

Hong Kong Enacted Legislation For a Two-tiered Profits Tax Rates Regime

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ABOUT MAZARS

Mazars is an international, integrated and independent organisation, specialising in audit, accountancy, tax and advisory services. We rely on the skills of more than 20,000 professionals in the 86 countries and territories which make up our integrated partnership.

Including the Hong Kong office, we operate 28 offices in China with around 3,500 staff. They are fully committed to serving the growing and diversified needs of both Chinese and international companies.

INTRODUCTION

Inland Revenue (Amendment) (No.3) Ordinance 2018 for introducing a two-tiered profits tax rates regime was enacted on 29 March 2018. The two-tiered profits tax rates regime will be effective from the year of assessment 2018/2019 (i.e. on or after 1 April 2018):

Assessable profits	Tax Rates	
	Corporation*	Unincorporated business
First HK\$2 million	8.25%	7.5%
Remainder	16.5%	15%

* If a corporation is a partner of a partnership, the concessionary tax rate of 8.25% will only apply to the first HK\$2 million pro-rated by its share in the partnership.

Restrictive Provisions

The main objective of the regime is to reduce the tax burden of SMEs and start-up businesses. To avoid group enterprises splitting income amongst numerous entities in order to enjoy the lower tax rate, restrictive provisions are introduced which limit the application of the two-tiered tax rates to only one entity nominated by a group of “connected” entities. The definition of “connected” entities can be found in our Hong Kong Tax News - January 2018.

No Double Benefits

Certain entities may have already enjoyed half tax rate under the current preferential tax regimes, such as reinsurance business, captive insurance business, corporate treasury centre, aircraft leasing business and aircraft leasing management business. In order to avoid double benefits for taxpayers carrying these businesses, which have already elected to enjoy half tax rate, these taxpayers will be excluded from the two-tiered profits tax rates regime under the new law.

Income from QDIs not counted towards the First HK\$2 million Threshold

The new law also stipulated that profits derived from qualifying debt instruments (“QDIs”) which have been taxed at half tax rate under Section 14A of the Inland Revenue Ordinance (“IRO”) will not be counted towards the first HK\$2 million threshold under the two-tiered profits tax rates regime.

Provisional Profits Tax for Transitional Arrangement

During the transitional period, if the 2018/2019 provisional profits tax is imposed based on the full tax rate for certain entities, the new law provides an additional ground for holdover of the 2018/2019 provisional profits tax where the entity is likely to be chargeable under the two-tiered profits tax regime. The holdover application must be made in writing to the Commissioner within the prescribed time limit.



The content of this newsletter is only for general guidance on matters of interest and is not meant to be comprehensive. The application and impact of laws can vary widely based on the specific facts involved. Readers are advised to consult their tax advisors before making any business decisions.

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