

# HONG KONG INTRODUCES A TWO TIERED PROFITS TAX RATE REGIME



The Inland Revenue (Amendment) (No. 3) Ordinance 2018 was gazetted on 29 March 2018 in Hong Kong to implement the two-tiered profits tax regime to take effect on 1 April 2018.

The key objectives of the change in the profit tax regime are to maintain a competitive tax system to promote economic development and to maintain a simple low tax regime. The introduction of the two-tiered profit tax regime will:

- Reduce the overall tax burden for small and medium enterprises (“SME”) and start-ups;
- Allow enterprises to reinvest the tax saving to upgrade their hardware and software to boost their overall business operations and efficiency;
- Drive economic growth, create job opportunities and enhance Hong Kong’s competitiveness;
- Boost Hong Kong status as the preferred investment jurisdiction.

The two-tiered profits tax regime will apply to both corporations and unincorporated businesses (i.e., sole proprietorships and partnerships) and will apply with effect from the year of assessment 2018/2019 (i.e., commencing on or after 1 April 2018).

The applicable rates are as follows:

<u>Assessable profits</u>	<u>Tax rate/ Corporations</u>	<u>Tax rate/ Unincorporated businesses</u>
First HKD 2 million	8.25%	7.5%
Exceeding HKD 2 million	16.5%	15%

In order to avoid double tax benefits, the two-tiered profits tax regime will not apply to:

- Enterprises which have elected to be subject to the preferential half-rate tax regimes (e.g., professional reinsurance companies, captive insurance companies, corporate treasury centres and aircraft leasing companies); and
- Interest, gains or profits derived from qualifying debts instruments that are already subject to tax at half-rates under existing provisions.

To ensure that the tax benefits are targeted at SMEs the application of the two-tiered rates is restricted only to one enterprise nominated among connected entities. The Ordinance has prescribed a simple, clear and objective definition for connected entities.

If you wish to understand more on the two-tiered profits tax regime, please feel free to approach:

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