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26 January 2021

Clerk to Panel  
Panel on Financial Affairs  
Legislative Council Complex  
1 Legislative Council Road  
Central, Hong Kong  
(Attn: Miss Sharon Lo)

Dear Miss Lo,

**Panel on Financial Affairs  
Follow-up to meeting on 4 January 2021**

I refer to your letter on 4 January. Our reply is as follows.

**Attracting Private Equity Funds to Hong Kong**

We have implemented a basket of measures to foster the development of private equity (“PE”) funds, including the introduction of profits tax exemption regime for privately-offered funds in April 2019 and the Limited Partnership Fund regime in August 2020 to attract PE funds to set up and operate in Hong Kong. The Hong Kong Monetary Authority has been actively promoting the PE platform of Hong Kong through industry events and regular outreach to PE firms. Since the introduction of the Limited Partnership Fund regime, over 80 funds<sup>1</sup> have been registered.

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<sup>1</sup> Statistics as at 20 January 2021.

The proposed tax concession regime for carried interest will attract more PE funds to operate in Hong Kong, thereby generating more demands for investment management services, relevant professional services and related activities. While tax treatment is one of the factors influencing the choice of jurisdiction for fund domiciliation and operations alongside other considerations (e.g. location of investors and underlying investments, etc.), it is difficult to estimate the number of PE funds that will be attracted to operate and be managed in Hong Kong under the regime.

### **Financial Implications**

As many PE funds and their investment management service providers are currently carrying out their business and investment management activities offshore, they are not subject to taxation in Hong Kong. It is therefore difficult to estimate the financial implications of the proposed tax concession regime for carried interest accurately. As regards funds being managed in Hong Kong, since carried interest received by their investment management service providers is chargeable to tax together with other service income (e.g. management fees) derived from investment management services rendered in Hong Kong, the database of the Inland Revenue Department has not maintained a separate breakdown of tax revenue arising from carried interest. Even if an estimate was prepared, it would not be very meaningful given the considerable number of underlying assumptions involved in arriving at the figures concerned. Another relevant consideration is management fees received by investment management service providers which will remain subject to profits tax. If we manage to attract more PE funds to operate in Hong Kong, additional tax revenue will be generated from management fees.

Following the implementation of the proposed tax concession regime, the Government will assess its effectiveness on an ongoing basis to ensure that the overall objective of consolidating Hong Kong's position as Asia's premier fund hub for PE and thereby benefiting the economy as a whole is achieved, including the number of full-time employees hired and local operating expenditure incurred by the qualifying carried interest

recipients for the provision of investment management services in Hong Kong.

Yours sincerely,



( Ms Candy Lau )  
for Secretary for Financial Services and the Treasury

c.c. Commissioner of Inland Revenue (Attn: Ms Rosina Lau)  
Chief Executive, Hong Kong Monetary Authority (Attn: Mr Kenneth Hui)