Public Consultation on
Proposed Enhancements to Tax Concession Regime
for Corporate Treasury Centres in Hong Kong

FOREWORD

1. This consultation document is jointly issued by the Financial Services and the Treasury Bureau ("FSTB") and the Inland Revenue Department ("IRD") to seek views on the proposed enhancements to the tax concession regime for Corporate Treasury Centres ("CTCs") in Hong Kong.

2. We welcome written comments on or before 4 September 2026 through any of the following channels –

   By mail: Division 5, Financial Services Branch
   Financial Services and the Treasury Bureau
   24/F, Central Government Offices
   Tim Mei Avenue, Tamar Central, Hong Kong

   By email: ctc-consult@fstb.gov.hk

3. The FSTB and the IRD may, as appropriate, reproduce, quote, summarise and publish the written comments received, in whole or in part, in any form and use without seeking permission of the contributing parties.

4. Names of the contributing parties and their affiliations may be referred to in other documents we publish and disseminate through different means after the consultation. If any contributing parties do not wish to have their names or affiliations disclosed, please expressly state so in their written comments. Any personal data provided will only be used by the FSTB, the IRD and other government departments/agencies for purposes which are related to this consultation.

CHAPTER 1

INTRODUCTION

Purpose

1.1 As announced in the 2025 Policy Address, the Government would complete a study on the enhancements to the tax concessionary measures for CTCs in the first half of 2026. The 2026-27 Budget further mentioned that the Government would announce a series of enhancement measures to strengthen the role of Hong Kong as a key base for the establishment of CTCs and boost the city's appeal as a platform for "bringing in and going global".

1.2 To this end, the FSTB, IRD, the Hong Kong Monetary Authority ("HKMA") and Invest Hong Kong ("InvestHK") have formed a task force to take forward a review. On 9 June 2026, we jointly published the "Action Plan to Promote the Development of CTCs in Hong Kong" ("Action Plan"), which sets out a "4T" framework, covering (i) Tax revamp, (ii) Tax agreements, (iii) Targeted promotion and (iv) Talent and dialogue[1].

1.3 As regards "Tax revamp", the Government will revamp the existing tax concession regime applicable to corporate treasury activities and introduce a more competitive tiered system. Measures include refining the existing concession regime and introducing a pre-approval mechanism. Pre-approved CTCs and their pre-approved associated companies will enjoy more favourable tax benefits, greater tax certainty and enhanced compliance flexibility. The Action Plan outlines that the Government will conduct a public consultation within this year, with a target of submitting legislative proposals to the Legislative Council in the first half of next year.

1.4 Following up on the Action Plan, this consultation document sets out the details of the proposed enhancements to the tax concession

[1] For details of the Action Plan, please see:
https://gia.info.gov.hk/general/202606/09/P2026060900365_545884_1_1781004026462.pdf

regime for CTCs in Hong Kong. We invite comments from relevant stakeholders to facilitate our formulation of the legislative proposals, as well as any administrative clarifications to be issued by the IRD.

Background

1.5 To encourage multinational corporations to establish CTCs in Hong Kong, the Government has been providing tax concessions for corporate treasury activities conducted in Hong Kong since the implementation of legislative amendments to the Inland Revenue Ordinance (Cap. 112) ("IRO") in 2016 and 2018. Under the existing regime [2], qualifying CTCs ("QCTCs") enjoy a 50% reduction in profits tax (i.e. reduction of the applicable tax rate from 16.5% to 8.25%) for specified corporate treasury activities, while corporations conducting intra-group financing business in Hong Kong are eligible for deduction of the interest expenses arising from borrowing from non-Hong Kong associated corporations in calculating profits tax upon fulfilment of specified conditions.

1.6 In the past decade, the existing tax concession regime, coupled with proactive market outreach jointly carried out by the HKMA and InvestHK, have managed to boost the number of CTCs in Hong Kong. Despite the promising growth, we have received feedback from the market that certain pain points prohibit more multinational corporations from establishing CTCs in Hong Kong or impose hurdles for existing CTCs to scale up their operations. The major pain points are as follows –

(a) Corporations conducting corporate treasury activities in Hong Kong have difficulties in meeting the definition of a QCTC as specified in the IRO, especially in fulfilling the "dedicated CTC condition" or the "safe harbour rule"[3];

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[2] The tax concessionary measures are set out in section 14D and section 16(2)(g) of the IRO.

[3] The "dedicated CTC condition" requires that only a standalone corporate entity carrying on the business as a corporate treasury centre and engaging solely in corporate treasury activities can be qualified as a QCTC. The "safe harbour rule" requires that the percentages of

(b) The interest income of a Hong Kong associated corporation of a QCTC as derived from the QCTC is subject to tax, rendering it unattractive for the Hong Kong associated corporation to place funds in the QCTC as compared to depositing funds in banks or overseas CTCs, when the interest income from banks or overseas CTCs is not subject to tax;

(c) Corporations that conduct intra-group financing business in Hong Kong have difficulties in meeting the "subject to tax condition"[4], hence are not able to claim deduction on the interest expenses paid to non-Hong Kong associated corporations under the IRO. The "subject to tax condition" requires that the lender (i.e. the non-Hong Kong associated corporation) in an intra-group borrowing/lending transaction shall, in respect of the interest income, be subject to tax (similar to profits tax in Hong Kong) in a territory outside Hong Kong at a rate not lower than Hong Kong's profits tax. In particular, the lender shall pay tax in that territory for the taxable period in which the transaction occurs (i.e. the "cash tax requirement"); and

(d) A Hong Kong associated corporation of a QCTC cannot claim full deduction on its expenses paid to the QCTC under the "anti-tax arbitrage rule"[5]. A connected person of a QCTC, which is subject to the tax rate of 16.5%, is required to adjust the amount of tax deduction claimed for expenses paid or payable to the QCTC so as to nullify the tax benefit obtained by the QCTC under the half-rate tax concession regime.

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corporate treasury profits and corporate treasury assets of a corporation, as compared to its aggregate amount of profits and aggregate value of assets respectively, shall be 75% or above in order to be qualified as a QCTC.

[4] As specified in section 16(2)(g) of the IRO.

[5] The anti-tax arbitrage rule under section 16(1A) of the IRO is to prevent taxpayers from exploiting asymmetries in tax rates between two entities to obtain a tax advantage.

1.7 Following up on the announcement in the 2025 Policy Address, the FSTB, together with the HKMA, IRD and InvestHK, has formed a task force to take forward a study, and has come up with a proposal for enhancing the tax concession regime, the overall directions of which were outlined in the 2026-27 Budget and the Action Plan. The proposals, which are detailed in the ensuing paragraphs, seek to address the pain points, with a view to (i) attracting more multinational corporations to establish CTCs in Hong Kong, and (ii) enabling existing CTCs operating in Hong Kong to scale up their operations and fully leverage the city's comprehensive financial ecosystem.

Question 1

Do you agree that the pain points set out in paragraph 1.6 above may not be conducive to CTC development? Do you have other observations about the existing tax concession regime for CTCs that would be worthy of the Government's attention when formulating the enhancement proposals?

CHAPTER 2

PROPOSED ENHANCEMENTS TO TAX CONCESSION REGIME FOR CORPORATE TREASURY CENTRES IN HONG KONG

2.1 With reference to the pain points faced by the industry as set out in paragraph 1.6 and other suggestions we received during market engagement, we propose introducing a tiered regime, comprising two tiers as detailed below –

Tier 1 — Refine and Broaden Existing Regime

2.2 The existing tax concessionary measures applicable to all existing QCTCs and corporations conducting intra-group financing business in Hong Kong will form the basis of Tier 1, with the following refinements –

(a) If a non-Hong Kong associated corporation of a CTC is not subject to tax in a territory outside Hong Kong in a taxable period (e.g. due to losses during the taxable period), the CTC will be allowed to defer its tax deduction of interest expenses paid or payable to the non-Hong Kong associated corporation (including the expanded scope of tax deduction of interest expenses in 2.2(b) below) until the latter is subject to tax, whereas the tax deduction cannot be deferred and will be "forfeited" under the existing requirement[6];

(b) Expanding the scope of tax deduction of interest expenses paid or payable by CTCs to their non-Hong Kong associated corporations to cover other corporate treasury activities,

[6] If a QCTC or corporation that conducts intra-group financing business in Hong Kong is unable to meet the "subject to tax" condition because, for instance, the non-Hong Kong associated corporate lender is in an overall loss position and is not required to pay tax in a taxable year or period, the said QCTC/corporation will be allowed to claim deduction under section 16(2)(g) of the IRO in subsequent years of assessment once the non-Hong Kong associated corporate lender starts paying tax, provided that the interest has been included as its taxable income in the prior year when tax loss is sustained. The allowable deduction is equal to the amount of the actual tax payment made by the non-Hong Kong associated corporate lender divided by the applicable tax rate and is capped at the amount of unclaimed interest expenses paid to that associated corporate lender in previous years of assessment.

namely providing corporate treasury services (e.g. cash forecasting and pooling) and entering into corporate treasury transactions (e.g. investing the funds of the associated corporations in financial instruments), in addition to intra-group financing business; and

(c) Making legal and administrative clarifications to the following definitions under the existing tax concession regime –

(i) Specifying the substantial activity requirement under the existing QCTC tax concession regime *(e.g. specifying the substantial activity requirement as follows – a QCTC should employ at least two professional staff for conducting corporate treasury activities and incur an annual operating expenditure of at least HK$2 million on corporate treasury activities.)*

(ii) Clarifying that the benchmark of intra-group financing business set out in paragraph 10 of DIPN 52[7] serves the purpose of providing guidance to the market, but is not a strict rule qualifying what constitutes an "intra-group financing business". Such clarifications may include the following –

- adding further elaboration to clarify that all facts and circumstances of a case will be taken into consideration, if the benchmark is not met;

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[7] Paragraph 10 of DIPN 52 stipulates that –
"Generally, the Commissioner would accept that a corporation is carrying on an intra-group financing business if:
(a) the corporation has not less than four borrowing or lending transactions each month;
(b) each borrowing or lending transaction exceeds $250,000; and
(c) borrowing or lending transactions are with not less than four associated corporations in the relevant basis period.
Failure to reach the benchmark, however, would not necessarily lead to the conclusion that the corporation is not carrying on an intra-group financing business."

- ➢ providing examples to illustrate special situations encountered by specific industries (e.g. mining and aircraft leasing); and

- ➢ either (Option 1) revising the monthly threshold of borrowing or lending transactions to read *"the corporation has at least, on average, four borrowing or lending transactions each month"*; or (Option 2) removing the benchmark from DIPN 52, and instead, specifying that each case will be assessed based on facts and circumstances.

(iii) Clarifying the definition of "corporate treasury transactions", in particular –

- ➢ The meaning of "on its own account and related to the business of an associated corporation" – *The phrase is to confine the qualifying corporate treasury transactions to those that are related to the CTC and its associated corporations. In other words, corporate treasury transactions that are not related to associated corporations' business are not qualified.*

- ➢ Whether an in-house "factoring transaction" is in scope – *In-house factoring transaction fulfills the requirement of "on its own account and related to the business of an associated corporation", hence is within the scope of the definition of "corporate treasury transactions". Further elaboration will be included in DIPN 52.*

Tier 2 — Introduce a Pre-approval Mechanism

2.3 On top of Tier 1, we propose introducing a Tier 2 with pre-approval mechanism, under which a pre-approved QCTC and its pre-approved associated corporations will be entitled to additional tax benefits or flexibilities.

2.4 The pre-approval mechanism is a pre-requisite for providing such additional tax benefits or flexibilities, by imposing on such entities a set of designated conditions, which will (i) maintain safeguards to address tax avoidance concerns[8] and (ii) ensure that only credible corporates with genuine need for setting up dedicated CTCs for conducting corporate treasury activities, and those that are beneficial to Hong Kong's economy, will be eligible, having balanced the potential benefits with the financial implications and potential risks of such incentives.

2.5 Under the proposed pre-approval mechanism, a pre-approved QCTC and its pre-approved associated corporations will be entitled to the following additional tax benefits or flexibilities, among others –

(a) A pre-approved QCTC will no longer be subject to the "dedicated CTC condition" or the "safe harbour rule", with relaxed business substance requirement[9];

(b) The pre-approved Hong Kong associated corporations of a pre-approved QCTC can claim exemption on 50% of their interest income derived from the pre-approved QCTC, whereas no exemption is provided for such interest income at present;

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[8] For instance, the purpose of the existing "dedicated CTC condition" is to address tax avoidance concerns, (e.g. group company shifting its non-CTC income into the CTC half-rate regime, and creating substantial tax losses for setting off against the profits of non-CTC businesses housed under the CTC). The pre-approval mechanism, while removing "dedicated CTC condition" for pre-approved QCTCs to provide flexibilities, will in return require, as safeguards, such pre-approved QCTCs to maintain separate bank accounts and separate financial statements for their CTC business and non-CTC business, or prepare separate certified financial statements.

[9] It is proposed to replace the existing central management and control requirement with the normal management or control requirement under Tier 2. Under the existing regime, to be eligible for the concession, the CTC is required to have its central management and control exercised in Hong Kong. Generally speaking, if a corporation's directors exercise central management and control through board meetings, the relevant locality is where these meetings are held. Under the normal management or control requirement, either the management or control is required to be exercised in Hong Kong. Management refers to the management of daily business operations or implementation of the decisions made by top management, whereas control refers to control of the whole business at the top level.

(c) A pre-approved QCTC will no longer be subject to the "subject to tax condition" for claiming tax deduction for interest expenses paid or payable by it to its non-Hong Kong associated corporations; and

(d) The pre-approved Hong Kong associated corporations of a pre-approved QCTC will no longer be subject to the "anti-tax arbitrage rule". It will be allowed to claim full tax deduction for the expenses paid or payable to the pre-approved QCTC, subject to a cap set at 30% of its earnings before interest, taxes, depreciation and amortisation (i.e. EBITDA) for interest expense deduction.

2.6 The pre-approval will be granted by IRD, after consulting the HKMA and/or InvestHK where appropriate, for a five-year period subject to renewal, based on a set of objective conditions to be maintained throughout the incentive period, including the following –

(a) The group to which the CTC seeking pre-approval belongs shall have an annual turnover of at least HK$100 million;

(b) The CTC seeking pre-approval shall conduct, in every year of the incentive period, corporate treasury activities for at least six associated corporations with at least one of them located outside Hong Kong;

(c) The CTC seeking pre-approval shall incur in Hong Kong an annual operating expenditure of at least HK$4 million[10] and employ at least two professional staff for conducting corporate treasury activities. For renewal, these thresholds are increased by HK$1 million and one additional professional, respectively, in the year before renewal;

(d) The CTC seeking pre-approval shall maintain separate bank

[10] For the avoidance of doubt, operating expenditure does **not** include interest expenses.

accounts and separate financial statements for its CTC business and non-CTC business. In respect of its CTC business, separate audit shall be carried out. In the absence of separate audit for its CTC business, separate certified financial statements could be provided for assessment purpose; and

(e) The primary bank account of the CTC seeking pre-approval (i.e. which the CTC places the majority of its deposits in, and uses for the majority of its corporate treasury activities) is with an authorized institution within the meaning of the Banking Ordinance (Cap. 155) in Hong Kong.

2.7 To cater for businesses with high growth potential and strategic contributions to the economy of Hong Kong, pre-approval will be granted on an exceptional basis in case the relevant CTCs/ groups cannot meet the objective conditions above. The relevant considerations include but are not limited to the following –

(a) the circumstances surrounding the inability to meet certain objective condition(s) (e.g. in the process of setting up a CTC in Hong Kong);

(b) the group's/CTC's likelihood to meet the objective condition(s) in 2.6 above in the future;

(c) the group's growth potential;

(d) the group's commitment to Hong Kong's banking and other services;

(e) the group's ability to generate economic benefits to Hong Kong; and

(f) the scale of the operation of the corporation in terms of the extent of its corporate treasury activities to be conducted in Hong Kong.

2.8 It is anticipated that the lead time for processing a pre-approval application with all relevant information/document furnished will be six weeks.

<u>Question 2</u>

Do you agree with the proposed introduction of a tiered regime for CTC tax concessions, comprising refinements to the existing regime (Tier 1) and a pre-approval mechanism for enhanced benefits (Tier 2)? If not, please provide other suggestions with details.

<u>Question 3</u>

Do you agree with the proposed refinements to the existing regime under Tier 1 as set out in paragraph 2.2? If not, please provide other suggestions with details.

<u>Question 4</u>

As regards the proposed clarifications of "monthly threshold of borrowing or lending transactions" mentioned in paragraph 2.2(c)(ii) under Tier 1, would you consider Option (1) or (2) better?

<u>Question 5</u>

Do you agree with the additional tax benefits or flexibilities to be provided to pre-approved QCTCs and their associated corporations as set out in paragraph 2.5 above? If not, please provide other suggestions with details.

Question 6

Do you agree with the proposed objective conditions for pre-approval under Tier 2? If not, please provide other suggestions with details.

Question 7

Do you agree with providing a flexibility to grant a pre-approval on an exceptional basis set out in paragraph 2.7? Do you agree with the proposed factors of consideration? If not, please provide other suggestions with details.

Question 8

Do you agree with the proposed pre-approval period of five years, and the proposed renewal thresholds? If not, please provide other suggestions with details.

CHAPTER 3

NEXT STEPS

3.1 We welcome comments from the public and the relevant sectors to facilitate us in taking forward the proposed enhancements to the tax concession regime for CTCs in Hong Kong. Respondents are invited to offer their comments on the proposals set out in this consultation document by 4 September 2026.

3.2 Taking into account the comments to be collected, we target to (i) issue administrative clarifications for enhancing the existing tax concession regime for CTCs within 2026, and (ii) introduce into the Legislative Council the proposed legislative amendments to the IRO in the first half of 2027 for introducing the tiered regime.

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