill in its original form.

In brief, the new law introduces a dedicated tax concession regime offering tax incentives to qualifying shipping commercial principals, i.e., ship agents, ship managers and ship brokers in Hong Kong.

Subject to certain anti-avoidance provisions, the dedicated tax concession regime provides that:

- I. qualifying profits of a qualifying shipping commercial principal (i.e., a qualifying ship agent, qualifying ship manager or qualifying ship broker) derived from carrying out a qualifying activity (i.e., a qualifying ship agency activity, qualifying ship management activity or qualifying ship broking activity) in Hong Kong will, subject to the exception in (ii) below, be taxed at a concessionary tax rate at 8.25% (i.e., half of the normal profits tax rate for corporations at 16.5%); and
- II. qualifying profits derived by a qualifying shipping commercial principal from carrying out a qualifying activity for an associated shipping enterprise¹, which is entitled to a concessionary tax rate or income exemption under the Inland Revenue Ordinance, will be subject to the same concessionary tax rate or income exemption as that applicable to the associated shipping enterprise concerned.

The concessionary tax treatment will take retrospective effect and apply to sums received by, or accrued to, qualifying shipping commercial principals on or after 1 April 2022. Clients who wish to explore how they can benefit from the new law can contact their tax executives.

1. An associated shipping enterprise refers to a person who is a ship lessor, ship leasing manager, ship operator or ship owner entitled to tax concessions or exemption under section 14P(1), 14T(1) or 23B of the IRO and (a) over which the qualifying shipping commercial principal has control, (b) which has control over the qualifying shipping commercial principal or (c) which is under the control of the same person as the qualifying shipping commercial principal.

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