

Press Release

LCQ13: Tax concessions for corporate treasury centres

Wednesday, December 9, 2015

Following is a question by the Hon Jeffrey Lam and a written reply by the Acting Secretary for Financial Services and the Treasury, Mr James Lau, in the Legislative Council today (December 9):

Question:

The Government has indicated earlier that to attract multinational and mainland enterprises to establish corporate treasury centres (CTCs) in Hong Kong, it will submit, to this Council in the current legislative session, legislative proposals to amend the Inland Revenue Ordinance (Cap. 112) to specify that, subject to compliance with the specified conditions, interest expenditure under profits tax for CTCs will be deducted and profits tax for the specified treasury activities will be reduced by half (two tax concessions). In this connection, will the Government inform this Council:

- (1) of the specific contents of the aforesaid legislative proposals;
- (2) whether it has received any proposals on the two tax concessions; if it has, of the number and main contents of such proposals; whether the Government has taken on board the proposals received when devising the legislative proposals concerned; if it has, of the details; if not; the reasons for that; and
- (3) of the current number of multinational and mainland enterprises which have established CTCs in Hong Kong; whether it has assessed the benefits to be brought about by the two tax concessions to the Hong Kong economy (e.g. the anticipated number of enterprises which will decide to establish CTCs in Hong Kong in the light of the two tax concessions); if it has, of the details; if not, the reasons for that?

Reply:

President,

- (1) As announced by the Financial Secretary in this year's Budget, the

Government will soon introduce the Inland Revenue (Amendment) (No. 4) Bill 2015 (the Bill) into this Council to adjust the existing interest deduction rules to allow a corporate borrower carrying on in Hong Kong an intra-group financing business deduction, from its assessable profits, of interest payable on money borrowed from a non-Hong Kong associated corporation under specified conditions. In addition, to promote further Hong Kong's competitiveness in attracting the treasury business, we propose introducing a concessionary profits tax rate under the Inland Revenue Ordinance for qualifying corporate treasury centres (CTCs), such that the tax rate for qualifying CTCs will be 50% of the prevailing profits tax rate for corporations. The Bill contains relevant anti-avoidance provisions to ensure that the proposals are consistent with the latest international standards to combat base erosion and profit shifting.

The Government published the Bill in the Gazette on December 4, 2015, and has issued the relevant Legislative Council (LegCo) Brief. For details, please refer to the website of the Financial Services and the Treasury Bureau (www.fstb.gov.hk/fsb/ppr/legco/doc/b031215_e.pdf). I will move a motion for the Bill to be read the second time at this Council's meeting on December 16, 2015.

(2) The Government briefed the LegCo Panel on Financial Affairs on these proposals on June 1, 2015. The Panel generally supported the proposals. Questions were raised in relation to the benefits of the proposals, the impact on our simple tax regime, and measures to tackle tax avoidance. The Bill has specific provisions to address the above aspects. In addition, we have engaged treasury professionals in multinational and local corporations as well as the tax advisory sector in formulating the draft provisions of the Bill. The industry generally welcomes the above proposed measures to strengthen Hong Kong's status as an international financial centre and the preferred location for multinational corporations to set up treasury centres. Some have raised comments on the technical details and anti-avoidance safeguards of the draft provisions. In finalising the Bill and striking an appropriate balance, we have taken into account relevant considerations relating to Government's revenue and market competitiveness.

(3) According to market estimates, more than 100 multinational corporations have established CTCs in Hong Kong, with varying scope and size of treasury

functions. I hope that this Council would support the timely passage of the Bill, so as to foster the development of Hong Kong as an international financial centre and business hub and attract more multinational and Mainland corporations to establish CTCs in Hong Kong, thereby generating demands for the financial and professional services sectors, and contributing to the development of headquarters economy in Hong Kong.

Ends