

**HONG KONG AIRCRAFT LEASING AND
AVIATION FINANCE ASSOCIATION**

Clerk to Bill Committee on the Inland Revenue (Amendment)(No.2) Bill 2017
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central
Hong Kong

19 April 2017

Dear Sir

Inland Revenue (Amendment)(No. 2) Bill 2017

The Hong Kong Aircraft Leasing and Aviation Finance Association (the “**Association**”) is honoured to have been given the opportunity to give its views on the Inland Revenue (Amendment)(No. 2) Bill 2017 (the “**Bill**”).

The Bill proposes to create a new tax regime for offshore aircraft leasing and provide tax concessions to qualifying aircraft leasing companies and aircraft leasing managers engaged in qualifying aircraft leasing activities and qualifying aircraft leasing management activities respectively in Hong Kong.

Aircraft manufacturers have forecasted new aircraft deliveries worldwide to be around 39,000 for the next 20 years, valued at approximately 5.9 trillion United States dollars. The Asia Pacific economies are expected to account for a significant part of this growth. It is forecasted that nearly half of the world’s air traffic growth will be driven by growth in Asia Pacific, including the Mainland China, with an estimated growth rate of nearly 6.3% per year.

“Aircraft leasing” has become a trend in procuring the use of aircraft by airlines, including the airlines in the Mainland China. Indeed, the Chinese Government has issued guidelines in recent years to accelerate the development of aircraft leasing industry in Mainland China for providing crucial supporting services to the aviation industry.

Given its better accessibility to the Mainland China, together with its excellent financial and aviation infrastructures and talents and a well-developed legal system, Hong Kong should be a natural choice for international aircraft leasing companies which are looking for a base in Asia for further business opportunities, in particular in Mainland China.

We are of the view that the Bill represents a significant improvement in taxation of aircraft leasing in Hong Kong. Presently, as a result of favourable tax regimes available for aircraft leasing in those countries, the major aircraft leasing hubs are in Ireland and Singapore. Under the existing tax regime in Hong Kong, the effective tax rate of an aircraft lessor engaged in aircraft leasing business in Hong Kong could be more than double of the current standard profits tax rate of 16.5% and would be significantly higher than those in the other aircraft leasing hubs. This poses a real hindrance to attracting aircraft leasing companies to set up operations in Hong Kong. Therefore, aircraft leasing business virtually does not exist in Hong Kong. Under the new tax regime proposed in the Bill, the tax burden of aircraft

leasing companies operating in Hong Kong would be more comparable to that in the other aircraft leasing hubs. Hong Kong will become an attractive place to the global aircraft leasing industry for setting up aircraft leasing platforms. The new tax regime will make it possible for aircraft leasing companies to incorporate and set up their operations base in Hong Kong.

We understand that the new tax regime proposed in the Bill has been designed to be compliant with the requirements of Base Erosion and Profit Shifting, which is key to the development of an aircraft leasing industry in Hong Kong. It is important for the new tax regime to be able to withstand changes in the tax arena in the future. The introduction of a new tax regime for offshore aircraft leasing in the Bill is a key step in the right direction for the development of an aircraft leasing industry in Hong Kong, it is however important for the Hong Kong Government to continue to give its support to the aircraft leasing industry in the future, and in particular, expand Hong Kong's tax treaty network with other countries around the world.

A growing aircraft leasing industry will create direct and indirect high value jobs in Hong Kong. It will bring about beneficial linkage effects on ancillary sectors such as banking, capital market, stock market, asset management, legal, tax advisory, accounting, corporate services and will enhance economic growth in Hong Kong. It will also strengthen the status of Hong Kong as a major global financial and aviation centre.

The members of the Association include prominent participants in the global aircraft leasing market. In the light of this favourable development in Hong Kong, we are confident that many of the members of the Association and participants in the global aircraft leasing market will give their weighty consideration to using Hong Kong as a base for their aircraft leasing operations.

The Association gives its full support to the Bill.

Yours faithfully
For and on behalf of
Hong Kong Aircraft Leasing and Aviation Finance Association



Stanley Hui Hon Chung
President