

Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Bill 2022

Purpose

This paper provides information in response to the issues raised at the Bills Committee meeting on the Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Bill 2022 (“the Bill”) on 20 January 2023.

Competitiveness of Proposed Tax Concessions

2. The National 14th Five-Year Plan supports Hong Kong to strengthen its position as an international asset management centre. Hong Kong has a comprehensive financial services platform and a liquid capital market connected to the Mainland. In 2021, Hong Kong was Asia’s largest cross-border financial centre¹ with US\$2.3 trillion wealth². As at end-2022, the number of listed companies in Hong Kong stood at around 2 600 with a market capitalisation of over HK\$35.6 trillion³. Hong Kong’s unique advantages in bridging the Mainland and global markets coupled with the diversified investment choices possess considerable attractiveness in promoting family offices to establish operations in the city. The Annex sets out a comparison between the tax concessions proposed under the Bill and the relevant tax arrangements of Singapore.

Complementary Measures for Attracting Family Offices to Hong Kong

Facilitative measures and promotion

3. To promote Hong Kong as a global major family office hub, the FamilyOfficeHK team (“the dedicated team”) set up by Invest Hong Kong meets with and provides customised assistance to family offices and ultra-high net worth individuals interested in developing their foothold in Hong Kong. Specifically, the dedicated team provides one-stop support services

¹ Global Wealth 2022 Report published by Boston Consulting Group.

² Singapore’s figure for 2021 is US\$1.5 trillion.

³ Singapore has around 650 listed companies with a market capitalisation of around HK\$4.8 trillion.

to assist investors in planning, managing and expanding their family office business in Hong Kong; coordinates the liaison between family offices and relevant regulators, government departments and other stakeholders; and conducts sustained interchange with the industry and organises various programmes to collate the latest market insights on family office business, with a view to bolstering the development of family offices in Hong Kong.

4. In 2022, the dedicated team conducted over 50 investment promotion activities. The dedicated team will step up publicity and promotion through a global public relations strategy. With the full re-opening of borders, the dedicated team plans to roll out diversified and face-to-face interactive events (such as seminars, conferences, media interviews and external visits) in Hong Kong, the Mainland and overseas this year to promote Hong Kong's competitiveness as a family office hub. The dedicated team, in collaboration with its investment promotion units or its consultants based in the Economic and Trade Offices around the world, will also conduct roundtable forums with the theme of family offices in major cities. As announced in the 2022 Policy Address, the target of the dedicated team is to facilitate no less than 200 family offices to set up operations or expand their business in Hong Kong by end-2025.

5. The Government will continue to listen to the views of the industry and consider facilitative measures (on residency, talents, etc.) as appropriate for family offices to operate in Hong Kong.

Talent training

6. According to the Government's latest Report on Manpower Projection to 2027, the projected overall manpower requirement of the financial services sector will continue to rise at an annual growth rate of 1.1% from 2017 to 2027. Finding and retaining suitable talents remains a challenge for the asset and wealth management sector⁴.

7. The Government has been implementing a number of measures on talent training. The "Pilot Programme to Enhance Talent Training for the Asset and Wealth Management Sector" has been operating since 2016 to nurture more talents for the industry and enhance practitioners' professional capabilities, with over 19 000 attendees of eligible training courses and over 580 tertiary students having completed their internships. In addition, the Hong Kong Monetary Authority ("HKMA") and the Private Wealth

⁴ According to the Securities and Futures Commission's Asset and Wealth Management Activities Survey 2021, there were about 54 000 practitioners in the asset and wealth management sector as at end-2021.

Management Association has co-organised the “Pilot Apprenticeship Programme for Private Wealth Management” since 2017 to provide professional training and employment opportunities for university students interested in private wealth management work. Over 300 university students have participated in the Programme thus far.

8. In light of new development trends in the financial services industry, the Government also launched two rounds of the “Financial Practitioners FinTech Training Programme” in 2020 and 2022 respectively, attracting participation by about 4 000 practitioners. In addition to providing Fintech training courses and tuition subsidy for practitioners, the second round of the Programme provides financial support to trade associations in designing specific training programmes for practitioners. Meanwhile, with the first batch of Fintech professional qualifications for the banking sector rolled out in 2022, the HKMA has implemented the “Pilot Scheme on Training Subsidy for FinTech Practitioners” to provide tuition subsidy for practitioners having attained Fintech professional qualifications. The HKMA will also conduct a consultancy study this year to continue with the development of Fintech professional qualifications for different financial areas, thereby promoting a comprehensive professional development of Fintech talents.

9. In December 2022, the Government introduced the newest Pilot Green and Sustainable Finance Capacity Building Support Scheme to encourage local eligible practitioners and prospective practitioners to participate in training related to green and sustainable finance. Upon completing eligible programmes, applicants can apply for a subsidy of up to 80% of the relevant fees⁵, subject to a ceiling of \$10,000. There are 19 eligible programmes at launch, as provided by the professional and continuing education schools of local universities, professional institutions, international training providers, etc. The list of eligible programmes will continue to be updated.

Scope of Tax Exemption

10. Classes of assets specified in Schedule 16C to the Inland Revenue Ordinance include securities, futures contracts, foreign exchange contracts, certificates of deposit, derivative products, etc. If assets related to environment, social and governance or in the Mainland (including the Guangdong-Hong Kong-Macao Greater Bay Area) are covered by the

⁵ Full-time student applicants can apply for a subsidy of up to 100% of the relevant fees.

classes of assets specified in Schedule 16C, relevant transactions fulfilling the conditions specified under the Bill will be exempted from payment of profits tax.

11. For virtual assets and immovable properties outside Hong Kong, if for example, a family-owned investment holding vehicle (“FIHV”) invests in these assets through transactions in crypto asset exchange-traded funds or real estate investment trusts covered by Schedule 16C, relevant transactions fulfilling the conditions specified under the Bill will also be exempted from payment of profits tax. In addition, classes of assets specified in Schedule 16C include shares, stocks, debentures, loan stocks, funds, bonds, etc., of a private company. If a private company holds virtual assets or immovable properties outside Hong Kong and an FIHV invests in the company, relevant transactions fulfilling the conditions specified under the Bill will similarly be exempted from payment of profits tax.

Ownership of FIHVs

12. As proposed under the Bill, one or more than one member of a family must have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in an FIHV during the basis period for the year of assessment. The remaining 5% of the beneficial interest can be held by other persons (including charitable institutions). The 95% threshold makes reference to the definition of an investment entity under the Global Anti-Base Erosion Rules promulgated by the Organisation for Economic Co-operation and Development (i.e. an entity at least 95% owned by an investment fund or a real estate investment vehicle or through a chain of such entities for asset holding purposes).

**Financial Services and the Treasury Bureau
Inland Revenue Department
February 2023**

Comparison between tax concessions proposed under the Bill and relevant tax arrangements of Singapore

	Tax concessions proposed under the Bill	Relevant tax arrangements of Singapore (Note 1)
Advance approval	not required	required
FIHV Structure	no restrictions	no restrictions
Asset under management (“AUM”)	HK\$240 million	S\$50 million (around HK\$280 million) (Note 2)
Local investment requirement	not required	10% AUM or S\$10 million, whichever is the lower
Substantial activities requirement	At least 2 qualified full-time employees and HK\$2 million annual operating expenditure	At least 3 investment professionals; S\$500,000 (around HK\$2.8 million) or S\$1 million (around HK\$5.6 million) annual business spending subject to AUM

Note 1: Reference to section 13U of Singapore’s Income Tax Act.

Note 2: Separately, under section 13O of Singapore’s Income Tax Act (applicable to resident companies incorporated in Singapore), companies eligible for tax concession must have an AUM of at least S\$10 million (around HK\$56 million) at the time of application, and undertake to increase its AUM to S\$20 million (around HK\$112 million) within two years.

Note 3: Regarding the tax concessions arrangements of the UK and the US as raised by Members, available information suggests that capital gains of investors are subject to tax in both countries which apparently do not have a dedicated tax concessions regime for family offices. For taxation purposes, certain holding entities may be treated as flow-through entities or fiscally transparent entities in the two countries such that the income of these entities is treated as the income of the investors or owners and taxed.