File Ref: ASST/3/1/5C(2026)

LEGISLATIVE COUNCIL BRIEF

Inland Revenue Ordinance
(Chapter 112)

Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Bill 2026

INTRODUCTION

At the meeting of the Executive Council on 9 June 2026, the Council **ADVISED** and the Chief Executive **ORDERED** that the Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Bill 2026 ("the Bill"), at

A **Annex A**, should be introduced into the Legislative Council ("LegCo") to enhance the preferential tax regimes for privately-offered funds, family-owned investment holding vehicles ("FIHVs") managed by eligible single family offices ("SFOs") and carried interest, with a view to attracting more funds and family offices to establish a presence in Hong Kong.

JUSTIFICATIONS

2. Hong Kong is an international asset and wealth management ("WAM") centre, with assets under management reaching HK35.1 trillion at end-2024. As the world's largest cross-border wealth management centre and Asia's largest hedge fund hub, Hong Kong ranks first globally in the "investment management" sector under the Global Financial Centres Index.

3. The National 15th Five-Year Plan supports Hong Kong in strengthening its functions as an international asset and wealth management centre (國際資產及財富管理中心). In this connection, the Government is all along committed to reinforcing our competitiveness as the premier asset and wealth management centre in the region, including through providing a competitive tax environment to attract more funds and family offices to set up and operate in Hong Kong. Since 2019, we have introduced three sets of preferential tax regimes with the aim of facilitating the development of the WAM industry, namely –

(a) the Inland Revenue (Profits Tax Exemption for Funds) (Amendment) Ordinance 2019 (5 of 2019), which came into operation in April 2019, to provide profits tax exemption for privately-offered funds[1] in respect of their profits earned from transactions in certain prescribed classes of assets (i.e. those specified in Schedule 16C to the IRO, referred to as "qualifying investments" below), regardless of their structure, size and location of central management and control (hereinafter referred to as the unified tax regime for funds or "UFR", given its coverage of both onshore and offshore funds);

(b) the Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Ordinance 2021 (9 of 2021), which came into operation in May 2021, to provide profits tax and salaries tax concession for eligible carried interest[2] distributed by eligible private equity funds operating in Hong Kong; and

(c) the Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Ordinance 2023 (8 of 2023), which came into operation in May 2023, to provide profits tax concession for eligible FIHVs managed by eligible SFOs in Hong Kong.

4. Tax treatment is often cited as a key factor considered by investors and asset managers when deciding where to locate their investment operations. The aforementioned preferential tax regimes for the WAM industry have been very well-received since introduction. The Government has been maintaining close communication with the industry on the implementation of the preferential tax regimes, with a view to further enhancing the attractiveness and competitiveness of the tax regimes. In the 2025 Policy Address, it is committed that the Government will introduce the relevant legislative proposal into LegCo in the first half of 2026.

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1 As for publicly-offered funds that are authorised by the Securities and Futures Commission ("SFC"), they enjoy a blanket tax exemption under a separate tax exemption regime, which applies to all income derived at the fund level without any anti-round tripping measure.

2 Carried interest in general refers to a return to the fund manager linked to the fund's performance, typically upon the disposal of the underlying investments after they have been held for a period of time and subject to the fulfilment of a hurdle rate (which means a preferred rate of return on investment in the fund as stipulated in the agreement for governing the operation of the fund).

THE PROPOSAL

5. The Financial Services and the Treasury Bureau ("FSTB") has conducted a review on the preferential tax regimes together with the Hong Kong Monetary Authority ("HKMA"), the SFC and the Inland Revenue Department ("IRD") and in consultation with the industry, including through industry consultation from November 2024 to January 2025 and further engagement sessions in June 2025. Having considered the views received, we propose the following enhancements to the tax regimes.

Proposed enhancements to the UFR

Definition of "fund"

6. Currently, under the UFR, the definition of "fund" models on the definition of "collective investment scheme" under the Securities and Futures Ordinance (Cap. 571) (which requires that the relevant contributions should be pooled). "Funds-of-one" generally do not satisfy this definition and are not regarded as funds[3]. To facilitate the usage of the tax regime by an expanded scope of funds and to attract sizeable single investors, we propose expanding the definition of "fund" to cover the following fund structures, subject to anti-avoidance measures (such as the tests applicable to transactions in private companies and anti-round tripping rules mentioned in paragraphs 14 and 15 respectively):

(a) pension funds;

(b) endowment funds, covering charitable entities that are exempt from tax under section 88 of the IRO;

(c) a fund with a governmental entity, a central bank or an international organization[4] as its sole investor; and

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3 Notwithstanding that sovereign wealth funds do not satisfy the definition of "collective investment scheme", the relevant legislation already provides that sovereign wealth funds are also funds.

4 Reference will be made to the International Organizations (Privileges and Immunities) Ordinance (Cap. 558) and International Organizations and Diplomatic Privileges Ordinance (Cap. 190). Examples include the World Trade Organisation, the International Monetary Fund, the United Nations, the Asian Development Bank, and the Asian Infrastructure Investment Bank.

(d) an arrangement with only one investor and with the value of qualifying investments managed not less than $240 million[5], provided that the investor does not have day-to-day control over the management of the property.

The proposed coverage of certain types of "fund-of-one" arrangements at (c) and (d) above is to cater for the common practice for institutional or ultra-high-net-worth investors to have bespoke arrangements of wholly-owned funds to meet their investment needs. We also propose that all the above newly scoped-in funds at (a) to (d) above, as well as sovereign wealth funds (hereinafter referred to as "excepted funds" collectively) do not need to be managed by a specified person[6].

7. To provide clarity for the industry and for the avoidance of doubt, we also propose setting out explicitly in the legislation that transacting in or deriving profits from qualifying investments will not by itself render an entity to be regarded as a business undertaking for general commercial or industrial purposes (otherwise, it would have caused the entity to be regarded as not a fund[7] and hence ineligible for tax exemption)[8].

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5 We propose that loans from participating persons need not be deducted from the calculation of the value of qualifying investments managed to provide greater flexibility for participating persons to inject capital into the fund. For the avoidance of doubt, loans from parties other than participating persons (e.g. bank loans) will still be deducted from the calculation of the value of qualifying investments managed.

Similarly, we also propose introducing the same calculation approach under the tax concessionary regime for FIHVs, in which loans from holders of direct beneficial interest will not need to be deducted from the calculation of the value of qualifying investments managed, as opposed to the current calculation based on "net asset value" where such loans are treated as financial liabilities and deducted from the total asset value.

6 Under section 20AN(6) of the IRO, a specified person means (i) a corporation licensed under Part V of the Securities and Futures Ordinance (Cap. 571) to carry on, or (ii) an authorized financial institution registered under that Part for carrying on, a business in any regulated activity as defined by Part 1 of Schedule 5 to that Ordinance. The requirement for the fund to engage a specified person has been a condition for the fund to be eligible under the UFR. As these excepted funds are to be deemed as eligible solely for their particular structure, we propose this relaxation such that these funds may hire their own preferred fund managers who are not necessarily licensed entities or authorized financial institutions.

7 Currently, section 20AM(6) of the IRO provides that a business undertaking for general commercial or industrial purposes is not a fund, whereas section 20AM(7) of the IRO provides that a business undertaking for general commercial or industrial purposes includes a business undertaking that directly engages in various activities such as purchase and sale of assets and money lending.

8 The UFR also provides a broader tax exemption for open-ended fund companies ("OFCs"), which are regulated by the SFC and subject to the ongoing supervision and compliance monitoring under the Securities and Futures Ordinance (Cap. 571), and OFCs enjoy tax exemption on their transactions in non-qualifying investments as well. As such, with respect to OFCs the proposed

Qualifying investments

8. We propose expanding the scope of qualifying investments to cover immovable property situated outside Hong Kong, emission derivatives/emission allowance and carbon credits, insurance-linked securities, equity interests in non-corporate private entities[9], loans (including private credit investments, the same hereinafter), digital assets, precious metals[10], and specified commodities (i.e. those in connection with and incidental to the trading of over-the-counter ("OTC") derivative products or futures contracts[11]). The full list of qualifying investments with the proposed amendments is at **Annex B**.

B

Profits eligible for profits tax exemption

9. Currently, a fund or its special purpose entity ("SPE") may enjoy profits tax exemption on its profits from transactions in qualifying investments ("qualifying transactions") and those transactions incidental to the carrying out qualifying transactions ("incidental transactions") (subject

carve-out would also apply to their transactions in non-qualifying investments and activities for deriving profits therefrom.

9 For non-corporate private entities, examples include business trusts, private trusts, partnerships, limited liability companies, and Tokumei Kumiai (匿名組合), a Japanese silent-partnership structure commonly used in investment deals. Separately, the industry has suggested to scope in equity interests in Tokutei Mokuteki Kaisha (特定目的會社), which is a type of Japanese special purpose vehicle structure commonly used in asset securitisation, and the IRD would issue administrative guidance to clarify that such interests already fall within the definition of "securities" which is currently a category of qualifying investments.

10 Currently, gold and silver traded on the Hong Kong Gold Exchange are already qualifying investments. The proposed addition of "precious metals" aims to scope in gold and silver traded through other channels, as well as precious metals other than gold and silver. Given the unique characteristics of precious metals as both a financial investment product and a physical commodity, to avoid possible tax abuse, it has to be subject to the condition that value of the investments in such precious metals (i.e. those other than gold or silver traded on the Hong Kong Gold Exchange) do not exceed 20% of the total investment portfolio. The level of the proposed cap is higher than that in nearby jurisdictions and would maintain Hong Kong's competitiveness. As committed in the 2026–27 Budget, FSTB will explore offering tax incentives for eligible institutions conducting gold trading and settlement in Hong Kong. We will further review the aforesaid cap, especially whether and how it should apply to gold traded and settled under the central clearing system being developed by the Government.

11 Currently, OTC derivative products and futures contracts (including those of commodities) are already qualifying investments. The objective of scoping in these specified types of commodities is to cater for the situation where the fund is required to undertake physical settlement in respect of derivative products. As such, it has to be subject to the condition that the trade volume of those commodities traded by the fund or SPE in that basis period does not exceed 15% of the total trade volume of those commodities and related commodity derivatives traded by the fund or SPE in that basis period.

to a 5% cap[12]). To provide for more flexibility for funds and SPEs on deriving profits (say, through interest income) from qualifying investments, we propose including all profits derived by funds and SPEs from qualifying investments as profits eligible for the tax exemption, subject to fulfilment of other conditions[13]. In other words, the 5% threshold requirement for incidental transactions would be removed.

10. On the other hand, to enhance tax certainty and avoid disputes, an exclusion list would be introduced whereby income specified in the list will not qualify for the tax exemption. For example, income derived from private companies which engage in trading or development of immovable properties in Hong Kong[14] would be covered in the exclusion list. The exclusion list may be updated from time to time by the Commissioner of Inland Revenue by notice published in the Gazette.

Treatment of SPEs

11. Currently, the extent of tax exemption for a fund's SPE is equal to the percentage of the fund's ownership in the SPE. Taking account of industry's feedback that the fund's beneficial interests in the SPE can vary widely in real-world co-investment arrangements, we propose granting full tax exemption to a fund's SPE regardless of the extent of the fund's ownership, subject to the same anti-round tripping provisions applicable to funds[15]. Should the anti-round tripping provisions be triggered for any co investor of the SPE, the co-investor will be subject to profits tax in respect of their share of profits derived from the SPE from qualifying investments, and such tax will be charged at the co-investor's level.

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12 The trading receipts from the incidental transactions should not exceed 5% of the total trading receipts from qualifying transactions and incidental transactions.

13 In relation to the other conditions for exemption, we propose that a fund may enjoy exemption if (a) its qualifying investments are primarily managed in Hong Kong by or through a specified person, or (b) the fund is, at all times during the basis period, an excepted fund or a qualified investment fund. For the purpose of (a), the term "managed" covers activities in the course of asset management, including the acquisition and disposal of assets.

14 Income derived from an investment in an entity that engages in a regular business other than property trading but has carried out a one-off property trading transaction which is an adventure in the nature of trade may still qualify for the tax exemption. This aligns with the Tax Certainty Enhancement Scheme whereby an investee entity that engages in a regular business other than property trading but has carried out a one-off property trading transaction which is an adventure in the nature of trade would not be regarded as an excluded entity.

15 Both the existing general anti-round tripping provisions, and the proposed new specific anti-round tripping provisions in relation to loans (see paragraph 15 below), are proposed to apply to SPEs in a similar manner.

12. Separately, the industry has expressed concerns that the existing definition of SPE does not cater for all the activities performed by an SPE. For instance, an SPE may carry out financing activities in relation to investments to be acquired by it. We therefore propose expanding the scope of SPEs' activities to cover the acquisition, holding, administering and disposal of investee private companies and/or another SPE and activities incidental to those activities.

Tests applicable to transactions in private companies

13. The UFR features immovable property test, holding period test, control test and short-term asset test[16] in relation to a fund or SPE's investment in shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, a private company to avoid tax abuse. In view of the proposed inclusion of loans, as well as equity interests in non-corporate private entities, as qualifying investments (see paragraph 8 above), we propose adjusting the scope of the four tests to cover equity investment/interest in private companies and non-corporate private entities (vis-à-vis the current rule of investments in private companies in general, which include both equity and debt investments).

Anti-round tripping

14. To facilitate resident investors' investment in UFR funds, we propose relaxing the anti-round tripping provisions with reference to the exclusions under the tax concessionary regime for FIHVs. Specifically, the following persons (i.e. investors) would be excluded from the application of the anti-round tripping provisions –

(a) a resident person who is a natural person;

(b) a resident person who is a fund exempt from the payment of tax under the UFR ("an exempted fund");

(c) a resident person who is not chargeable to profits tax or whose profits derived from qualifying investments would not have included in the person's assessable profits if the assets had been

[16] As detailed in sections 20AP and 20AQ of the IRO.

held, or the transactions in those assets had been undertaken, directly by the person ("an exempted person"); and

(d) a resident person, being an interposed entity between (A) the resident individuals, exempted funds, exempted persons or non-residents and (B) the fund, that –

(i) is not a business undertaking for general commercial or industrial purpose;

(ii) does not carry on any trade or business in Hong Kong; and

(iii) at least 95% of direct or indirect beneficial interest of which is owned by one or more than one resident individuals, exempted funds, exempted persons or non-residents.

15. Separately, in light of the proposed inclusion of loans as qualifying investments, we propose introducing specific anti-round tripping provisions against financial institutions, insurance companies or persons carrying on a money lending business or an intragroup financing business in respect of profits derived by the fund from loans[17].

Tax reporting and economic substance requirement

16. For the purposes of effective administration of the UFR and meeting the international standards for tax transparency, we propose implementing a tax reporting mechanism for funds (and their SPEs if any) benefiting from the enhanced UFR, under which their fund managers or authorized representatives are required to provide certain accounting data of the funds and SPEs concerned, as well as information showing that the tax exemption conditions and economic substance requirements are satisfied. When formulating the details of the tax reporting mechanism, the

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[17] Specifically, if a financial institution, insurance company or person carrying on a money lending business or an intragroup financing business–
(a) has 20% or more beneficial interest in a fund (or any percentage if the fund is an associate of the financial institution, insurance company or person carrying on a money lending business or an intragroup financing business); or
(b) has control or significant influence over a fund,
the relevant institution will be deemed to have derived assessable profits in respect of profits derived by the fund from loans.

Government will take into consideration the industry's views and strive to minimise the compliance burden on funds and SPEs. The data points required are limited to information that is strictly necessary to assess effectiveness and compliance with the regime. Aggregate reporting is used for key financial and economic substance requirements across funds and SPEs managed by the fund manager. To allow the industry to have sufficient time to prepare for the tax reporting, a transitional arrangement will be provided for the first year of implementation (i.e. 2025/26) to extend the filing deadline. Details of the reporting arrangements will be set out by the IRD after enactment of the amendment ordinance.

17. In line with international tax standards against harmful tax practices, we also propose stipulating the economic substance requirements for funds in terms of local employment and spending, similar to the requirements in the tax concessionary regime for FIHVs. The proposed thresholds are –

(a) the average number of qualified employees is adequate in the opinion of the Commissioner of Inland Revenue and is in any event not less than 2; and

(b) the total amount of annual operating expenditure incurred in Hong Kong is adequate in the opinion of the Commissioner of Inland Revenue and is in any event not less than HK$2 million.

Proposed enhancements to the tax regime for FIHVs

18. As the tax concessionary regime for FIHVs is largely modelled on the UFR, similar enhancements for the tax regime for FIHVs in the following aspects will be introduced –

(a) calculation of the aggregate value of qualifying investments managed by an eligible SFO[18] (see footnote 5 above);

(b) qualifying investments (see paragraph 8 above);

(c) profits eligible for profits tax concession (see paragraphs 9 to 10 above);

[18] Currently, the aggregate value of qualifying investments managed by an eligible SFO for the FIHV (or multiple FIHVs) of a family must be at least HK$240 million.

(d) treatment of family-owned special purpose entities ("FSPEs") (see paragraphs 11 to 12 above);

(e) tests applicable to an FIHV/FSPE's transactions in private companies (see paragraph 13 above); and

(f) specific anti-round tripping provisions against financial institutions, insurance companies or persons carrying on a money lending business or an intragroup financing business in respect of profits derived by the FIHV from loans (see paragraph 15 above).

Proposed enhancements to the tax regime for carried interest

Certification requirement for funds

19. Currently, under the tax concessionary regime for eligible carried interest, a fund must go through a certification process implemented by the HKMA. We propose removing the HKMA's certification requirement to streamline the implementation process.

Qualifying payers of eligible carried interest

20. Under the current tax regime, carried interest eligible for profits tax concession should be received from a "qualifying payer", which includes the relevant private equity fund and the associated corporation/associated partnership of the fund. To better align the tax concessionary regime with market practice, we propose expanding the coverage of "associate" so that entities within the same group (regardless of their legal forms) will be covered by the definition of "qualifying payer".

Hurdle rate

21. According to the industry's feedback, the distribution of carried interest for certain start-up funds or angel funds may not be subject to a specific hurdle rate[19] specified under the constitutive documents of the funds, and uncertainty would arise as to whether distributions to qualifying persons would be eligible carried interest under the tax concessionary regime. To provide further tax certainty, we propose removing the reference to a

[19] Please refer to footnote 2 for the description of carried interest and hurdle rate.

hurdle rate in defining eligible carried interest under the tax regime.

Transactions giving rise to eligible carried interest

22. We propose expanding the scope of transactions giving rise to eligible carried interest beyond typical private equity investments to cover other qualifying transactions such that fund managers of all types of tax-exempt funds and their employees can enjoy carried interest tax concessions. Specifically, the sources of profits of a fund which may give rise to eligible carried interest include –

(a) profits which are exempt from payment of tax under the UFR;

(b) profits which are not chargeable to tax in Hong Kong for reasons other than exemption under the UFR (e.g. offshore income); and

(c) a fund's other taxable profits.

Definition of "qualifying person"

23. Under the current tax regime, a "qualifying person" can receive and accrue eligible carried interest from a qualifying payer. In light of the expanded scope of funds under the UFR, we also propose refining the definition of "qualifying person" to cover unlicensed fund managers of excepted funds under the UFR.

Payment of eligible carried interest to qualifying employees

24. In order to accommodate different possible distribution arrangements of carried interest, we propose removing the requirement that eligible carried interest has to be "paid through the qualifying person", and providing tax exemption for cases where the carried interest is received through a carry vehicle or by a personal investment entity on behalf of qualifying employees[20].

25. We also propose broadening the scope of "associate" by adopting the reference to "closely related entity", consistent with the proposed

[20] "Qualifying employees" are employed by a "qualifying person" (or its associated entity in Hong Kong) and provide investment management services in Hong Kong for the qualifying person.

modification to the definition of "qualifying payer" (paragraph 20 above) so that an individual employed by entities within the same group (regardless of their legal forms) could meet the definition of "qualifying employee".

OTHER OPTIONS

26. We must amend the IRO to enhance the preferential tax regimes for privately-offered funds, FIHVs managed by eligible SFOs and carried interest. There is no other option.

THE BILL

27. The Bill amends the IRO, with main provisions as follows –

(a) Clause 3 amends section 20AM to expand the definition of "fund" under the UFR;

(b) Clause 4 adds a new section 20AMA to provide for the economic substance requirement under the UFR;

(c) Clauses 5 and 6 amend sections 20AN and 20AO respectively to adjust the conditions upon which profits tax exemption is provided for funds and SPEs under the UFR (including removing the 5% threshold requirement for incidental transactions and relaxing the tax exemption treatment for SPEs);

(d) Clauses 7 and 8 amend sections 20AP and 20AQ respectively to revise the application of "four tests" in relation to a fund or SPE's equity investment/interest in private companies, as well as in non-corporate private entities;

(e) Clauses 12, 13 and 14 amend sections 20AW, 20AX and 20AY respectively to adjust the anti-round tripping provisions;

(f) Clause 15 adds new sections 20AZ, 20AZA, 20AZB, 20AZC, 20AZD and 20AZE to provide for the tax reporting requirements for funds under the UFR;

(g) Clause 19 amends section 80, and Clause 20 adds a new section 80Y, to create new offences in relation to failure to comply with relevant requirements under the new tax reporting mechanism under the UFR;

(h) Clause 24 amends Schedule 16C to expand the scope of qualifying investments;

(i) Clause 25 amends Schedule 16D to provide for the relevant enhancements to the tax regime for carried interest;

(j) Clause 26 amends Schedule 16E to provide for the relevant enhancements to the tax regime for FIHVs; and

(k) Clause 30 adds a new Schedule 16L which being the "exclusion list", i.e. list of income not qualifying for tax exemption under the UFR.

C

28. The existing provisions being amended are at **Annex C**.

LEGISLATIVE TIMETABLE

29. The legislative timetable is as follows –

Publication in the Gazette	12 June 2026
First Reading and commencement of Second Reading debate	24 June 2026
Resumption of Second Reading debate, committee stage and Third Reading	To be notified

IMPLICATIONS OF THE PROPOSAL

D

30. The Bill is in conformity with the Basic Law, including the provisions concerning human rights. It will not affect the current binding effect of the existing provisions of the IRO. There are no productivity, civil service, environmental, family, and gender implications. It has no sustainability implications other than those set out under the economic implications. The financial and economic implications are set out at **Annex D**.

PUBLIC CONSULTATION

31. The Government conducted an industry consultation from November 2024 to January 2025 and further engagement sessions in June 2025 to sound out the industry on the enhancement proposals. The financial services industry welcomed the proposed enhancements in general. The industry also commented that the proposed tax reporting requirements should minimize the compliance burden. We have taken into account the industry's feedback when preparing the proposal at paragraphs 5 to 25 above. We also consulted the LegCo Panel on Financial Affairs on the proposal on 2 March 2026. Members generally supported the proposal.

PUBLICITY

32. We will issue a press release upon gazettal of the Bill, and arrange a spokesperson to answer media enquiries.

ENQUIRIES

33. Enquiries relating to this brief can be directed to Mr Marco Chu, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2810 2054.

Financial Services and the Treasury Bureau
10 June 2026

Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Bill 2026

Contents

A BILL

To

Amend the Inland Revenue Ordinance to adjust the profits tax exemption for funds and related entities; to adjust the profits tax concessions for family-owned investment holding vehicles and related entities; to adjust the profits tax and salaries tax concessions for carried interest; and to provide for related matters.

Enacted by the Legislative Council.

1. Short title

This Ordinance may be cited as the Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Ordinance 2026.

2. Inland Revenue Ordinance amended

The Inland Revenue Ordinance (Cap. 112) is amended as set out in sections 3 to 31.

3. Section 20AM amended (what *fund* means in sections 20AN, 20AO, 20AP, 20AQ, 20AR, 20AS, 20AT, 20AU, 20AV, 20AW, 20AX and 20AY and Schedules 15C, 15D and 16C)

(1) Section 20AM, heading, after "**sections**"—

Add

"**20AMA,**".

(2) Section 20AM, heading—

Repeal

"and 20AY"

Substitute

", 20AY, 20AZ, 20AZA and 20AZB".

(3) Section 20AM(1), after "sections"—

Add

"20AMA,".

(4) Section 20AM(1)—

Repeal

"and 20AY"

Substitute

", 20AY, 20AZ, 20AZA and 20AZB".

(5) Section 20AM—

Repeal subsection (4)

Substitute

"(4) Each of the following is also a ***fund***—

(a) an arrangement (commonly known as a sovereign wealth fund) that is established and funded by a state or government (or any political subdivision or local authority of a state or government) for the purposes of—

(i) carrying out financial activities; and

(ii) holding and managing a pool of assets,

for the benefit of the state or government (or the political subdivision or local authority);

(b) an arrangement (commonly known as a pension fund) that is—

(i) established and operated in a jurisdiction exclusively or almost exclusively to administer or provide retirement benefits and ancillary or incidental benefits to individuals; and

(ii) regulated as such by the jurisdiction (or any political subdivision or local authority of the jurisdiction);

(c) an arrangement (commonly known as an endowment fund) that is established and funded by a charitable entity for the purposes of—

(i) carrying out financial activities; and

(ii) holding and managing a pool of assets,

for the benefit of the charitable entity;

(d) an arrangement funded by one of the following entities as its sole participating person—

(i) a governmental entity;

(ii) a central bank;

(iii) an organization to which section 2 of the International Organizations and Diplomatic Privileges Ordinance (Cap. 190) applies;

(iv) an international organization that enjoys a status, privilege or immunity pursuant to a provision of an international agreement or arrangement (as the case requires) that has the force of law in Hong Kong under an order made under section 3 of the International Organizations (Privileges and Immunities) Ordinance (Cap. 558);

(e) an arrangement—

(i) that is funded by only one participating person who does not have day-to-day control over the management of the property in respect of which the arrangement is made (whether or not that person has the right to be consulted on, or to give directions in respect of, the management); and

(ii) the value of assets falling within a class specified in Schedule 16C under management in which is not less than $240,000,000.

(4A) In subsection (4)—

central bank (中央銀行)—

(a) means an institution in a jurisdiction that is, by law or government sanction, the principal authority in the jurisdiction, other than the government of the jurisdiction itself, issuing instruments intended to circulate as currency, and includes an instrumentality that is separate from the government of the jurisdiction, whether or not owned, in whole or in part, by the government of the jurisdiction; but

(b) does not include an institution that carries on a trade or business;

charitable entity (慈善實體) means a charitable institution or trust of a public character that is exempt from tax under section 88;

governmental entity (政府實體) means an entity that meets all of the following criteria—

(a) it is part of or wholly owned by the government of a jurisdiction (including any political subdivision or local authority of the government);

(b) it does not carry on a trade or business and has the principal purpose of—

(i) fulfilling a government function; or

(ii) managing or investing the government's or jurisdiction's assets through the making and holding of investments, asset management, and related investment activities for the government's or jurisdiction's assets;

(c) it is accountable to the government on its overall performance, and provides annual information reporting to the government;

(d) its assets vest in the government on dissolution and to the extent it distributes net earnings, such net earnings are distributed solely to the government with no portion of its net earnings inuring to the benefit of any private person.

(4B) For the purposes of subsection (4)(e)(ii), the value of assets under management is to be determined in the manner specified by the Commissioner.".

(6) Section 20AM(5)(b)—

Repeal

"persons participating in the arrangement (***participating persons***)"

Substitute

"participating persons".

(7) After section 20AM(5)—

Add

"(5A) Subsection (5)(c) does not apply if the fund is an arrangement mentioned in subsection (4)(b).".

(8) Section 20AM(7)(c)—

Repeal

"or property holding"

Substitute

"in Hong Kong or property holding in Hong Kong".

(9) After section 20AM(7)—

Add

"(8) For the purposes of subsection (6), a business undertaking is not to be regarded as a business undertaking for general commercial or industrial purposes only because it carries out transactions in or derives profits from—

(a) if it is not an open-ended fund company—any assets of a class specified in Schedule 16C; or

(b) if it is an open-ended fund company—any assets, regardless of whether the assets fall within a class specified in Schedule 16C.".

4. Section 20AMA added

After section 20AM—

Add

"20AMA. Application of exemption under section 20AN to funds

(1) Section 20AN applies to a fund for a year of assessment if the conditions specified in subsection (2) are satisfied in relation to the fund.

(2) The conditions are—

(a) that the average number of qualified employees during the basis period for the year of assessment—

(i) is adequate in the opinion of the Commissioner; and

(ii) is in any event not less than 2; and

(b) that the total amount of operating expenditure incurred in Hong Kong for carrying out investment management activities during the basis period—

(i) is adequate in the opinion of the Commissioner; and

(ii) is in any event not less than $2,000,000.

(3) For the purposes of subsection (2)(a), a person is a qualified employee in relation to a fund during the basis period if the person, during the basis period—

(a) is a full-time employee in Hong Kong;

(b) carries out an investment management activity for the fund in Hong Kong; and

(c) has the qualifications necessary for carrying out the activity mentioned in paragraph (b).

(4) In this section—

investment management activity (投資管理活動), in relation to a fund, includes—

(a) seeking funds for the fund;

(b) researching and advising on potential investments to be made for the fund;

(c) acquiring, managing or disposing of property or investments for the fund; and

(d) acting for the fund with a view to assisting an entity in which the fund has made an investment to raise funds.".

5. Section 20AN amended (certain profits of certain funds exempt from payment of profits tax)

(1) Section 20AN—

Repeal subsection (1).

(2) Section 20AN(2)—

Repeal

"at all times".

(3) Section 20AN(2)—

Repeal

"subject to sections 20AP and 20AQ"

Substitute

"subject to subsection (3A) and sections 20AP, 20AQ and 20AS".

(4) Section 20AN(2)—

Repeal

"earned"

Substitute

"derived".

(5) Section 20AN(2)—

Repeal paragraphs (a) and (b)

Substitute

"(a) if the fund is not an open-ended fund company—any assets of a class specified in Schedule 16C; or

(b) if the fund is an open-ended fund company—any assets, regardless of whether the assets fall within a class specified in Schedule 16C.".

(6) Section 20AN(2)—

Repeal paragraph (c).

(7) Section 20AN(2A)—

Repeal

"subsection (2)(a)"

Substitute

"subsection (2)".

(8) Section 20AN(2A)—

Repeal

"and transactions in such assets may be carried out by the entity on behalf of the fund".

(9) Section 20AN(3)—

Repeal paragraphs (a) and (b)

Substitute

"(a) that the assets of the fund that fall within a class specified in Schedule 16C are—

(i) primarily managed in Hong Kong; and

(ii) managed by or through a specified person; or

(b) that, at all times during the basis period, the fund—

(i) falls within the description in section 20AM(4)(a), (b), (c), (d) or (e); or

(ii) is a qualified investment fund.".

(10) After section 20AN(3)—

Add

"(3A) However, subsection (2) does not exempt a fund from the payment of tax chargeable in respect of those of its assessable profits for the basis period that are income specified in Schedule 16L.".

(11) Section 20AN—

Repeal subsection (4).

(12) Section 20AN(5), after "16C"—

Add

"or 16L".

(13) Section 20AN(6)—

Repeal the definition of *control*

Substitute

"***control*** (控制), in relation to an entity (***Party A***), means the power of a person or another entity (***Party B***) to secure—

(a) by means of the holding of interests or the possession of voting power in or in relation to Party A or any other entity; or

(b) by virtue of any powers conferred by an agreement or other document regulating Party A or any other entity,

that the affairs of Party A are conducted in accordance with the wishes of Party B;".

(14) Section 20AN(6)—

Add in alphabetical order

"***entity*** (實體) means a body of persons (corporate or unincorporate) or a legal arrangement, and includes—

(a) a corporation;

(b) a partnership; and

(c) a trust;".

6. Section 20AO amended (certain profits of special purpose entities exempt from payment of profits tax)

(1) Section 20AO—

Repeal subsection (1)

Substitute

"(1) This section applies to a special purpose entity if—

(a) a fund that is exempt from the payment of tax under section 20AN in respect of its assessable profits for a year of assessment has a beneficial interest (whether direct or indirect) in the special purpose entity; and

(b) (if the beneficial interests in the special purpose entity are not wholly held by the fund) any of the persons making capital contribution to the special purpose entity does not have day-to-day control over the management of the property of the special purpose entity (whether or not that person has the right to be consulted on, or to give directions in respect of, the management).".

(2) Section 20AO(2)—

Repeal

"to the extent provided by subsection (3)".

(3) Section 20AO(2)—

Repeal

"earned"

Substitute

"derived".

(4) Section 20AO(2)(a) and (b)—

Repeal

"transactions in".

(5) Section 20AO(2)(c)—

Repeal

"transactions in".

(6) Section 20AO(2)(c), after "securities;"—

Add

"and".

(7) Section 20AO(2)(d)—

Repeal

"transactions in".

(8) Section 20AO(2)(d)—

Repeal

"Schedule 16C; and"

Substitute

"Schedule 16C.".

(9) Section 20AO(2)—

Repeal paragraph (e).

(10) After section 20AO(2)—

Add

"(2A) However, subsection (2) does not exempt a special purpose entity from the payment of tax chargeable in respect of those of its assessable profits for the year of assessment that are income specified in Schedule 16L.".

(11) Section 20AO—

Repeal subsection (3).

(12) Section 20AO(4), definition of ***interposed special purpose entity***, after paragraph (b)—

Add

"(c) in relation to a special purpose entity that has an indirect beneficial interest in any assets of a class specified in Schedule 16C through an interposed person that is a special purpose entity—the interposed person;

(d) in relation to a special purpose entity that has an indirect beneficial interest in any assets of a class specified in Schedule 16C through a series of 2 or more interposed persons each of which is a special purpose entity—any of the interposed persons;".

(13) Section 20AO(4), English text, definition of ***special purpose entity***—

Repeal

"entity that—"

Substitute

"entity—".

(14) Section 20AO(4), definition of ***special purpose entity***—

Repeal paragraphs (a) and (b)

Substitute

"(a) the beneficial interests in which are wholly or partially held by a fund;

(b) that is established solely—

(i) for acquiring, holding (whether directly or indirectly), administering or disposing of either or both of the following—

(A) one or more investee private companies;

(B) any assets of a class specified in Schedule 16C; or

(ii) for the purpose mentioned in subparagraph (i) and for carrying out an activity incidental to that purpose;".

(15) Section 20AO(4), English text, definition of ***special purpose entity***, paragraph (c)—

Repeal

"is"

Substitute

"that is".

(16) Section 20AO(4), English text, definition of ***special purpose entity***, paragraph (d)—

Repeal

"does"

Substitute

"that does".

(17) Section 20AO(4), definition of ***special purpose entity***, paragraph (d)(i)—

Repeal

"holding (whether directly or indirectly) and administering"

Substitute

"acquiring, holding (whether directly or indirectly), administering or disposing of".

(18) Section 20AO(4), definition of ***special purpose entity***, paragraph (d)(ii)—

Repeal

"holding (whether directly or indirectly) and administering"

Substitute

"acquiring, holding (whether directly or indirectly), administering or disposing of any".

(19) Section 20AO(4), definition of ***special purpose entity***, paragraph (d)(ii)—

Repeal

"Schedule 16C; or"

Substitute

"Schedule 16C;".

(20) Section 20AO(4), definition of ***special purpose entity***, paragraph (d)(iii)—

Repeal

"paragraph (a); and"

Substitute

"paragraph (a); or".

(21) Section 20AO(4), definition of ***special purpose entity***, after paragraph (d)(iii)—

Add

"(iv) carrying out an activity incidental to the purpose mentioned in subparagraph (i) or (ii); and".

(22) Section 20AO(4), English text, definition of ***special purpose entity***, paragraph (e)—

Repeal

"is"

Substitute

"that is".

7. Section 20AP amended (when does exemption under section 20AN or 20AO not apply to specified body holding immovable property through another company)

(1) Section 20AP, heading—

Repeal

"company"

Substitute

"entity".

(2) Section 20AP(1)—

Repeal paragraphs (a) and (b)

Substitute

"(a) a specified body carries out transactions in or holds—

(i) shares or stocks (***specified securities***) of, or issued by, a private company (***relevant company***); or

(ii) any direct or indirect equity interests in an entity that is not a corporation, excluding any interests in any assets of a class specified in Part 1 of Schedule 16C (except item 2A of that Part); and

(b) the relevant company or the entity mentioned in paragraph (a)(ii) (***relevant entity***) holds (whether directly or indirectly) one or more of the following—

(i) immovable property in Hong Kong;

(ii) shares or stocks of another private company that holds (whether directly or indirectly) immovable property in Hong Kong;

(iii) any equity interests in another entity falling within the description in paragraph (a)(ii) that holds (whether directly or indirectly) immovable property in Hong Kong.".

(3) Section 20AP(2)—

Repeal

"and share capital"

Substitute

"and the shares, stocks or equity interests described in subsection (1)(b)(ii) or (iii)".

(4) Section 20AP(2), after "relevant company"—

Add

"or relevant entity".

(5) Section 20AP(2)(a) and (b)—

Repeal

"earned from the transactions"

Substitute

"derived from the transactions in or the holding of the specified securities or equity interests under subsection (1)(a)".

(6) Section 20AP(3)(a), after "securities"—

Add

"of, or issued by, the relevant company or equity interests in the relevant entity".

(7) Section 20AP(3)(a), after "over the relevant company"—

Add

"or relevant entity".

(8) Section 20AP(3)(b), after "securities"—

Add

"of, or issued by, the relevant company or equity interests in the relevant entity".

(9) Section 20AP(3)(b)(i), after "relevant company"—

Add

"or relevant entity".

(10) Section 20AP(3)(b)(ii)—

Repeal

"relevant company" (wherever appearing)

Substitute

"relevant company or relevant entity".

(11) Section 20AP(3)(b)(ii)—

Repeal

"relevant company's assets"

Substitute

"assets of the relevant company or relevant entity".

(12) Section 20AP(4), Chinese text, definition of ***短期資產***, paragraph (c)—

Repeal

"3 年。"

Substitute

"3 年；".

(13) Section 20AP(4)—

Add in alphabetical order

"***entity*** (實體) has the meaning given by section 20AN(6);

equity interest (股權權益), in relation to an entity, means an interest that—

(a) carries rights to the profits, capital or reserves of the entity; and

(b) is accounted for as equity, in the financial statements of the entity, under applicable accounting principles;".

8. Section 20AQ amended (when does exemption under section 20AN or 20AO not apply to specified body not holding immovable property through another company)

(1) Section 20AQ, heading—

Repeal

"company"

Substitute

"entity".

(2) Section 20AQ(1)—

Repeal paragraphs (a) and (b)

Substitute

"(a) a specified body carries out transactions in or holds—

(i) shares or stocks (***specified securities***) of, or issued by, a private company (***relevant company***); or

(ii) any direct or indirect equity interests in an entity that is not a corporation, excluding any interests in any assets of a class specified in Part 1 of Schedule 16C (except item 2A of that Part); and

(b) the relevant company or the entity mentioned in paragraph (a)(ii) (***relevant entity***) does not hold (whether directly or indirectly) any of the following—

(i) immovable property in Hong Kong;

(ii) shares or stocks of another private company that holds (whether directly or indirectly) immovable property in Hong Kong;

(iii) any equity interests in another entity falling within the description in paragraph (a)(ii) that holds (whether directly or indirectly) immovable property in Hong Kong.".

(3) Section 20AQ(2)—

Repeal

"earned from the transactions"

Substitute

"derived from the transactions in or the holding of the specified securities or equity interests under subsection (1)(a)".

(4) Section 20AQ(3)(a), after "securities"—

Add

"of, or issued by, the relevant company or equity interests in the relevant entity".

(5) Section 20AQ(3)(a), after "over the relevant company"—

Add

"or relevant entity".

(6) Section 20AQ(3)(b), after "securities"—

Add

"of, or issued by, the relevant company or equity interests in the relevant entity".

(7) Section 20AQ(3)(b)(i), after "relevant company"—

Add

"or relevant entity".

(8) Section 20AQ(3)(b)(ii)—

Repeal

"relevant company" (wherever appearing)

Substitute

"relevant company or relevant entity".

(9) Section 20AQ(3)(b)(ii)—

Repeal

"relevant company's assets"

Substitute

"assets of the relevant company or relevant entity".

(10) Section 20AQ(4), Chinese text, definition of ***短期資產***—

Repeal

"涵義。"

Substitute

"涵義；".

(11) Section 20AQ(4)—

Add in alphabetical order

"***entity*** (實體) has the meaning given by section 20AN(6);

equity interest (股權權益) has the meaning given by section 20AP(4);".

9. Section 20AS substituted

Section 20AS—

Repeal the section

Substitute

“20AS. When does exemption under section 20AN not apply to open-ended fund companies

If, during the basis period for a year of assessment, an open-ended fund company carries on a direct trading or direct business undertaking in Hong Kong in assets of a class that is not specified in Schedule 16C, the company is not exempt from the payment of tax chargeable under this Part in respect of its assessable profits for the basis period derived from the trading or business undertaking.”.

10. Section 20AU amended (losses sustained by funds (other than open-ended fund companies) and special purpose entities)

(1) Section 20AU(2)—

Repeal

“a transaction referred to in section 20AN(2)(a) or (b)”

Substitute

“the management of any assets referred to in section 20AN(2)(a)”.

(2) Section 20AU(3)—

Repeal

“a transaction referred to in section 20AO(2)”

Substitute

“the management of any property under section 20AO(2)”.

11. Section 20AV amended (losses sustained by open-ended fund companies)

(1) Section 20AV(2)—

Repeal

“a transaction referred to in section 20AN(2)(a), (b) or (c)”

Substitute

“the management of any assets referred to in section 20AN(2)(b)”.

(2) Section 20AV(3)—

Repeal

“earned”

Substitute

“derived”.

(3) Section 20AV(4), definition of ***specified activity***—

Repeal

“, a direct business undertaking or utilization of assets”

Substitute

“or a direct business undertaking”.

12. Section 20AW amended (interpretation of sections 20AX and 20AY and Schedules 15C and 15D)

After section 20AW(9)—

Add

“(10) A person has control over a fund or special purpose entity (as defined by section 20AO(4)) if the fund or special purpose entity is accustomed or under an obligation (whether express or implied, and whether or not enforceable or intended to be enforceable by legal proceedings) to act, in relation to the investment or business affairs of the fund or special purpose entity, in accordance with the directions, instructions or wishes of the person.

(11) A person has significant influence over a fund or special purpose entity (as defined by section 20AO(4)) if—

(a) the person has power to participate in the financial and operating policy decision of the fund or special purpose entity; or

(b) the person holds, directly or indirectly, 20% or more of the voting power in the fund or special purpose entity.".

13. Section 20AX amended (assessable profits of funds regarded as assessable profits of resident persons)

(1) Section 20AX, heading, after "**persons**"—

Add

"**etc.**".

(2) After section 20AX(4)—

Add

"(4A) Without limiting subsections (1) and (3), if, in a year of assessment commencing on or after 1 April 2025—

(a) a person—

(i) has, during any period of time, a beneficial interest (whether direct or indirect or both) in a fund to the extent set out in subsection (4B); or

(ii) has, during any period of time, a beneficial interest (whether direct or indirect or both) in a fund, and—

(A) has control or significant influence over the fund; or

(B) is an associate of the fund;

(b) the fund is exempt from the payment of tax under section 20AN; and

(c) the person is—

(i) a financial institution;

(ii) an insurance company; or

(iii) a money lender,

the assessable profits of the fund derived from a loan for the period of time that would have been chargeable to tax under this Part but for that section are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the person for the year of assessment from a trade, profession or business carried on by the person in Hong Kong.

(4B) The extent of a person's beneficial interest in a fund mentioned in subsection (4A) is that the person, either alone or jointly with any of the person's associates (whether a resident person or not)—

(a) if the fund is a corporation that is not a trustee of a trust estate—holds or is interested in not less than 20% of the issued share capital (however described) of the corporation;

(b) if the fund is a partnership that is not a trustee of a trust estate—is entitled to not less than 20% of the profits of the partnership;

(c) if the fund is a trustee of a trust estate—is interested in not less than 20% in value of the trust estate; or

(d) if the fund is an entity that does not fall within any of paragraphs (a), (b) and (c)—has not less than 20% of the ownership interests in the fund.

(4C) For the purposes of subsection (4A), if—

(a) the person is an insurance company that carries on life insurance business (as defined by section 22D) and any other trade, profession or business; and

(b) the assessable profits from the life insurance business of the person is determined under section 23(1)(a),

the assessable profits of the fund mentioned in that subsection are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the person for the year of assessment from the other trade, profession or business carried on by the person in Hong Kong.

(4D) Subsection (4A) applies in relation to a person irrespective of whether the person has received or will receive (whether directly or indirectly) from the fund concerned any money or other property representing the profits of the fund for the relevant year of assessment.".

(3) Section 20AX(5)—

Repeal

"resident" (wherever appearing).

(4) Section 20AX(6)—

Repeal

"resident".

(5) Section 20AX(7)—

Repeal

"resident".

(6) Section 20AX(7)—

Repeal

"subsection (1) or (3)"

Substitute

"subsection (1), (3) or (4A)".

(7) After section 20AX(8)—

Add

"(8A) For a year of assessment commencing on or after 1 April 2025, subsections (1), (3) and (4A) do not apply to a person in relation to a period of time if, at all times during the period—

(a) the person is a natural person;

(b) the person is a fund exempt from the payment of tax under section 20AN;

(c) the person would not have been chargeable to tax in respect of profits derived from assets of a class specified in Schedule 16C or whose assessable profits would not have included those profits under a provision of this Ordinance, if the assets had been held, or the transactions in the assets had been undertaken, directly by the person; or

(d) the person is an entity—

(i) that is not a business undertaking for general commercial or industrial purpose;

(ii) that does not carry on any trade or business in Hong Kong (other than a trade or business of investing in a fund or special purpose entity that is exempt from the payment of tax under section 20AN or 20AO); and

(iii) at least 95% of the beneficial interest (whether direct or indirect or both) in which is owned by—

(A) a non-resident person;

(B) a person mentioned in paragraph (a), (b) or (c); or

(C) a combination of 2 or more of persons mentioned in sub-subparagraphs (A) and (B).

(8B) For a year of assessment commencing on or after 1 April 2025, for the purposes of subsections (1) and (4A), the Commissioner may, on application by a person, determine that the person does not have a beneficial interest (whether direct or indirect or both) in a fund to the extent set out in subsection (2) or (4B) (as the case requires) if the Commissioner is of the opinion that the person would, in the ordinary course of business of the fund, not have had a beneficial interest in the fund to such extent.".

(8) Section 20AX(9)(a)—

Repeal

"resident".

(9) Section 20AX(9)(a)—

Repeal

"subsection (1) or (3)"

Substitute

"subsection (1), (3) or (4A)".

(10) Section 20AX(9)(b)—

Repeal

"resident".

(11) Section 20AX(9)(b)—

Repeal

"subsection (1) or (3)"

Substitute

"subsection (1), (3) or (4A)".

(12) Section 20AX(9)—

Repeal

"the resident"

Substitute

"the".

(13) After section 20AX(9)—

Add

"(9A) If—

(a) the assessable profits of a fund are to be regarded as the assessable profits of a person for a year of assessment under this section;

(b) an amount that is attributable to those assessable profits of the fund is distributed to the person during the basis period for a year of assessment; and

(c) the person would have been chargeable to tax in respect of that amount for the year of assessment mentioned in paragraph (b) but for this subsection,

the person is not chargeable to tax in respect of that amount for the year of assessment mentioned in that paragraph.

(9B) If—

(a) the assessable profits of a fund are to be regarded as the assessable profits of a person for a year of assessment under this section;

(b) an election made by the person under section 18H(2) has effect for the year of assessment;

(c) the increase in the value of the person's beneficial interests in the fund is recognized in determining any profit, gain, loss, income or expense of the person in respect of the beneficial interests for the year of assessment; and

(d) the increase in the value is included in the person's assessable profits for the year of assessment,

the amount of the increase in the value is to be reduced by the amount of the assessable profits of the fund to be regarded as the assessable profits of the person for the year of assessment under this section.".

(14) Section 20AX(10), definition of ***associate***—

Repeal

"section 20AN(6)."

Substitute

"section 20AN(6);".

(15) Section 20AX(10)—

Add in alphabetical order

"***insurance company*** (保險公司) means an insurer authorized under the Insurance Ordinance (Cap. 41);

loan (貸款)—

(a) has the meaning given by section 2(1) of the Money Lenders Ordinance (Cap. 163); but

(b) does not include securities as defined by section 1 of Part 2 of Schedule 16C;

money lender (放債人) means a person who carries on a money-lending business in Hong Kong or an intra-group financing business as defined by section 14C(1) in Hong Kong.".

14. Section 20AY amended (assessable profits of special purpose entities held by funds regarded as assessable profits of resident persons)

(1) Section 20AY, heading, after "**persons**"—

Add

"**etc.**".

(2) After section 20AY(2)—

Add

"(2A) If, in a year of assessment commencing on or after 1 April 2025—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect or both) in a special purpose entity to the extent set out in subsection (2B); and

(b) the special purpose entity is exempt from the payment of tax under section 20AO,

the assessable profits of the special purpose entity for the period of time that would have been chargeable to tax under this Part but for that section are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(2B) The extent of a resident person's beneficial interest in a special purpose entity mentioned in subsection (2A) is that the person, either alone or jointly with any of the person's associates (whether a resident person or not)—

(a) if the special purpose entity is a corporation that is not a trustee of a trust estate—holds or is interested in not less than 30% of the issued share capital (however described) of the corporation;

(b) if the special purpose entity is a partnership that is not a trustee of a trust estate—is entitled to not less than 30% of the profits of the partnership;

(c) if the special purpose entity is a trustee of a trust estate—is interested in not less than 30% in value of the trust estate; or

(d) if the special purpose entity is an entity that does not fall within any of paragraphs (a), (b) and (c)—has not less than 30% of the ownership interests in the special purpose entity.

(2C) If, in a year of assessment commencing on or after 1 April 2025, the assessable profits of a special purpose entity would have been regarded as the assessable profits of the same resident person under subsections (1) and (2A) but for this subsection, the assessable profits of that special purpose entity are to be regarded as the assessable profits of that resident person under subsection (2A) but not under subsection (1).

(2D) If, in a year of assessment commencing on or after 1 April 2025—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect or both) in a special purpose entity;

(b) the special purpose entity is exempt from the payment of tax under section 20AO; and

(c) the special purpose entity is an associate of the resident person,

the assessable profits of the special purpose entity for the period of time that would have been chargeable to tax under this Part but for that section are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(2E) If, in a year of assessment commencing on or after 1 April 2025, the assessable profits of a special purpose entity would have been regarded as the assessable profits of the same resident person under subsections (2) and (2D) but for this subsection, the assessable profits of that special purpose entity are to be regarded as the assessable profits of that resident person under subsection (2D) but not under subsection (2).".

(3) Section 20AY(3)—

Repeal

"and (2)"

Substitute

", (2), (2A) and (2D)".

(4) After section 20AY(3)—

Add

"(3A) Without limiting subsections (2A) and (2D), if, in a year of assessment commencing on or after 1 April 2025—

(a) a person—

(i) has, during any period of time, a beneficial interest (whether direct or indirect or both) in a special purpose entity to the extent set out in subsection (3B); or

(ii) has, during any period of time, a beneficial interest (whether direct or indirect or both) in a special purpose entity, and—

(A) has control or significant influence over the special purpose entity; or

(B) is an associate of the special purpose entity;

(b) the special purpose entity is exempt from the payment of tax under section 20AO; and

(c) the person is—

(i) a financial institution;

(ii) an insurance company; or

(iii) a money lender,

the assessable profits of the special purpose entity derived from a loan for the period of time that would have been chargeable to tax under this Part but for that section are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the person for the year of assessment from a trade, profession or business carried on by the person in Hong Kong.

(3B) The extent of a person's beneficial interest in a special purpose entity mentioned in subsection (3A) is that the person, either alone or jointly with any of the person's associates (whether a resident person or not)—

(a) if the special purpose entity is a corporation that is not a trustee of a trust estate—holds or is interested in not less than 20% of the issued share capital (however described) of the corporation;

(b) if the special purpose entity is a partnership that is not a trustee of a trust estate—is entitled to not less than 20% of the profits of the partnership;

(c) if the special purpose entity is a trustee of a trust estate—is interested in not less than 20% in value of the trust estate; or

(d) if the special purpose entity is an entity that does not fall within any of paragraphs (a), (b) and (c)—has not less than 20% of the ownership interests in the special purpose entity.

(3C) For the purposes of subsection (3A), if—

(a) the person is an insurance company that carries on life insurance business (as defined by section 22D) and any other trade, profession or business; and

(b) the assessable profits from the life insurance business of the person is determined under section 23(1)(a),

the assessable profits of the special purpose entity mentioned in that subsection are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the person for the year of assessment from the other trade, profession or business carried on by the person in Hong Kong.

(3D) Subsection (3A) applies in relation to a person irrespective of whether the person has received or will receive (whether directly or indirectly) from the special purpose entity concerned any money or other property representing the profits of the special purpose entity for the relevant year of assessment.".

(5) Section 20AY(4)—

Repeal

"resident" (wherever appearing).

(6) After section 20AY(5)—

Add

"(5A) For the purposes of subsections (2B) and (3B), the extent of a person's beneficial interest in a special purpose entity is to be determined in accordance with Part 2 of Schedule 15D, as if a reference to a fund in that Part were a reference to the person.".

(7) Section 20AY(6)—

Repeal

"resident".

(8) Section 20AY(6)—

Repeal

"or (2)"

Substitute

", (2), (2A), (2D) or (3A)".

(9) After section 20AY(7)—

Add

"(7A) For a year of assessment commencing on or after 1 April 2025, subsections (1), (2), (2A), (2D) and (3A) do not apply to a person in relation to a period of time if, at all times during the period—

(a) the person is a natural person;

(b) the person is a fund exempt from the payment of tax under section 20AN;

(c) the person would not have been chargeable to tax in respect of profits derived from assets of a class specified in Schedule 16C or whose assessable profits would not have included those profits under a provision of this Ordinance, if the assets had been held, or the transactions in the assets had been undertaken, directly by the person; or

(d) the person is an entity—

(i) that is not a business undertaking for general commercial or industrial purpose;

(ii) that does not carry on any trade or business in Hong Kong (other than a trade or business of investing in a fund or special purpose entity that is exempt from the payment of tax under section 20AN or 20AO); and

(iii) at least 95% of the beneficial interest (whether direct or indirect or both) in which is owned by—

(A) a non-resident person;

(B) a person mentioned in paragraph (a), (b) or (c); or

(C) a combination of 2 or more of persons mentioned in sub-subparagraphs (A) and (B).

(7B) For a year of assessment commencing on or after 1 April 2025, for the purposes of subsection (1), the Commissioner may, on application by a resident person, determine that the person does not have a beneficial interest (whether direct or indirect or both) in a fund to the extent set out in section 20AX(2) if the Commissioner is of the opinion that the person would, in the ordinary course of business of the fund, not have had a beneficial interest in the fund to such extent.

(7C) For a year of assessment commencing on or after 1 April 2025, for the purposes of subsections (2A) and (3A), the Commissioner may, on application by a person, determine that the person does not have a beneficial interest (whether direct or indirect or both) in a special purpose entity to the extent set out in subsection (2B) or (3B) (as the case requires) if the Commissioner is of the opinion that the person would, in the ordinary course of business of the special purpose entity, not have had a beneficial interest in the special purpose entity to such extent.".

(10) Section 20AY(8)(a)—

Repeal

"resident".

(11) Section 20AY(8)(a)—

Repeal

"or (2)"

Substitute

", (2), (2A), (2D) or (3A)".

(12) Section 20AY(8)(b)—

Repeal

"resident".

(13) Section 20AY(8)(b)—

Repeal

"or (2)"

Substitute

", (2), (2A), (2D) or (3A)".

(14) Section 20AY(8)—

Repeal

"the resident"

Substitute

"the".

(15) After section 20AY(8)—

Add

"(8A) If—

(a) the assessable profits of a special purpose entity are to be regarded as the assessable profits of a person for a year of assessment under this section;

(b) an amount that is attributable to those assessable profits of the special purpose entity is distributed to the person during the basis period for a year of assessment; and

(c) the person would have been chargeable to tax in respect of that amount for the year of assessment mentioned in paragraph (b) but for this subsection,

the person is not chargeable to tax in respect of that amount for the year of assessment mentioned in that paragraph.

(8B) If—

(a) the assessable profits of a special purpose entity are to be regarded as the assessable profits of a person for a year of assessment under this section;

(b) an election made by the person under section 18H(2) has effect for the year of assessment;

(c) the increase in the value of the person's beneficial interests in the special purpose entity is recognized in determining any profit, gain, loss, income or expense of the person in respect of the beneficial interests for the year of assessment; and

(d) the increase in the value is included in the person's assessable profits for the year of assessment,

the amount of the increase in the value is to be reduced by the amount of the assessable profits of the special purpose entity to be regarded as the assessable profits of the person for the year of assessment under this section.".

(16) Section 20AY(9), Chinese text, definition of *特定目的實體*—

Repeal

"涵義。"

Substitute

"涵義；".

(17) Section 20AY(9)—

Add in alphabetical order

"***insurance company*** (保險公司) has the meaning given by section 20AX(10);

loan (貸款) has the meaning given by section 20AX(10);

money lender (放債人) has the meaning given by section 20AX(10);".

15. Sections 20AZ to 20AZE added

Part 4, Division 9, Subdivision 3, after section 20AY—

Add

"20AZ. Reporting requirements for funds: interpretation and application

(1) For the purposes of this section and sections 20AZA, 20AZB, 20AZD and 20AZE—

(a) a fund is a specified fund for a year of assessment if the fund—

(i) is exempt from the payment of tax under section 20AN for that year of assessment; or

(ii) has a beneficial interest in a special purpose entity that is exempt from the payment of tax under section 20AO for that year of assessment; and

(b) a person is a specified person of a specified fund for a year of assessment if the person is responsible for the management or administration of the fund or any part of the fund in that year of assessment.

(2) In sections 20AZA, 20AZB, 20AZC, 20AZD and 20AZE—

annual notification (周年通知書) means a written notice required to be filed under section 20AZB(1);

designated person (指定人士), in relation to a specified fund, means a person designated by the fund under section 20AZA(3);

designated system (指定系統) means a system designated under section 20AZC(1);

initial notification (初步通知書) means a written notice required to be filed under section 20AZA(1), (4), (6) or (9).

(3) Sections 20AZA and 20AZB do not apply to a specified person of a specified fund for a year of assessment if—

(a) the fund is chargeable to profits tax for that year of assessment;

(b) the fund furnishes a return for that year of assessment under section 51(1); or

(c) subject to subsection (4), the fund is a limited partnership fund or open-ended fund company.

(4) For a year of assessment, if a specified fund is a limited partnership fund or open-ended fund company, and—

(a) the fund does not have any assessable profits other than those in respect of which the fund is exempt from the payment of tax under section 20AN; or

(b) both of the following events occur—

(i) the fund has a beneficial interest in a special purpose entity;

(ii) the special purpose entity does not have any assessable profits other than those in respect of which the special purpose entity is exempt from the payment of tax under section 20AO,

the fund may make an election in writing that sections 20AZA and 20AZB apply to a specified person of the fund for that year of assessment.

(5) An election made under subsection (4)—

(a) is irrevocable; and

(b) (if, before the election is made, a notice has been given under section 51(1) requiring the fund to furnish a return for a year of assessment) may only be made before the expiry of the time limited by that notice.

(6) An election made under subsection (4) in accordance with subsection (5)(b) relieves the obligation of the fund to comply with the requirements of the notice mentioned in subsection (5)(b) given before the election is made.

20AZA. Reporting requirements for funds: initial notification

(1) Subject to subsection (9), a specified person of a specified fund must file a written notice in respect of the fund with the Commissioner within a period of 6 months beginning on the date on which the person begins to manage or administer the fund or part of the fund.

(2) However, the specified person is not required to file an initial notification under subsection (1) if the condition specified in subsection (8) is met.

(3) A specified fund may designate a specified person of the fund in Hong Kong for the purposes of this section.

(4) On a designation under subsection (3), the designated person must file a written notice in respect of the specified fund with the Commissioner within a period of 6 months beginning on the date on which the designation is made (***designation date***).

(5) However, the designated person is not required to file an initial notification under subsection (4) if—

(a) at any time before the designation date, the designated person files an initial notification in respect of the specified fund; or

(b) at any time before the expiry of the period mentioned in that subsection, the designated person files an initial notification in respect of any other specified fund.

(6) If a specified person of a specified fund ceases to be a designated person of the fund, any other specified person of the fund must file a written notice with the Commissioner within a period of 6 months beginning on the date on which the cessation takes place (***cessation date***).

(7) However, the other specified person is not required to file an initial notification under subsection (6) if—

(a) at any time before the cessation date, the other specified person files an initial notification in respect of the specified fund; or

(b) the condition specified in subsection (8) is met.

(8) For the purposes of subsection (2) or (7)(b), the condition is that—

(a) at any time before the expiry of the period mentioned in subsection (1) or (6) (as the case requires), the specified person of the specified fund files an initial notification in respect of any other specified fund; or

(b) all of the following events occur—

(i) at any time before the expiry of the period mentioned in subsection (1) or (6) (as the case requires), the specified fund designates any other specified person of the fund under subsection (3);

(ii) at any time before the expiry of the period—

(A) the other specified person files an initial notification in respect of the fund under subsection (4); or

(B) the other specified person is not required to file an initial notification in respect of the fund under subsection (5);

(iii) on the expiry of the period, the designation is in effect.

(9) If a person is a specified person of a specified fund for a year of assessment beginning on 1 April 2025 or 1 April 2026, the person must file a written notice with the Commissioner within a period of 12 months beginning on the date on which section 15 of the Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Ordinance 2026 (of 2026) comes into operation.

(10) However, the specified person is not required to file an initial notification under subsection (9) if—

(a) the specified person files an initial notification in respect of any other specified fund within the period mentioned in that subsection; or

(b) both of the following events occur—

(i) within the period mentioned in that subsection—

(A) the specified fund designates any other specified person of the fund under subsection (3); and

(B) the other specified person files an initial notification in respect of the fund or any other specified fund;

(ii) on the expiry of the period, the designation is in effect.

(11) An initial notification must be filed in an electronic record that—

(a) is sent by using the designated system; and

(b) contains all information specified by the Board of Inland Revenue.

20AZB. Reporting requirements for funds: annual notification

(1) An assessor may give a written notice to a specified person of a specified fund for a year of assessment requiring the person within the time stated in that notice to file another written notice in respect of the fund for that year of assessment.

(2) On receiving a written notice given by an assessor under subsection (1), the specified person must, within the time stated in that notice, file an annual notification in an electronic record that—

(a) is sent by using the designated system; and

(b) contains all information specified by the Board of Inland Revenue.

20AZC. Reporting requirements for funds: designated system

(1) For the purposes of sections 20AZA(11)(a) and 20AZB(2)(a), the Commissioner may designate a system for communication with the Commissioner.

(2) The Commissioner may, by notice published in the Gazette, specify requirements as to—

(a) the way of generating or sending an electronic record for the purposes of section 20AZA(11) or 20AZB(2) or any attachment required to be given with such electronic record;

(b) how a digital signature is to be affixed to an initial notification or annual notification; and

(c) the software and communication in relation to any attachment required to be given with an electronic record.

(3) The Commissioner may, either generally or in a particular case, accept an initial notification or annual notification, despite a requirement under section 20AZA(11) or 20AZB(2) not being complied with in respect of the notification.

(4) A notice under subsection (2) is not subsidiary legislation.

20AZD. Reporting requirements for funds: records to be kept

(1) Section 51C applies, with the modifications specified in subsection (2), to a specified person of a specified fund.

(2) The specified person must—

(a) keep sufficient records to enable the accuracy and completeness of an initial notification or annual notification filed under section 20AZA or 20AZB by the specified person to be readily ascertained; and

(b) retain the records for a period of not less than 7 years after the end of the year of assessment within which the initial notification or annual notification is filed.

(3) Section 80 applies to a failure to comply with section 51C, as modified by subsection (2), in the same way section 80 applies to a failure to comply with section 51C.

20AZE. Reporting requirements for funds: engagement of service provider

(1) A service provider may be engaged for or on behalf of a specified person of a specified fund to file an initial notification or annual notification.

(2) To avoid doubt, even if a service provider has been engaged under subsection (1) to comply with any requirement under section 20AZA or 20AZB, the specified person is not relieved from his or her obligations under that section.".

16. Section 40AD amended (power to amend Schedule 16D)

Section 40AD(1), after "sections 2,"—

Add

"4(2)(c),".

17. Section 40AV amended (Schedule 16E: tax treatment of family-owned investment holding vehicle and family-owned special purpose entity)

(1) Section 40AV(2)—

Repeal

"16I, 16J and 16K"

Substitute

"16J, 16K and 16L".

(2) Section 40AV(3)—

Repeal

"16I, 16J and 16K"

Substitute

"16J, 16K and 16L".

(3) Section 40AV(3)—

Repeal

"2022"

Substitute

"2025".

(4) After section 40AV(3)—

Add

"(4) This section and Schedules 16E, 16F, 16G, 16H, 16I, 16J and 16K, as in force immediately before the date on which section 17 of the Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Ordinance 2026 (of 2026) comes into operation, apply in respect of a year of assessment commencing on or after 1 April 2022 and before 1 April 2025.".

18. Section 51C amended (business records to be kept)

After section 51C(5)(aa)—

Add

"(aab) section 20AZD (reporting requirements for funds: records to be kept);".

19. Section 80 amended (penalties for failure to make returns, making incorrect returns, etc.)

(1) Section 80(2T)—

Repeal

"section 10(2)"

Substitute

"section 10(1) or (3)".

(2) Before section 80(3)—

Add

"(2ZF) A person who, without reasonable excuse, fails to comply with section 20AZA(1), (4), (6) or (9) or 20AZB(2) commits an offence and is liable on conviction to a fine at level 3.

(2ZG) For subsection (2ZF), engaging a service provider under section 20AZE does not in itself constitute a reasonable excuse.

(2ZH) If a person is convicted of an offence under subsection (2ZF) for failing to do an act, the court may order the person to do the act within a time specified in the order.

(2ZI) A person who fails to comply with an order of the court under subsection (2ZH) commits an offence and is liable on conviction to a fine at level 4.".

20. Section 80Y added

Before section 81—

Add

"80Y. Offences of service provider in relation to filing written notice under section 20AZA or 20AZB

(1) This section applies to a service provider who is engaged by a specified person of a specified fund to file, for or on behalf of the person, a written notice under section 20AZA(1), (4), (6) or (9) or 20AZB(2).

(2) If the service provider fails to cause a written notice to be filed as required by section 20AZA(1), (4), (6) or (9) or 20AZB(2), the service provider commits an offence and is liable on conviction to a fine at level 3.

(3) In this section—

specified fund (指明基金) means a fund within the meaning of section 20AZ(1)(a);

specified person (指明人士) means a person within the meaning of section 20AZ(1)(b).".

21. Section 89 amended (transitional provisions or other provisions having effect for purposes of amendments to this Ordinance)

Section 89—

Add

"(35) Schedule 68 sets out the provisions that have effect for the purposes of the amendments to this Ordinance made by the Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Ordinance 2026 (of 2026).".

22. Schedule 15C amended (provisions for ascertaining amount of assessable profits of resident person under section 20AX)

(1) Schedule 15C, heading—

Repeal

"of Resident Person".

(2) Schedule 15C—

Repeal

"Sch. 15D]"

Substitute

"Schs. 15D & 68]".

(3) Schedule 15C, Part 1, section 1—

Repeal

"resident" (wherever appearing).

(4) Schedule 15C, Part 1, section 2—

Repeal

"resident".

(5) Schedule 15C, Part 1, after section 2—

Add

"3. In applying section 1 of this Part to calculate the amount regarded as the assessable profits of a person for a year of assessment under section 20AX—

(a) if the person's direct beneficial interest in a fund consists of a beneficial interest attributable to the person's profits that do not form part of the person's assessable profits under a provision of this Ordinance (***specified beneficial interest***), the person's beneficial interest in the fund under the variable B in the formula set out in section 2 of this Part does not include the specified beneficial interest; and

(b) if the person holds an indirect beneficial interest in a fund through an exempted person, the person's beneficial interest in the fund under the variable B in the formula set out in section 2 of this Part does not include that indirect beneficial interest.

4. In this Part—

exempted person (豁免人士)—

(a) means a person who would not be chargeable to tax in respect of profits derived from assets of a class specified in Schedule 16C, or whose assessable profits would not include those profits under a provision of this Ordinance if the assets are held, or transactions in the assets are undertaken, directly by the person; but

(b) does not include a person who falls within the description in section 20AX(8A)(b) or (d).".

(6) Schedule 15C, Part 2, sections 1 and 2—

Repeal

"resident" (wherever appearing).

(7) Schedule 15C, Part 2, section 3(a), (b) and (c)(i)—

Repeal

"resident".

23. Schedule 15D amended (provisions for ascertaining amount of assessable profits of resident person under section 20AY)

(1) Schedule 15D, heading—

Repeal

"**of Resident Person**".

(2) Schedule 15D—

Repeal

"20AY]"

Substitute

"20AY & Sch. 68]".

(3) Schedule 15D, Part 1, section 1—

Repeal

"resident" (wherever appearing).

(4) Schedule 15D, Part 1, section 2—

Repeal

"resident".

(5) Schedule 15D, Part 1, after section 2—

Add

"2A. In applying section 1 of this Part to calculate the amount regarded as the assessable profits of a person for a year of assessment under section 20AY (other than subsection (2A), (2D) or (3A) of that section)—

(a) if the person's direct beneficial interest in a fund consists of a beneficial interest attributable to the person's profits that do not form part of the person's assessable profits under a provision of this Ordinance (***specified beneficial interest***), the person's beneficial interest in the fund under the variable B1 in the formula set out in section 2 of this Part does not include the specified beneficial interest; and

(b) if the person holds an indirect beneficial interest in a fund through an exempted person, the person's beneficial interest in the fund under the variable B1 in the formula set out in section 2 of this Part does not include that indirect beneficial interest.

2B. In applying section 1 of this Part to calculate the amount regarded as the assessable profits of a person for a year of assessment under section 20AY(2A), (2D) or (3A), the exempt profits of a special purpose entity for a particular day in the year of assessment are to be ascertained in accordance with the formula set out in section 2 of this Part with the following modifications—

(a) the variable B1 is removed;

(b) the variable B2 means the extent of the person's beneficial interest in the special purpose entity (whether direct or indirect or both) on the particular day, expressed as a percentage determined in accordance with Part 2 of this Schedule; and

(c) the modifications specified in sections 2C and 2D of this Part.

2C. If the person's direct beneficial interest in the special purpose entity consists of a beneficial interest attributable to the person's profits that do not form part of the person's assessable profits under a provision of this Ordinance (***specified beneficial interest***), the person's beneficial interest in the special purpose entity under the variable B2 in the formula (as modified by section 2B(b) of this Part) does not include the specified beneficial interest.

2D. If the person holds an indirect beneficial interest in the special purpose entity through an exempted person, the person's beneficial interest in the special purpose entity under the variable B2 in the formula (as modified by section 2B(b) of this Part) does not include that indirect beneficial interest.

2E. In this Part—

exempted person (豁免人士)—

(a) means a person who would not be chargeable to tax in respect of profits derived from assets of a class specified in Schedule 16C, or whose assessable profits would not include those profits under a provision of this Ordinance if the assets are held, or transactions in the assets are undertaken, directly by the person; but

(b) does not include a person who falls within the description in section 20AY(7A)(b) or (d).".

24. Schedule 16C amended (classes of assets specified for transactions for purposes of sections 20AN and 20AO and Schedule 16E)

(1) Schedule 16C, heading—

Repeal

"for Transactions for Purposes of Sections"

Substitute

"for Purposes of Sections 20AM,".

(2) Schedule 16C—

Repeal

"& 20AS & Schs. 16D, 16E & 17A]"

Substitute

", 20AQ, 20AS, 20AX & 20AY & Schs. 15C, 15D, 16E, 16J, 16K, 17A & 68]".

(3) Schedule 16C, Part 1, after item 1—

Add

"1A. Insurance-linked securities".

(4) Schedule 16C, Part 1, after item 2—

Add

"2A. Direct or indirect equity interests in an entity that is not a corporation".

(5) Schedule 16C, Part 1, after item 8—

Add

"8A. Precious metals, at the value not exceeding 20% of the investment portfolio during the basis period of a year of assessment".

(6) Schedule 16C, Part 1, after item 10—

Add

"10A. Commodities in connection with and incidental to the trading of OTC derivative products (as defined by Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571)) or futures contracts, at the trade volume not exceeding 15% of the total trade volume of the commodities and the OTC derivative products or futures contracts traded during the basis period of a year of assessment".

(7) Schedule 16C, Part 1, after item 11—

Add

"12. Loans

13. Immovable property situated outside Hong Kong

14. Digital assets

15. Emission allowance

16. Emission derivatives

17. Carbon credits".

(8) Schedule 16C, Part 2, section 1, definition of ***futures contract***, paragraph (b)(i)—

Repeal

everything after "listed"

Substitute

"or traded on any stock exchange or futures exchange;".

(9) Schedule 16C, Part 2, section 1—

Add in alphabetical order

"***carbon credit*** (碳信用) means an instrument that represents the reduction, removal or avoidance of greenhouse gases and is traded on—

(a) a trading platform for climate-related products operated by an affiliate of a recognized exchange controller within the meaning of the Securities and Futures Ordinance (Cap. 571); or

(b) a trading platform for climate-related products recognized by the Secretary for Financial Services and the Treasury under section 2 of this Part;

commodity (商品) means aluminium, aluminium metal, aluminium oxide, barley, bitumen, canola, coal, cobalt, cocoa, coffee, copper, corn, cotton, crude oil, diesel, ethanol, fuel oil, gold ore and concentrates, hot-rolled coils, iron ore, jute, lead, lithium, methanol, molybdenum, naphtha, natural gas, nickel, oat, oil seeds and vegetable oils, palm olein, petroleum, rice, rough rice, rubber, soybean, spodumene, stainless steel, steel, sugar, timber, tin, urea, wheat, wood pulp, wool or zinc;

digital asset (數字資產)—

(a) means a VA as defined by section 53ZRA(1) of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615);

(b) includes a digital representation of value that is excluded from the definition of ***VA*** in that section by operation of section 53ZRA(2)(a)(i) of that Ordinance; but

(c) does not include a cryptographically secured digital representation of value that provides its holder with an interest in any underlying asset other than Hong Kong dollar or an asset of a class specified in Part 1 of this Schedule;

emission allowance (排放限額) means an instrument—

(a) that conveys a right to emit greenhouse gases; and

(b) that is traded on a trading platform for climate-related products recognized by the Secretary for Financial Services and the Treasury under section 2 of this Part;

emission derivative (排放權衍生工具) means a derivative the payoffs of which are wholly or substantially linked to the payoffs or performance of the underlying emission allowance or carbon credit;

entity (實體) has the meaning given by section 20AN(6);

equity interest (股權權益) has the meaning given by section 20AP(4);

insurance-linked securities (保險相連證券) has the meaning given by section 129A(4) of the Insurance Ordinance (Cap. 41);

loan (貸款) has the meaning given by section 20AX(10);

precious metal (貴金屬) means gold, silver, platinum, iridium, osmium, palladium, rhodium or ruthenium, in a manufactured or unmanufactured state, except any exchange-traded commodity;".

(10) Schedule 16C, Part 2, after section 1—

Add

"2. For the purposes of paragraph (b) of the definition of ***carbon credit*** and paragraph (b) of the definition of ***emission allowance*** in section 1 of this Part, the Secretary for Financial Services and the Treasury may recognize a trading platform for climate-related products.

3. For the purposes of item 8A of Part 1 of this Schedule, the value of precious metal, and the investment portfolio, during the basis period of a year of assessment are to be determined in the manner specified by the Commissioner.".

25. Schedule 16D amended (eligible carried interest and its tax treatment)

(1) Schedule 16D—

Repeal

"80]"

Substitute

"80 & Sch. 68]".

(2) Schedule 16D, section 1—

Repeal the definition of *control*

Substitute

"***control*** (控制), in relation to an entity (***Party A***), means the power of a person or another entity (***Party B***) to secure—

(a) by means of the holding of interests or the possession of voting power in or in relation to Party A or any other entity; or

(b) by virtue of any powers conferred by an agreement or other document regulating Party A or any other entity,

that the affairs of Party A are conducted in accordance with the wishes of Party B;".

(3) Schedule 16D, section 1, definition of ***external investor***—

Repeal

"certified investment".

(4) Schedule 16D, section 1, definition of ***investment management services***—

Repeal

"certified investment".

(5) Schedule 16D, section 1, definition of ***investment management services***, paragraph (a)—

Repeal

"from external investors or potential external investors".

(6) Schedule 16D, section 1—

(a) definition of ***associated corporation***;

(b) definition of ***associated partnership***;

(c) definition of ***certified investment fund***—

Repeal the definitions.

(7) Schedule 16D, section 1—

Add in alphabetical order

"***closely related entity*** (密切相關實體)—see section 2A of this Schedule;

fund (基金)—see section 2 of this Schedule;".

(8) Schedule 16D, section 2, heading—

Repeal

"***certified investment***".

(9) Schedule 16D, section 2, definition of ***qualifying payer***—

Repeal paragraphs (a) and (b)

Substitute

"(a) a fund;

(b) a closely related entity of a fund; or".

(10) Schedule 16D, section 2—

Repeal the definition of *certified investment fund*.

(11) Schedule 16D, section 2—

Add in alphabetical order

"***fund*** (基金)—

(a) has the meaning given by section 20AM; but

(b) does not include a specified entity;".

(12) Schedule 16D, after section 2—

Add

"**2A. Meaning of *closely related entity***

An entity is a closely related entity of another entity if—

(a) one of them has control over the other; or

(b) both of them are under the control of the same person or entity.".

(13) Schedule 16D, section 3—

Repeal subsection (1)

Substitute

"(1) Eligible carried interest—

(a) is a sum received by, or accrued to, a qualifying person from a qualifying payer by virtue of a specified right held directly or indirectly by the qualifying person in respect of the profits of a fund or a specified entity, by way of profit-related return from the provision of investment management services in Hong Kong by the qualifying person for the fund or specified entity; and

(b) for the purposes of Parts 3, 4, 5 and 6 (except section 15) of this Schedule—also includes a sum received by, or accrued to, a qualifying employee of a qualifying person or of a closely related entity of a qualifying person from a qualifying payer by virtue of a specified right held directly or indirectly by the qualifying employee in respect of the profits of a fund or a specified entity, by way of profit-related return from the provision of investment management services in Hong Kong by the qualifying employee for, or on behalf of, the qualifying person for the fund or specified entity.

(1A) For the purposes of subsection (1), a qualifying person or a qualifying employee holds a specified right in respect of the profits of a fund or a specified entity if—

(a) the qualifying person or qualifying employee is entitled to receive, whether directly or indirectly, a share of the profits; and

(b) the entitlement—

(i) is determined in accordance with an agreement governing the operation of the fund or entity, or any other agreement in relation to the provision of investment management services for the fund or entity;

(ii) is not attributable to the capital contribution of the qualifying person or qualifying employee to the fund or entity; and

(iii) is not discretionary but may allow a degree of flexibility concerning the amount, timing, manner of payment or otherwise of the distribution of the share of the profits.”.

(14) Schedule 16D, section 3(2)—

Repeal

“person”

Substitute

“qualifying person or a qualifying employee”.

(15) Schedule 16D, section 3(2)—

Repeal

“governing the operation of the certified investment fund or the specified entity”

Substitute

“mentioned in subsection (1A)(b)(i)”.

(16) Schedule 16D, section 3(2)(a)—

Repeal

everything after “payment”

Substitute

“or accrual of a return on investments in the fund or the specified entity;”.

(17) Schedule 16D, section 3(3)—

Repeal

“person”

Substitute

“qualifying person or a qualifying employee”.

(18) Schedule 16D, section 3(4)(a)—

Repeal

“a person from a certified investment fund”

Substitute

“a qualifying person or a qualifying employee from a fund”.

(19) Schedule 16D, section 3(4)(b)—

Repeal

“person”

Substitute

“qualifying person or qualifying employee”.

(20) Schedule 16D, after section 3(4)—

Add

"(4A) For the purposes of subsection (4)(b), the risk is to be assessed with regard to the circumstances of the case including—

(a) the terms of the arrangement for the minimum amount to be received by, or accrued to, a qualifying person or a qualifying employee; and

(b) the investment volatility of the fund or the specified entity.".

(21) Schedule 16D, section 3(5)(a)—

Repeal

"the person from the certified investment fund"

Substitute

"the qualifying person or qualifying employee from the fund".

(22) Schedule 16D, section 3(5)(b)—

Repeal

"person"

Substitute

"qualifying person or qualifying employee".

(23) Schedule 16D, section 3(6), after "subsection (4)(b),"—

Add

"in respect of a qualifying person,".

(24) Schedule 16D, section 3(6)(a)—

Repeal

"certified investment".

(25) Schedule 16D, Chinese text, section 3(6)(b), after "之時；"—

Add

"及".

(26) Schedule 16D, after section 3(6)—

Add

"(6A) For the purposes of subsection (4)(b), in respect of a qualifying employee, the risk is also to be assessed as at the latest of—

(a) the time when the employee enters into an agreement for the provision of investment management services for, or on behalf of, the qualifying person;

(b) the time when the employee begins to carry out investment management services for, or on behalf of, the qualifying person directly or indirectly for the fund or the specified entity; and

(c) the time when a change is made to the agreement referred to in paragraph (a) so far as relating to the amount of the sums that are to be, or may be, received by or accrued to the employee.".

(27) Schedule 16D, section 3(7) and (8)—

Repeal

"person"

Substitute

"qualifying person or a qualifying employee".

(28) Schedule 16D, section 3(9)—

Repeal

"person"

Substitute

"qualifying person or qualifying employee".

(29) Schedule 16D, section 3(10)—

Repeal

"(5), (6),"

Substitute

"(4A), (5), (6), (6A),".

(30) Schedule 16D, section 3(10)—

Repeal

"person"

Substitute

"qualifying person or a qualifying employee".

(31) Schedule 16D, section 3—

Repeal subsection (11).

(32) Schedule 16D, section 4(2)—

Repeal paragraph (c)

Substitute

"(c) the eligible carried interest arises from—

(i) profits in respect of which a fund or a special purpose entity is exempt from the payment of tax under section 20AN or 20AO;

(ii) profits that are not chargeable to tax under Part 4 for reasons other than the exemption from the payment of tax under section 20AN or 20AO; or

(iii) any other profits that are chargeable to tax under Part 4.".

(33) Schedule 16D, section 4(2)—

Repeal paragraph (d).

(34) Schedule 16D, section 4(3)(b)—

Repeal

"a certified investment fund that"

Substitute

"a fund that falls within the description in section 20AM(4)(a), (b), (c), (d) or (e) or that".

(35) Schedule 16D, section 5(1)—

Repeal

"certified investment".

(36) Schedule 16D, section 5(4), definition of ***applicable period***—

Repeal

"certified investment".

(37) Schedule 16D, section 8(2)—

Repeal

"certified investment".

(38) Schedule 16D, after section 8(2)—

Add

"(2A) For the purposes of this section, income of the qualifying employee accrued from the employment includes eligible carried interest accrued to the employee directly from the relevant qualifying payer.".

(39) Schedule 16D, section 8(3)—

Repeal

"$A = B - (C \times D)$"

Substitute

"$A = B - (C + D) \times E$".

(40) Schedule 16D, English text, section 8(3)—

Repeal

"for the year" (wherever appearing)

Substitute

"in the year".

(41) Schedule 16D, section 8(3)—

Repeal

"C means that part of B paid out of the eligible carried interest received by, or accrued to, a qualifying person and to which section 4(1) of this Schedule applies for the assessment of that eligible carried interest for profits tax;

D means the percentage specified in section 9 of this Schedule."

Substitute

"C means that part of B paid out of the eligible carried interest (within the meaning of section 3(1)(a) of this Schedule)—

(a) that is received by, or accrued to, a qualifying person; and

(b) in relation to which section 4(1) of this Schedule applies for the assessment of that eligible carried interest for profits tax;

D means that part of B—

(a) that is eligible carried interest (within the meaning of section 3(1)(b) of this Schedule) accrued to the qualifying employee directly or indirectly from a

qualifying payer and not paid out of the eligible carried interest received by, or accrued to, a qualifying person; and

(b) in relation to which section 4(1) of this Schedule would have applied for the assessment for profits tax had it been received by, or accrued to, a qualifying person;

E means the percentage specified in section 9 of this Schedule.".

(42) Schedule 16D, section 8(4), definition of ***qualifying employee***, paragraph (a)—

Repeal subparagraphs (i) and (ii)

Substitute

"(i) a qualifying person who satisfies the conditions in section 5(2) and (3) of this Schedule; or

(ii) a closely related entity of a qualifying person who satisfies the conditions in section 5(2) and (3) of this Schedule;".

(43) Schedule 16D, Part 3, after section 9—

Add

"9A. Related tax treatment for receipt of eligible carried interest by entity for or on behalf of qualifying employee

(1) This section applies if—

(a) an entity (***subject entity***) is partly or wholly owned by a qualifying employee of a qualifying person or of a closely related entity of a qualifying person; and

(b) eligible carried interest is received by, or accrued to, the subject entity, directly or indirectly from a qualifying payer, for or on behalf of the employee.

(2) For the purposes of section 11B, and section 8 of this Schedule, the eligible carried interest is taken to have been received by, or accrued to, the qualifying employee.

(3) For the purposes of Part 4, the eligible carried interest is to be disregarded in the ascertainment of assessable profits or adjusted loss of the subject entity.".

(44) Schedule 16D—

Repeal section 10

Substitute

"10. Obligations of qualifying person: information and records

(1) A qualifying person must take reasonable steps to ascertain whether eligible carried interest is or will be received by, or accrued to, a qualifying employee of the person or of a closely related entity of the person in a year of assessment as a result of the provision of investment management services in Hong Kong by the employee for, or on behalf of, the person.

(2) Part 9 and section 80 apply, with the modifications specified in this section, to a qualifying person if either or both of the following apply—

(a) the person makes a claim to the Commissioner that eligible carried interest received by, or accrued to, the person is to be assessed for profits tax in accordance with section 4(1) of this Schedule for a year of assessment;

(b) a qualifying employee of the person or of a closely related entity of the person makes a claim to the Commissioner that—

(i) eligible carried interest is received by, or accrued to, the employee as a result of the provision of investment management services in Hong Kong for, or on behalf of, the person in a year of assessment; and

(ii) the eligible carried interest mentioned in subparagraph (i) is to be assessed for salaries tax in accordance with section 8 of this Schedule for the year of assessment.

(3) A qualifying person to whom Part 9 and section 80 apply pursuant to subsection (2) (***relevant qualifying person***) must provide the following information to the Commissioner in the person's return or in other manner or form that may be required by the Commissioner—

(a) if the person makes a claim mentioned in subsection (2)(a)—

(i) the amount of eligible carried interest received by, or accrued to, the person for the year of assessment;

(ii) details of the qualifying payer from which the eligible carried interest was received by, or accrued to, the person for the year of assessment; and

(iii) any other information relating to the eligible carried interest, as specified by the Commissioner; and

(b) if a qualifying employee of the person or of a closely related entity of the person makes a claim mentioned in subsection (2)(b), subject to subsection (4)—

(i) the employee's name;

(ii) the employee's address;

(iii) the employee's Hong Kong Identity Card number (or the number and issuing country of the employee's passport);

(iv) the amount of eligible carried interest received by, or accrued to, the employee in the year of assessment;

(v) details of the qualifying payer from which the eligible carried interest was received by, or accrued to, the employee in the year of assessment; and

(vi) any other information relating to the eligible carried interest, as specified by the Commissioner.

(4) The relevant qualifying person is not required to provide to the Commissioner the information under subsection (3)(b) if the Commissioner is satisfied that the information has been provided by the relevant qualifying payer under section 11 of this Schedule.

(5) For the purposes of section 51C, in addition to keeping and retaining records of income and expenditure under that section—

(a) a relevant qualifying person must, if eligible carried interest received by, or accrued to, a qualifying employee of the person or of a closely related entity

of the person is paid out of the eligible carried interest received by, or accrued to, the person—

(i) keep sufficient records to enable the accuracy and completeness of the receipt of the eligible carried interest by, or the accrual of the eligible carried interest to, the employee to be readily ascertained; and

(ii) retain the records for a period of not less than 7 years after the date of the receipt of the eligible carried interest by, or the accrual of the eligible carried interest to, the employee, whichever is the later; and

(b) a relevant qualifying person must, if eligible carried interest is received by, or accrued to, a qualifying employee of the person or of a closely related entity of the person in any other way—

(i) keep records of the information under subsection (3)(b); and

(ii) retain the records for a period of not less than 7 years after the date of the receipt or the accrual of the eligible carried interest, whichever is the later.

(6) Section 80 applies to a failure to comply with section 51C, as modified by subsection (5), in the same way section 80 applies to a failure to comply with section 51C.".

(45) Schedule 16D, section 11(1)—

Repeal paragraphs (a) and (b)

Substitute

"(a) a person—

(i) makes a claim to the Commissioner that—

(A) the person is a qualifying person; and

(B) eligible carried interest received by, or accrued to, the person is to be assessed for profits tax in accordance with section 4(1) of this Schedule for a year of assessment; or

(ii) makes a claim to the Commissioner that—

(A) the person is a qualifying employee; and

(B) eligible carried interest received by, or accrued to, the person is to be assessed for salaries tax in accordance with section 8 of this Schedule for a year of assessment; and

(b) the eligible carried interest was paid or accrued to the person by the qualifying payer.”.

(46) Schedule 16D, section 11(4)(b)—

Repeal

everything after “interest”

Substitute

“—

(i) for a claim mentioned in subsection (1)(a)(i)—is not to be assessed for profits tax in accordance with section 4(1) of this Schedule; or

(ii) for a claim mentioned in subsection (1)(a)(ii)—is not to be assessed for salaries tax in accordance with section 8 of this Schedule.”.

(47) Schedule 16D, section 12(2)(b)—

Repeal

“interest;”

Substitute

“interest; and”.

(48) Schedule 16D, section 12(2)—

Repeal paragraph (c).

(49) Schedule 16D, section 13(4), definition of ***management fee***—

Repeal

“certified investment”.

(50) Schedule 16D, section 14(3), definition of ***associated loss***—

Repeal

“a transaction”

Substitute

“any profits”.

(51) Schedule 16D, after section 15(3)—

Add

“(4) This section is subject to other provisions of this Part.”.

(52) Schedule 16D, after section 15—

Add

“16. Application of amendments under Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Ordinance 2026

(1) The amended Schedule applies to eligible carried interest received by, or accrued to, a qualifying person or a

qualifying employee on or after 1 April 2025 for any year of assessment commencing on or after that date.

(2) To avoid doubt, the amended Schedule does not apply to—

(a) eligible carried interest received by, or accrued to, a qualifying person before 1 April 2025 but falling within the basis period for a year of assessment commencing on or after that date; and

(b) eligible carried interest accrued to a qualifying employee before 1 April 2025 but received by the employee on or after that date.

(3) For any year of assessment mentioned in subsection (1), the amended Schedule applies to eligible carried interest received by, or accrued to, a qualifying person or a qualifying employee in the period beginning on 1 April 2025 and ending on the day immediately before the commencement date, as the amended Schedule applies to eligible carried interest received or accrued after that period.

(4) In this section—

amended Schedule (經修訂附表) means this Schedule as amended by section 25 of the Amendment Ordinance;

Amendment Ordinance (《修訂條例》) means the Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Ordinance 2026 (of 2026);

commencement date (生效日期) means the date on which section 25 of the Amendment Ordinance comes into operation.".

26. Schedule 16E amended (tax treatment of family-owned investment holding vehicle and family-owned special purpose entity)

(1) Schedule 16E—

Repeal

"16I, 16J & 16K]"

Substitute

"16J, 16K, 16L & 68]".

(2) Schedule 16E, section 1(1)—

Add in alphabetical order

"***equity interest*** (股權權益), in relation to an entity, means an interest that—

(a) carries rights to the profits, capital or reserves of the entity; and

(b) is accounted for as equity, in the financial statements of the entity, under applicable accounting principles;".

(3) Schedule 16E, section 6(2)(b)—

Repeal subparagraphs (i) and (ii)

Substitute

"(i) for acquiring, holding (whether directly or indirectly), administering or disposing of either or both of the following—

(A) one or more investee private companies;

(B) any Schedule 16C assets; or

(ii) for the purpose mentioned in subparagraph (i) and for carrying out an activity incidental to that purpose;".

(4) Schedule 16E, section 6(2)(b)—

Repeal subparagraph (iii).

(5) Schedule 16E, section 6(2)—

Repeal paragraph (c)

Substitute

"(c) Entity B does not carry on any trade or activity except for the purpose of—

(i) acquiring, holding (whether directly or indirectly), administering or disposing of one or more investee private companies;

(ii) acquiring, holding (whether directly or indirectly), administering or disposing of any Schedule 16C assets;

(iii) executing a legal document relating to an activity mentioned in subparagraph (i) or (ii) on behalf of the relevant FIHV; or

(iv) carrying out an activity incidental to the purpose mentioned in subparagraph (i) or (ii); and".

(6) Schedule 16E, after section 6(4)—

Add

"(5) If an FSPE has an indirect beneficial interest in any Schedule 16C assets through an interposed entity that is an FSPE in which the relevant FIHV has an indirect beneficial interest, the interposed entity is an IFSPE of the relevant FIHV.

(6) If an FSPE has an indirect beneficial interest in any Schedule 16C assets through a series of 2 or more interposed entities each of which is an FSPE in which the relevant FIHV has an indirect beneficial interest, each of the interposed entities is an IFSPE of the relevant FIHV.".

(7) Schedule 16E, section 9(2)—

Repeal

"earned from the transactions".

(8) Schedule 16E, section 9—

Repeal subsection (3)

Substitute

"(3) The assessable profits are profits derived from Schedule 16C assets but do not include income specified in Schedule 16L.".

(9) Schedule 16E, section 9(4)—

Repeal paragraph (b)

Substitute

"(b) that, during the basis period, the Schedule 16C assets are—

(i) primarily managed in Hong Kong; and

(ii) managed by or through an ESF Office of the family that manages the FIHV.".

(10) Schedule 16E, section 9—

Repeal subsection (5).

(11) Schedule 16E, section 10(1)(a)—

Repeal

"NAV"

Substitute

"Assets Value".

(12) Schedule 16E, section 11, heading—

Repeal

"NAV"

Substitute

"Assets Value".

(13) Schedule 16E, section 11(1)—

Repeal

"NAV"

Substitute

"Assets Value".

(14) Schedule 16E, section 11(2), (4), (6), (7) and (8)—

Repeal

"NAV" (wherever appearing)

Substitute

"value".

(15) Schedule 16E, section 11—

Repeal subsection (10).

(16) Schedule 16E, English text, section 11(13)—

Repeal the definition of *NAV*.

(17) Schedule 16E, section 12(1)—

Repeal paragraphs (a) and (b)

Substitute

"(a) an FIHV carries out transactions in or holds—

(i) shares or stocks (***specified securities***) of, or issued by, a private company (***relevant company***); or

(ii) any direct or indirect equity interests in an entity that is not a corporation, excluding any interests in any assets of a class specified in Part 1 of Schedule 16C (except item 2A of that Part); and

(b) the relevant company or the entity mentioned in paragraph (a)(ii) (***relevant entity***) holds (whether directly or indirectly) one or more of the following—

(i) immovable property in Hong Kong;

(ii) shares or stocks of another private company that holds (whether directly or indirectly) immovable property in Hong Kong;

(iii) any equity interests in another entity falling within the description in paragraph (a)(ii) that holds (whether directly or indirectly) immovable property in Hong Kong.".

(18) Schedule 16E, section 12(2)—

Repeal

"and share capital"

Substitute

"and the shares, stocks or equity interests described in subsection (1)(b)(ii) or (iii)".

(19) Schedule 16E, section 12(2), after "relevant company"—

Add

"or relevant entity".

(20) Schedule 16E, section 12(2)—

Repeal

"the company's"

Substitute

"its".

(21) Schedule 16E, section 12(2)—

Repeal

"earned from the transactions"

Substitute

"derived from the transactions in or the holding of the specified securities or equity interests under subsection (1)(a)".

(22) Schedule 16E, section 12(3)—

Repeal

"and share capital"

Substitute

"and the shares, stocks or equity interests described in subsection (1)(b)(ii) or (iii)".

(23) Schedule 16E, section 12(3), after "relevant company"—

Add

"or relevant entity".

(24) Schedule 16E, section 12(3)—

Repeal

"the company's"

Substitute

"its".

(25) Schedule 16E, section 12(3)—

Repeal

"earned from the transactions"

Substitute

"derived from the transactions in or the holding of the specified securities or equity interests under subsection (1)(a)".

(26) Schedule 16E, section 12(4)(a), after "securities"—

Add

"or subject equity interests".

(27) Schedule 16E, section 12(4)(a), after "relevant company"—

Add

"or relevant entity".

(28) Schedule 16E, section 12(4)(b), after "securities"—

Add

"or subject equity interests".

(29) Schedule 16E, section 12(4)(b)(i), after "relevant company"—

Add

"or relevant entity".

(30) Schedule 16E, section 12(4)(b)(ii)—

Repeal

"relevant company" (wherever appearing)

Substitute

"relevant company or relevant entity".

(31) Schedule 16E, section 12(4)(b)(ii)—

Repeal

"relevant company's assets"

Substitute

"assets of the relevant company or relevant entity".

(32) Schedule 16E, English text, section 12(5), after "a company"—

Add

"or an entity (***relevant party***)".

(33) Schedule 16E, section 12(5)—

Repeal paragraphs (a) and (b)

Substitute

"(a) by means of the holding of interests or the possession of voting power in or in relation to the relevant party or any other company or entity; or

(b) by virtue of any powers conferred by an agreement or other document regulating the relevant party or any other company or entity,".

(34) Schedule 16E, English text, section 12(5)—

Repeal

"affairs of the company"

Substitute

"affairs of the relevant party".

(35) Schedule 16E, section 12(7), definition of ***short-term asset***—

Repeal

", the shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, which are being disposed of by or for an FIHV"

Substitute

"(the shares or stocks of, or issued by, which are being disposed of by or for an FIHV) or an entity (the equity interests in which are being disposed of by or for an FIHV)".

(36) Schedule 16E, section 12(7), definition of ***short-term asset***, paragraph (c), after "company"—

Add

"or the entity".

(37) Schedule 16E, section 12(7)—

Add in alphabetical order

"***subject equity interests*** (標的股權權益), in relation to a relevant entity, means the equity interests in the entity;".

(38) Schedule 16E, section 13(1)—

Repeal paragraphs (a) and (b)

Substitute

"(a) an FIHV carries out transactions in or holds—

(i) shares or stocks (***specified securities***) of, or issued by, a private company (***relevant company***); or

(ii) any direct or indirect equity interests in an entity that is not a corporation, excluding any interests in any assets of a class specified in Part 1 of Schedule 16C (except item 2A of that Part); and

(b) the relevant company or the entity mentioned in paragraph (a)(ii) (***relevant entity***) does not hold (whether directly or indirectly) any of the following—

(i) immovable property in Hong Kong;

(ii) shares or stocks of another private company that holds (whether directly or indirectly) immovable property in Hong Kong;

(iii) any equity interests in another entity falling within the description in paragraph (a)(ii) that holds (whether directly or indirectly) immovable property in Hong Kong.".

(39) Schedule 16E, section 13(2)—

Repeal

"earned from the transactions"

Substitute

"derived from the transactions in or the holding of the specified securities or equity interests under subsection (1)(a)".

(40) Schedule 16E, section 13(3)(a), after "securities"—

Add

"or subject equity interests".

(41) Schedule 16E, section 13(3)(a), after "relevant company"—

Add

"or relevant entity".

(42) Schedule 16E, section 13(3)(b), after "securities"—

Add

"or subject equity interests".

(43) Schedule 16E, section 13(3)(b)(i), after "relevant company"—

Add

"or relevant entity".

(44) Schedule 16E, section 13(3)(b)(ii)—

Repeal

"relevant company" (wherever appearing)

Substitute

"relevant company or relevant entity".

(45) Schedule 16E, section 13(3)(b)(ii)—

Repeal

"relevant company's assets"

Substitute

"assets of the relevant company or relevant entity".

(46) Schedule 16E, English text, section 13(4), after "a company"—

Add

"or an entity (***relevant party***)".

(47) Schedule 16E, section 13(4)—

Repeal paragraphs (a) and (b)

Substitute

"(a) by means of the holding of interests or the possession of voting power in or in relation to the relevant party or any other company or entity; or

(b) by virtue of any powers conferred by an agreement or other document regulating the relevant party or any other company or entity,".

(48) Schedule 16E, English text, section 13(4)—

Repeal

"affairs of the company"

Substitute

"affairs of the relevant party".

(49) Schedule 16E, section 13(6)—

Add in alphabetical order

"***subject equity interests*** (標的股權權益), in relation to a relevant entity, means the equity interests in the entity;".

(50) Schedule 16E, section 15—

Repeal

"earned from the transactions specified in section 9(3) of this Schedule"

Substitute

"derived from Schedule 16C assets".

(51) Schedule 16E, section 15—

Repeal

"any of those transactions"

Substitute

"the management of Schedule 16C assets".

(52) Schedule 16E, section 16—

Repeal subsection (1)

Substitute

"(1) This section applies to an FSPE for the basis period for a year of assessment if—

(a) section 9 of this Schedule applies, for that year, to an FIHV that has a beneficial interest (whether direct or indirect) in the FSPE; and

(b) (if the beneficial interests in the FSPE are not wholly held by the FIHV) any of the persons making capital contribution to the FSPE does not have day-to-day control over the management of the property of the FSPE (whether or not that person has the right to be consulted on, or to give directions in respect of, the management).".

(53) Schedule 16E, section 16(2)—

Repeal

"for the basis period earned from the transactions specified in subsection (3)"

Substitute

"specified in subsection (3) for the basis period".

(54) Schedule 16E, section 16—

Repeal subsection (3)

Substitute

"(3) The assessable profits—

(a) are profits derived from—

(i) shares, stocks, debentures, loan stocks, funds, bonds or notes (***specified securities***) of, or issued by, an investee private company or an IFSPE;

(ii) rights, options or interests (whether described in units or otherwise) in, or in respect of, the specified securities;

(iii) certificates of interest or participation in, temporary or interim certificates for, receipts for, or warrants to subscribe for or purchase, the specified securities; and

(iv) Schedule 16C assets; but

(b) do not include income specified in Schedule 16L.".

(55) Schedule 16E, section 16—

Repeal subsections (4), (5) and (6).

(56) Schedule 16E, section 17(1)—

Repeal paragraphs (a) and (b)

Substitute

"(a) an FSPE carries out transactions in or holds—

(i) shares or stocks (***specified securities***) of, or issued by, a private company (***relevant company***); or

(ii) any direct or indirect equity interests in an entity that is not a corporation, excluding any interests in any assets of a class specified in Part 1 of Schedule 16C (except item 2A of that Part); and

(b) the relevant company or the entity mentioned in paragraph (a)(ii) (***relevant entity***) holds (whether directly or indirectly) one or more of the following—

(i) immovable property in Hong Kong;

(ii) shares or stocks of another private company that holds (whether directly or indirectly) immovable property in Hong Kong;

(iii) any equity interests in another entity falling within the description in paragraph (a)(ii) that holds (whether directly or indirectly) immovable property in Hong Kong.".

(57) Schedule 16E, section 17(2)—

Repeal

"and share capital"

Substitute

"and the shares, stocks or equity interests described in subsection (1)(b)(ii) or (iii)".

(58) Schedule 16E, section 17(2), after "relevant company"—

Add

"or relevant entity".

(59) Schedule 16E, section 17(2)—

Repeal

"the company's"

Substitute

"its".

(60) Schedule 16E, section 17(2)—

Repeal

"earned from the transactions"

Substitute

"derived from the transactions in or the holding of the specified securities or equity interests under subsection (1)(a)".

(61) Schedule 16E, section 17(3)—

Repeal

"and share capital"

Substitute

"and the shares, stocks or equity interests described in subsection (1)(b)(ii) or (iii)".

(62) Schedule 16E, section 17(3), after "relevant company"—

Add

"or relevant entity".

(63) Schedule 16E, section 17(3)—

Repeal

"the company's"

Substitute

"its".

(64) Schedule 16E, section 17(3)—

Repeal

"earned from the transactions"

Substitute

"derived from the transactions in or the holding of the specified securities or equity interests under subsection (1)(a)".

(65) Schedule 16E, section 17(4)(a), after "securities"—

Add

"or subject equity interests".

(66) Schedule 16E, section 17(4)(a), after "relevant company"—

Add

"or relevant entity".

(67) Schedule 16E, section 17(4)(b), after "securities"—

Add

"or subject equity interests".

(68) Schedule 16E, section 17(4)(b)(i), after "relevant company"—

Add

"or relevant entity".

(69) Schedule 16E, section 17(4)(b)(ii)—

Repeal

"relevant company" (wherever appearing)

Substitute

"relevant company or relevant entity".

(70) Schedule 16E, section 17(4)(b)(ii)—

Repeal

"relevant company's assets"

Substitute

"assets of the relevant company or relevant entity".

(71) Schedule 16E, English text, section 17(5), after "a company"—

Add

"or an entity (***relevant party***)".

(72) Schedule 16E, section 17(5)—

Repeal paragraphs (a) and (b)

Substitute

"(a) by means of the holding of interests or the possession of voting power in or in relation to the relevant party or any other company or entity; or

(b) by virtue of any powers conferred by an agreement or other document regulating the relevant party or any other company or entity,".

(73) Schedule 16E, English text, section 17(5)—

Repeal

"affairs of the company"

Substitute

"affairs of the relevant party".

(74) Schedule 16E, section 17(7), definition of ***short-term asset***—

Repeal

", the shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, which are being disposed of by or for an FSPE"

Substitute

"(the shares or stocks of, or issued by, which are being disposed of by or for an FSPE) or an entity (the equity interests in which are being disposed of by or for an FSPE)".

(75) Schedule 16E, section 17(7), definition of ***short-term asset***, paragraph (c), after "company"—

Add

"or the entity".

(76) Schedule 16E, section 17(7)—

Add in alphabetical order

"***subject equity interests*** (標的股權權益), in relation to a relevant entity, means the equity interests in the entity;".

(77) Schedule 16E, section 18(1)—

Repeal paragraphs (a) and (b)

Substitute

"(a) an FSPE carries out transactions in or holds—

(i) shares or stocks (***specified securities***) of, or issued by, a private company (***relevant company***); or

(ii) any direct or indirect equity interests in an entity that is not a corporation, excluding any interests in any assets of a class specified in Part 1 of Schedule 16C (except item 2A of that Part); and

(b) the relevant company or the entity mentioned in paragraph (a)(ii) (***relevant entity***) does not hold (whether directly or indirectly) any of the following—

(i) immovable property in Hong Kong;

(ii) shares or stocks of another private company that holds (whether directly or indirectly) immovable property in Hong Kong;

(iii) any equity interests in another entity falling within the description in paragraph (a)(ii) that holds (whether directly or indirectly) immovable property in Hong Kong.".

(78) Schedule 16E, section 18(2)—

Repeal

"earned from the transactions"

Substitute

"derived from the transactions in or the holding of the specified securities or equity interests under subsection (1)(a)".

(79) Schedule 16E, section 18(3)(a), after "securities"—

Add

"or subject equity interests".

(80) Schedule 16E, section 18(3)(a), after "relevant company"—

Add

"or relevant entity".

(81) Schedule 16E, section 18(3)(b), after "securities"—

Add

"or subject equity interests".

(82) Schedule 16E, section 18(3)(b)(i), after "relevant company"—

Add

"or relevant entity".

(83) Schedule 16E, section 18(3)(b)(ii)—

Repeal

"relevant company" (wherever appearing)

Substitute

"relevant company or relevant entity".

(84) Schedule 16E, section 18(3)(b)(ii)—

Repeal

"relevant company's assets"

Substitute

"assets of the relevant company or relevant entity".

(85) Schedule 16E, English text, section 18(4), after "a company"—

Add

"or an entity (***relevant party***)".

(86) Schedule 16E, section 18(4)—

Repeal paragraphs (a) and (b)

Substitute

"(a) by means of the holding of interests or the possession of voting power in or in relation to the relevant party or any other company or entity; or

(b) by virtue of any powers conferred by an agreement or other document regulating the relevant party or any other company or entity,".

(87) Schedule 16E, English text, section 18(4)—

Repeal

"affairs of the company"

Substitute

"affairs of the relevant party".

(88) Schedule 16E, section 18(6)—

Add in alphabetical order

"***subject equity interests*** (標的股權權益), in relation to a relevant entity, means the equity interests in the entity;".

(89) Schedule 16E, section 19—

Repeal

"earned from the transactions specified in section 16(3)"

Substitute

"derived from the property under section 16(3)(a)".

(90) Schedule 16E, section 19—

Repeal

"any of those transactions"

Substitute

"the management of the property".

(91) Schedule 16E, Part 4, heading, after "**Persons**"—

Add

"**etc.**".

(92) Schedule 16E, Chinese text, section 20(1), definition of ***指明實體***—

Repeal

"款。"

Substitute

"款；".

(93) Schedule 16E, section 20(1)—

Add in alphabetical order

"***insurance company*** (保險公司) means an insurer authorized under the Insurance Ordinance (Cap. 41);

loan (貸款)—

(a) has the meaning given by section 2(1) of the Money Lenders Ordinance (Cap. 163); but

(b) does not include securities as defined by section 1 of Part 2 of Schedule 16C;

money lender (放債人) means a person who carries on a money-lending business in Hong Kong or an intra-group financing business as defined by section 14C(1) in Hong Kong;".

(94) Schedule 16E, after section 20(8)—

Add

"(9) A person has control over an FIHV or FSPE if the FIHV or FSPE is accustomed or under an obligation (whether express or implied, and whether or not enforceable or intended to be enforceable by legal proceedings) to act, in relation to the investment or business affairs of the FIHV or FSPE, in accordance with the directions, instructions or wishes of the person.

(10) A person has significant influence over an FIHV or FSPE if—

(a) the person has power to participate in the financial and operating policy decision of the FIHV or FSPE; or

(b) the person holds, directly or indirectly, 20% or more of the voting power in the FIHV or FSPE.".

(95) Schedule 16E, section 21(1)—

Repeal

"sections 22(2) and (4) and 23(2)"

Substitute

"sections 22 and 23".

(96) Schedule 16E, section 22, heading, after "**persons**"—

Add

"**etc.**".

(97) Schedule 16E, after section 22(5)—

Add

"(5A) Without limiting subsections (1) and (4), if, in respect of a year of assessment—

(a) a person—

(i) has, during any period of time, a beneficial interest (whether direct or indirect or both) in an FIHV to the extent prescribed in subsection (5B); or

(ii) has, during any period of time, a beneficial interest (whether direct or indirect or both) in an FIHV, and—

(A) has control or significant influence over the FIHV; or

(B) is an associate of the FIHV;

(b) section 9 of this Schedule applies to the FIHV; and

(c) the person is—

(i) a financial institution;

(ii) an insurance company; or

(iii) a money lender,

the assessable profits of the FIHV derived from a loan for the period of time (***subsection (5A) period***) that would have been chargeable to tax under Part 4 of this Ordinance but for section 9 of this Schedule are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the person for the year of assessment from a trade, profession or business carried on by the person in Hong Kong.

(5B) The extent of a person's beneficial interest in an FIHV mentioned in subsection (5A) is that the person, either alone or jointly with any of the person's associates (whether a resident person or not)—

(a) if the FIHV is a corporation—has not less than 20% of the beneficial interest in the corporation;

(b) if the FIHV is a partnership—has not less than 20% of the beneficial interest in the partnership;

(c) if the FIHV is a trust—has not less than 20% of the beneficial interest in the trust; or

(d) if the FIHV is an entity that does not fall within any of paragraphs (a), (b) and (c)—has not less than 20% of the beneficial interest in the entity.

(5C) For the purposes of subsection (5A), if—

(a) the person is an insurance company that carries on life insurance business (as defined by section 22D) and any other trade, profession or business; and

(b) the assessable profits from the life insurance business of the person is determined under section 23(1)(a),

the assessable profits of the FIHV mentioned in that subsection are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the person for the year of assessment from the other trade, profession or business carried on by the person in Hong Kong.

(5D) Subsection (5A) applies in relation to a person irrespective of whether the person has received or will receive (whether directly or indirectly) from the FIHV any money or other property representing the profits of the FIHV for the relevant year of assessment.".

(98) Schedule 16E, section 22(6)—

Repeal

"resident" (wherever appearing).

(99) Schedule 16E, section 22(7)—

Repeal

"resident".

(100) Schedule 16E, section 22(7)—

Repeal

"subsection (1) or (4)"

Substitute

"subsection (1), (4) or (5A)".

(101) Schedule 16E, section 22—

Repeal subsection (8)

Substitute

"(8) However, subsection (1), (4) or (5A) does not apply to a person in relation to a subsection (1) period, subsection (4) period or subsection (5A) period (as the case requires) if, at all times during the period—

(a) the person is a specified entity in relation to the family to which the FIHV is related;

(b) the person is a trustee of a trust that is a specified entity mentioned in paragraph (a);

(c) the person is an ESF Office of the family that manages the FIHV;

(d) the person is a natural person;

(e) the person is an FIHV to which section 9 of this Schedule applies;

(f) the person would not have been chargeable to tax in respect of profits derived from Schedule 16C assets, or the person's assessable profits would not have included those profits under a provision of this Ordinance, if the assets had been held, or the transactions in the assets had been undertaken, directly by the person; or

(g) the person is an entity—

(i) that is not a business undertaking for general commercial or industrial purpose;

(ii) that does not carry on any trade or business in Hong Kong (other than a trade or business of investing in an FIHV or FSPE to which section 9 or 16 of this Schedule applies); and

(iii) at least 95% of the beneficial interest (whether direct or indirect or both) in which is owned by—

(A) a person who is not a resident person;

(B) a person mentioned in paragraph (a), (b), (c), (d), (e) or (f); or

(C) a combination of 2 or more of persons mentioned in sub-subparagraphs (A) and (B).

(8A) For the purposes of subsections (1) and (5A), the Commissioner may, on application by a person, determine that the person does not have a beneficial interest (whether direct or indirect or both) in an FIHV to the extent prescribed in subsection (2) or (5B) (as the case requires) if the Commissioner is of the opinion that the person would, in the ordinary course of business of the FIHV, not have had a beneficial interest in the FIHV to such extent.".

(102) Schedule 16E, section 22(9)(a)—

Repeal

"resident".

(103) Schedule 16E, section 22(9)(a)—

Repeal

"subsection (1) or (4)"

Substitute

"subsection (1), (4) or (5A)".

(104) Schedule 16E, section 22(9)(b)—

Repeal

"resident".

(105) Schedule 16E, section 22(9)(b)—

Repeal

"subsection (1) or (4)"

Substitute

"subsection (1), (4) or (5A)".

(106) Schedule 16E, section 22(9)—

Repeal

"the resident"

Substitute

"the".

(107) Schedule 16E, after section 22(9)—

Add

"(10) If—

(a) the assessable profits of an FIHV are to be regarded as the assessable profits of a person for a year of assessment under this section;

(b) an amount that is attributable to those assessable profits of the FIHV is distributed to the person during the basis period for a year of assessment; and

(c) the person would have been chargeable to tax in respect of that amount for the year of assessment mentioned in paragraph (b) but for this subsection,

the person is not chargeable to tax in respect of that amount for the year of assessment mentioned in that paragraph.

(11) If—

(a) the assessable profits of an FIHV are to be regarded as the assessable profits of a person for a year of assessment under this section;

(b) an election made by the person under section 18H(2) has effect for the year of assessment;

(c) the increase in the value of the person's beneficial interests in the FIHV is recognized in determining any profit, gain, loss, income or expense of the person in respect of the beneficial interests for the year of assessment; and

(d) the increase in the value is included in the person's assessable profits for the year of assessment,

the amount of the increase in the value is to be reduced by the amount of the assessable profits of the FIHV to be regarded as the assessable profits of the person for the year of assessment under this section.".

(108) Schedule 16E, section 23, heading, after "**persons**"—

Add

"**etc.**".

(109) Schedule 16E, after section 23(2)—

Add

"(2A) If, in respect of a year of assessment—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect or both) in an FSPE to the extent prescribed in subsection (2B); and

(b) section 16 of this Schedule applies to the FSPE,

the assessable profits of the FSPE for the period of time (***subsection (2A) period***) that would have been chargeable to tax under Part 4 of this Ordinance but for section 16 of this Schedule are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(2B) The extent of a resident person's beneficial interest in an FSPE mentioned in subsection (2A) is that the person, either alone or jointly with any of the person's associates (whether a resident person or not)—

(a) if the FSPE is a corporation—has not less than 30% of the beneficial interest in the corporation;

(b) if the FSPE is a partnership—has not less than 30% of the beneficial interest in the partnership;

(c) if the FSPE is a trust—has not less than 30% of the beneficial interest in the trust; or

(d) if the FSPE is an entity that does not fall within any of paragraphs (a), (b) and (c)—has not less than 30% of the beneficial interest in the entity.

(2C) If, in respect of a year of assessment, the assessable profits of an FSPE would have been regarded as the assessable profits of the same resident person under subsections (1) and (2A) but for this subsection, the assessable profits of that FSPE are to be regarded as the assessable profits of that resident person under subsection (2A) but not under subsection (1).

(2D) If, in respect of a year of assessment—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect or both) in an FSPE;

(b) section 16 of this Schedule applies to the FSPE; and

(c) the FSPE is an associate of the resident person,

the assessable profits of the FSPE for the period of time (***subsection (2D) period***) that would have been chargeable to tax under Part 4 of this Ordinance but for section 16 of this Schedule are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(2E) If, in respect of a year of assessment, the assessable profits of an FSPE would have been regarded as the assessable profits of the same resident person under subsections (2) and (2D) but for this subsection, the assessable profits of that FSPE are to be regarded as the assessable profits of that resident person under subsection (2D) but not under subsection (2).".

(110) Schedule 16E, section 23(3)—

Repeal

"and (2)"

Substitute

", (2), (2A) and (2D)".

(111) Schedule 16E, after section 23(3)—

Add

"(3A) Without limiting subsections (2A) and (2D), if, in respect of a year of assessment—

(a) a person—

(i) has, during any period of time, a beneficial interest (whether direct or indirect or both) in an FSPE to the extent prescribed in subsection (3B); or

(ii) has, during any period of time, a beneficial interest (whether direct or indirect or both) in an FSPE, and—

(A) has control or significant influence over the FSPE; or

(B) is an associate of the FSPE;

(b) section 16 of this Schedule applies to the FSPE; and

(c) the person is—

(i) a financial institution;

(ii) an insurance company; or

(iii) a money lender,

the assessable profits of the FSPE derived from a loan for the period of time (***subsection (3A) period***) that would have been chargeable to tax under Part 4 of this Ordinance but for section 16 of this Schedule are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the person for the year of assessment from a trade, profession or business carried on by the person in Hong Kong.

(3B) The extent of a person's beneficial interest in an FSPE mentioned in subsection (3A) is that the person, either alone or jointly with any of the person's associates (whether a resident person or not)—

(a) if the FSPE is a corporation—has not less than 20% of the beneficial interest in the corporation;

(b) if the FSPE is a partnership—has not less than 20% of the beneficial interest in the partnership;

(c) if the FSPE is a trust—has not less than 20% of the beneficial interest in the trust; or

(d) if the FSPE is an entity that does not fall within any of paragraphs (a), (b) and (c)—has not less than 20% of the beneficial interest in the entity.

(3C) For the purposes of subsection (3A), if—

(a) the person is an insurance company that carries on life insurance business (as defined by section 22D) and any other trade, profession or business; and

(b) the assessable profits from the life insurance business of the person is determined under section 23(1)(a),

the assessable profits of the FSPE mentioned in that subsection are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the person for the year of assessment from the other trade, profession or business carried on by the person in Hong Kong.

(3D) Subsection (3A) applies in relation to a person irrespective of whether the person has received or will receive (whether directly or indirectly) from the FSPE any money or other property representing the profits of the FSPE for the relevant year of assessment.".

(112) Schedule 16E, section 23(4)—

Repeal

"resident" (wherever appearing).

(113) Schedule 16E, after section 23(5)—

Add

"(5A) For the purposes of subsections (2B) and (3B), the extent of a person's beneficial interest in an FSPE is to be determined in accordance with Part 3 of Schedule 16K, as if a reference to an FIHV in that Part were a reference to the person.".

(114) Schedule 16E, section 23—

Repeal subsection (6)

Substitute

"(6) However, subsection (1), (2), (2A), (2D) or (3A) does not apply to a person in relation to a subsection (1) period, subsection (2) period, subsection (2A) period, subsection (2D) period or subsection (3A) period (as the case requires) if, at all times during the period—

(a) the person is a specified entity in relation to the family to which the FIHV is related;

(b) the person is a trustee of a trust that is a specified entity mentioned in paragraph (a);

(c) the person is an ESF Office of the family that manages the FIHV;

(d) the person is a natural person;

(e) the person is an FIHV to which section 9 of this Schedule applies;

(f) the person would not have been chargeable to tax in respect of profits derived from Schedule 16C assets, or the person's assessable profits would not have included those profits under a provision of this Ordinance, if the assets had been held, or the transactions in the assets had been undertaken, directly by the person; or

(g) the person is an entity—

(i) that is not a business undertaking for general commercial or industrial purpose;

(ii) that does not carry on any trade or business in Hong Kong (other than a trade or business of investing in an FIHV or FSPE to which section 9 or 16 of this Schedule applies); and

(iii) at least 95% of the beneficial interest (whether direct or indirect or both) in which is owned by—

(A) a person who is not a resident person;

(B) a person mentioned in paragraph (a), (b), (c), (d), (e) or (f); or

(C) a combination of 2 or more of persons mentioned in sub-subparagraphs (A) and (B).

(6A) For the purposes of subsection (1), the Commissioner may, on application by a resident person, determine that the person does not have a beneficial interest (whether direct or indirect or both) in an FIHV to the extent prescribed in section 22(2) of this Schedule if the Commissioner is of the opinion that the person would, in the ordinary course of business of the FIHV, not have had a beneficial interest in the FIHV to such extent.

(6B) For the purposes of subsections (2A) and (3A), the Commissioner may, on application by a person, determine that the person does not have a beneficial interest (whether direct or indirect or both) in an FSPE to the extent

prescribed in subsection (2B) or (3B) (as the case requires) if the Commissioner is of the opinion that the person would, in the ordinary course of business of the FSPE, not have had a beneficial interest in the FSPE to such extent.".

(115) Schedule 16E, section 23(7)(a)—

Repeal

"resident".

(116) Schedule 16E, section 23(7)(a)—

Repeal

"or (2)"

Substitute

", (2), (2A), (2D) or (3A)".

(117) Schedule 16E, section 23(7)(b)—

Repeal

"resident".

(118) Schedule 16E, section 23(7)(b)—

Repeal

"or (2)"

Substitute

", (2), (2A), (2D) or (3A)".

(119) Schedule 16E, section 23(7)—

Repeal

"the resident"

Substitute

"the".

(120) Schedule 16E, after section 23(7)—

Add

“(8) If—

(a) the assessable profits of an FSPE are to be regarded as the assessable profits of a person for a year of assessment under this section;

(b) an amount that is attributable to those assessable profits of the FSPE is distributed to the person during the basis period for a year of assessment; and

(c) the person would have been chargeable to tax in respect of that amount for the year of assessment mentioned in paragraph (b) but for this subsection,

the person is not chargeable to tax in respect of that amount for the year of assessment mentioned in that paragraph.

(9) If—

(a) the assessable profits of an FSPE are to be regarded as the assessable profits of a person for a year of assessment under this section;

(b) an election made by the person under section 18H(2) has effect for the year of assessment;

(c) the increase in the value of the person’s beneficial interests in the FSPE is recognized in determining any profit, gain, loss, income or expense of the person in respect of the beneficial interests for the year of assessment; and

(d) the increase in the value is included in the person’s assessable profits for the year of assessment,

the amount of the increase in the value is to be reduced by the amount of the assessable profits of the FSPE to be regarded as the assessable profits of the person for the year of assessment under this section.”.

27. Schedule 16I repealed (provisions for determining extent of FIHV’s beneficial interest in FSPE (sections 11 and 16 of Schedule 16E))

Schedule 16I—

Repeal the Schedule.

28. Schedule 16J amended (provisions for ascertaining amount of assessable profits of resident person under section 22 of Schedule 16E)

(1) Schedule 16J, heading—

Repeal

“**of Resident Person**”.

(2) Schedule 16J—

Repeal

“& 16K]”

Substitute

“, 16K & 68]”.

(3) Schedule 16J, English text, section 1, definition of ***indirect beneficial interest***—

Repeal

“Schedule 16E;”

Substitute

“Schedule 16E.”.

(4) Schedule 16J, Chinese text, section 1, definition of ***實體***—

Repeal

“涵義。”

Substitute

"涵義；".

(5) Schedule 16J, section 1—

Repeal the definition of *resident person*.

(6) Schedule 16J, section 1—

Add in alphabetical order

"***exempted person*** (豁免人士)—

(a) means a person who would not be chargeable to tax in respect of profits derived from assets of a class specified in Schedule 16C, or whose assessable profits would not include those profits under a provision of this Ordinance if the assets are held, or transactions in the assets are undertaken, directly by the person; but

(b) does not include a person who falls within the description in section 22(8)(a), (b), (c), (e) or (g) of Schedule 16E;".

(7) Schedule 16J, section 2—

Repeal

"resident" (wherever appearing).

(8) Schedule 16J, section 3—

Repeal

"resident".

(9) Schedule 16J, Part 2, after section 3—

Add

"3A. In applying section 2 of this Schedule to calculate the amount regarded as the assessable profits of a person for a year of assessment under section 22 of Schedule 16E—

(a) if the person's direct beneficial interest in an FIHV consists of a beneficial interest attributable to the person's profits that do not form part of the person's assessable profits under a provision of this Ordinance (***specified beneficial interest***), the person's beneficial interest in the FIHV under the variable B in the formula set out in section 3 of this Schedule does not include the specified beneficial interest; and

(b) if the person holds an indirect beneficial interest in an FIHV through an exempted person, the person's beneficial interest in the FIHV under the variable B in the formula set out in section 3 of this Schedule does not include that indirect beneficial interest.".

(10) Schedule 16J, sections 4 and 6—

Repeal

"resident" (wherever appearing).

(11) Schedule 16J, section 7(a), (b) and (c)(i)—

Repeal

"resident".

29. Schedule 16K amended (provisions for ascertaining amount of assessable profits of resident person under section 23 of Schedule 16E)

(1) Schedule 16K, heading—

Repeal

"of Resident Person".

(2) Schedule 16K—

Repeal

"Sch. 16E]"

Substitute

"Schs. 16E & 68]".

(3) Schedule 16K, English text, section 1, definition of ***indirect beneficial interest***—

Repeal

"Schedule 16E;"

Substitute

"Schedule 16E.".

(4) Schedule 16K, Chinese text, section 1, definition of ***實體***—

Repeal

"涵義。"

Substitute

"涵義；".

(5) Schedule 16K, section 1—

Repeal the definition of *resident person*.

(6) Schedule 16K, section 1—

Add in alphabetical order

"***exempted person*** (豁免人士)—

(a) means a person who would not be chargeable to tax in respect of profits derived from assets of a class specified in Schedule 16C, or whose assessable profits would not include those profits under a provision of this Ordinance if the assets are held, or transactions in the assets are undertaken, directly by the person; but

(b) does not include a person who falls within the description in section 23(6)(a), (b), (c), (e) or (g) of Schedule 16E;".

(7) Schedule 16K, section 2—

Repeal

"resident" (wherever appearing).

(8) Schedule 16K, section 3—

Repeal

"resident".

(9) Schedule 16K, Part 2, after section 3—

Add

"3A. In applying section 2 of this Schedule to calculate the amount regarded as the assessable profits of a person for a year of assessment under section 23 of Schedule 16E (other than subsection (2A), (2D) or (3A) of that section)—

(a) if the person's direct beneficial interest in an FIHV consists of a beneficial interest attributable to the person's profits that do not form part of the person's assessable profits under a provision of this Ordinance (***specified beneficial interest***), the person's beneficial interest in the FIHV under the variable B1 in the formula set out in section 3 of this Schedule does not include the specified beneficial interest; and

(b) if the person holds an indirect beneficial interest in an FIHV through an exempted person, the person's beneficial interest in the FIHV under the variable B1 in the formula set out in section 3 of this Schedule does not include that indirect beneficial interest.

3B. In applying section 2 of this Schedule to calculate the amount regarded as the assessable profits of a person for a year of assessment under section 23(2A), (2D) or (3A) of Schedule 16E, the concessionary profits of an FSPE for a particular day in the year of assessment are to be ascertained in accordance with the formula set out in section 3 of this Schedule with the following modifications—

(a) the variable B1 is removed;

(b) the variable B2 means the extent of the person's beneficial interest in the FSPE (whether direct or indirect or both) on the particular day, expressed as a percentage determined in accordance with Part 3 of this Schedule; and

(c) the modifications specified in sections 3C and 3D of this Schedule.

3C. If the person's direct beneficial interest in the FSPE consists of a beneficial interest attributable to the person's profits that do not form part of the person's assessable profits under a provision of this Ordinance (***specified beneficial interest***), the person's beneficial interest in the FSPE under the variable B2 in the formula (as modified by section 3B(b) of this Schedule) does not include the specified beneficial interest.

3D. If the person holds an indirect beneficial interest in the FSPE through an exempted person, the person's beneficial interest in the FSPE under the variable B2 in the formula (as modified by section 3B(b) of this Schedule) does not include that indirect beneficial interest.".

30. Schedule 16L added

After Schedule 16K—

Add

Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Bill 2026

"Schedule 16L

[ss. 20AN, 20AO & 40AV & Schs. 16E & 68]

Income Specified for Purposes of Sections 20AN(3A) and 20AO(2A) and Sections 9(3) and 16(3) of Schedule 16E

1. Income that is derived from shares or stocks of a private company and is attributable to property trading or property development in respect of immovable property in Hong Kong".

31. Schedule 68 added

The Ordinance—

Add

"Schedule 68

[s. 89(35)]

Provisions for Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Ordinance 2026

1. The amendments made to the existing provisions of this Ordinance by the Inland Revenue (Amendment) (Preferential

Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Ordinance 2026 (of 2026) (***Amendment Ordinance***) and the new provisions added to this Ordinance by the Amendment Ordinance apply to a year of assessment beginning on or after 1 April 2025.

2. In this Schedule—

existing provisions (現有條文) means sections 20AM, 20AN, 20AO, 20AP, 20AQ, 20AS, 20AU, 20AV, 20AW, 20AX, 20AY, 40AD, 40AV(2) and (3), 51C and 80 and Schedules 15C, 15D, 16C, 16D, 16E, 16I, 16J and 16K;

new provisions (新訂條文) means sections 20AMA, 20AZ, 20AZA, 20AZB, 20AZC, 20AZD, 20AZE and 80Y, this Schedule and Schedule 16L.".

Explanatory Memorandum

The objects of this Bill are to amend the Inland Revenue Ordinance (Cap. 112) (***Ordinance***) to—

(a) adjust the profits tax exemption for funds and related entities;

(b) adjust the profits tax concessions for family-owned investment holding vehicles and related entities;

(c) adjust the profits tax and salaries tax concessions for carried interest; and

(d) provide for related matters.

2. The Bill contains 31 clauses.

3. Clause 1 sets out the short title.

4. Clause 3 amends section 20AM of the Ordinance to provide that, among other things, certain arrangements are also funds under Subdivision 3 of Division 9 of Part 4 of, and Schedules 15C, 15D and 16C to, the Ordinance, such as arrangements commonly known as pension fund or endowment fund, and certain arrangements funded by only one participating person.

5. Clause 4 adds a new section 20AMA to the Ordinance to provide for the application of profits tax exemption under section 20AN of the Ordinance to a fund.

6. Clauses 5, 6, 7 and 8 amend sections 20AN, 20AO, 20AP and 20AQ of the Ordinance respectively to adjust the profits tax exemption for funds and special purpose entities. In particular—

(a) clause 5 amends section 20AN of the Ordinance to revise the conditions for a fund to be exempt from the payment of tax chargeable under Part 4 of the Ordinance and the scope of assessable profits in respect of which a fund is exempt from the payment of the tax;

(b) clause 6 amends section 20AO of the Ordinance to revise the scope of a special purpose entity that may be exempt from the payment of tax chargeable under Part 4 of the Ordinance and the scope of assessable profits in respect of which a special purpose entity is exempt from the payment of the tax; and

(c) clauses 7 and 8 amend sections 20AP and 20AQ of the Ordinance respectively to revise the requirements as to when the exemption under section 20AN or 20AO of the Ordinance does not apply to a fund or special purpose entity holding or not holding immovable property in Hong Kong through another entity.

7. Clause 9 substitutes section 20AS of the Ordinance so that an open-ended fund company is exempt from the payment of profits tax for assessable profits derived from utilizing assets of a class not specified in Schedule 16C to the Ordinance to generate income.

8. Clause 12 amends section 20AW of the Ordinance to set out, for the purpose of interpretation of sections 20AX and 20AY of the Ordinance as amended by clauses 13 and 14 respectively, how a person has control or significant influence over a fund or special purpose entity.

9. Clauses 13 and 14 amend sections 20AX and 20AY of the Ordinance respectively to adjust the circumstances under which the assessable profits of a fund or special purpose entity are to be regarded as the assessable profits of a person. For example, the assessable profits of a fund or special purpose entity derived from a loan for a period of time are to be regarded as the assessable profits of a person if the person—

(a) has, during the period of time, a beneficial interest in the fund or special purpose entity to a certain extent; and

(b) is a financial institution, insurance company or money lender.

10. Clause 15 adds new sections 20AZ, 20AZA, 20AZB, 20AZC, 20AZD and 20AZE to the Ordinance to provide for the reporting requirements for funds. In particular—

(a) the new section 20AZ provides for the interpretation and application for the reporting requirements;

(b) the new section 20AZA provides that a person responsible for the management or administration of a fund or part of a fund (***specified person***) must, within a certain period of time, file a written notice in respect of the fund (***initial notification***) with the Commissioner of Inland Revenue (***Commissioner***);

(c) the new section 20AZB provides that on receiving a written notice from an assessor, a specified person of a fund must file a written notice in respect of the fund for a year of assessment (***annual notification***);

(d) the new section 20AZC provides for the designation of a system for communication with the Commissioner for the filing of an initial notification or annual notification;

(e) the new section 20AZD provides for the requirements to keep sufficient records of an initial notification or annual notification and to retain the records for a period of time; and

(f) the new section 20AZE provides that a person who is under the obligation to file an initial notification or annual notification may engage a service provider (***service provider***) to do so.

11. Clause 16 amends section 40AD of the Ordinance to enable the Secretary for Financial Services and the Treasury to amend section 4(2)(c) of Schedule 16D to the Ordinance by notice published in the Gazette.

12. Clause 17 amends section 40AV of the Ordinance to provide for, among other things, the application of the provisions of the Ordinance relating to the tax treatment of family-owned investment holding vehicle and family-owned special purpose entity.

13. Clause 19 amends section 80 of the Ordinance to create an offence of a failure to comply with section 10(1) or (3) of the amended Schedule 16D to the Ordinance, or the new section 20AZA(1), (4), (6) or (9) or 20AZB(2). It also provides that a person engaging a service provider does not in itself constitute, for the purposes of new subsection (2ZF) of section 80 of the Ordinance, a reasonable excuse for the person's failure to comply with certain requirements mentioned in that subsection.

14. Clause 20 adds a new section 80Y to the Ordinance to create an offence of a failure of a service provider to cause a written notice to be filed as required by the new section 20AZA(1), (4), (6) or (9) or 20AZB(2).

15. Clause 24 amends Schedule 16C to the Ordinance to add classes of assets specified for the purposes of sections 20AN and 20AO of, and Schedule 16E to, the Ordinance.

16. Clause 25 amends Schedule 16D to the Ordinance to adjust the profits tax and salaries tax concessions for carried interest. In particular—

(a) a fund is no longer required to be certified by the Hong Kong Monetary Authority in order for the fund to become a qualifying payer under section 2 of that Schedule;

(b) the requirement of hurdle rate under section 3 of that Schedule is removed;

(c) the scope of qualifying payer under that Schedule is expanded to cover a closely related entity of a fund; and

(d) eligible carried interest under that Schedule includes a sum directly received by, or accrued to, a qualifying employee of a qualifying person or of a closely related entity of a qualifying person from a qualifying payer under certain circumstances.

17. Clause 26 amends Schedule 16E to the Ordinance to adjust the profits tax concessions for family-owned investment holding vehicles and family-owned special purpose entities to align the concessions with the profits tax exemption for funds and special purpose entities.

18. Clauses 22, 23, 28 and 29 amend Schedules 15C, 15D, 16J and 16K to the Ordinance respectively to adjust the ascertainment of assessable profits of a person under sections 20AX and 20AY of, and sections 22 and 23 of Schedule 16E to, the Ordinance, as amended by clauses 13, 14 and 26 respectively.

19. Clause 30 adds a new Schedule 16L to the Ordinance to specify the income for the purposes of new sections 20AN(3A) and 20AO(2A) of, and the amended sections 9(3) and 16(3) of Schedule 16E to, the Ordinance.

20. Clauses 10, 11, 18 and 27 make consequential amendments to the Ordinance, including the repeal of Schedule 16I to the Ordinance.

21. The amendments made to the Ordinance by the Bill apply to a year of assessment beginning on or after 1 April 2025 (see new Schedule 68 added by clause 31).

Annex B

Full list of qualifying investments with proposed amendments
(additions bolded and underlined)

1. Securities

1A. Insurance-linked securities

2. Shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, a private company

2A. Direct or indirect equity interests in an entity that is not a corporation

3. Futures contracts

4. Foreign exchange contracts under which the parties to the contracts agree to exchange different currencies on a particular date

5. Deposits other than those made by way of a money-lending business

6. Deposits (as defined by section 2(1) of the Banking Ordinance (Cap. 155)) made with a bank (as defined by Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571))

7. Certificates of deposit (as defined by Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571))

8. Exchange-traded commodities (which means gold and silver traded on the Hong Kong Gold Exchange)

8A. Precious metals[1]

9. Foreign currencies

10. OTC derivative products (as defined by Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571))

[1] Value of the investment in precious metals (i.e. those other than gold or silver traded on the Hong Kong Gold Exchange) must not exceed 20% of the total investment portfolio.

10A. Commodities in connection with and incidental to the trading of OTC derivative products or futures contracts[2]

11. An investee company's shares co-invested by a partner fund and ITVFC under the ITVF Scheme

12. Loans

13. Immovable property situated outside Hong Kong

14. Digital assets[3]

15. Emission allowance

16. Emission derivatives

17. Carbon credits

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2 Subject to the condition that the trade volume should not exceed 15% of the total trade volume of the commodities and the OTC derivative products or futures contracts traded during the basis period of a year of assessment.

3 A digital asset means a virtual asset as defined by section 53ZRA(1) of the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) and also includes a digital representation of value that is excluded from the definition of virtual asset in that section by operation of subsection (2)(a)(i) of that section (i.e. it is issued by a central bank or a government of a jurisdiction). However, in order to adopt a look-through approach and avoid tax abuse, a digital asset does not include a cryptographically secured digital representation of value that provides its holder with an interest in any underlying asset other than Hong Kong dollar or qualifying investments. Examples of digital assets include Hong Kong dollar-referenced stablecoins.

20AM. What *fund* means in sections 20AN, 20AO, 20AP, 20AQ, 20AR, 20AS, 20AT, 20AU, 20AV, 20AW, 20AX and 20AY and Schedules 15C, 15D and 16C

(1) In sections 20AN, 20AO, 20AP, 20AQ, 20AR, 20AS, 20AT, 20AU, 20AV, 20AW, 20AX and 20AY and Schedules 15C, 15D and 16C, ***fund*** (基金) has the meaning given to it by this section.

(2) An arrangement in respect of any property is a ***fund*** for a year of assessment if at all times during the basis period for the year of assessment—

(a) either or both of the following apply—

(i) under the arrangement, the property is managed as a whole by, or on behalf of, the person operating the arrangement;

(ii) the contributions of the persons participating in the arrangement (***participating persons***), and the profits or income from which payment is made to them, are pooled under the arrangement;

(b) under the arrangement, the participating persons do not have day-to-day control over the management of the property (whether or not they have the right to be consulted on, or to give directions in respect of, the management); and

(c) the purpose or effect (or pretended purpose or effect) of the arrangement is to enable the participating persons, whether by acquiring any right, interest, title or benefit in the property or any part of the property or otherwise, to participate in or receive—

(i) profits, income or other returns represented to arise (or to be likely to arise) from the acquisition, holding, management or disposal of the property (or any part of the property), or sums represented to be paid (or to be likely to be paid) out of any such profits, income or other returns; or

(ii) a payment or other returns arising from the acquisition, holding or disposal of, the exercise of any right in, the redemption of, or the expiry of, any right, interest, title or benefit in the property or any part of the property.

(3) In subsection (2)—

property (財產) includes—

(a) money, goods, choses in action and land (whether in Hong Kong or elsewhere); and

(b) obligations, easements and every description of estate, interest and profit, present or future, vested or contingent, arising out of or incidental to property mentioned in paragraph (a).

(4) An arrangement (commonly known as a sovereign wealth fund) that is established and funded by a state or government (or any political subdivision or local authority of a state or government) for the purposes of—

(a) carrying out financial activities; and

(b) holding and managing a pool of assets,

for the benefit of the state or government (or the political subdivision or local authority) is also a ***fund***.

(5) A ***fund*** does not include an arrangement if—

(a) the arrangement is operated by a person otherwise than by way of business;

(b) each of the persons participating in the arrangement (***participating persons***) is a corporation in the same group of companies as the operator of the arrangement;

(c) each of the participating persons of the arrangement is—

(i) a bona fide employee or former employee of a corporation in the same group of companies as the operator of the arrangement; or

(ii) a spouse, widow, widower, minor child (natural or adopted) or minor step-child of such employee or former employee;

(d) the arrangement is a franchise arrangement under which the franchisor or franchisee earns profits or income by exploiting a right conferred by the arrangement to use a trade name or design or other intellectual property or goodwill attached to it;

(e) money under the arrangement is taken by a solicitor (whether from his or her client or as a stakeholder) acting in his or her professional capacity in the ordinary course of practice;

(f) the arrangement is made for the purposes of a fund or scheme maintained by—

(i) the Securities and Futures Commission within the meaning of the Securities and Futures Ordinance (Cap. 571); or

(ii) a recognized exchange company, a recognized clearing house, a recognized exchange controller or a recognized investor compensation company, within the meaning of that Ordinance,

under that Ordinance for providing compensation in the event of default by an exchange participant, or a clearing participant, within the meaning of that Ordinance;

(g) the arrangement is made by a credit union registered under the Credit Unions Ordinance (Cap. 119) in accordance with the objects of the credit union;

(h) the arrangement is made for the purposes of any chit-fund permitted to operate under the Chit-Fund Businesses (Prohibition) Ordinance (Cap. 262); or

(i) the arrangement is a mutual fund, unit trust or similar investment scheme falling within the descriptions in section 26A(1A)(a)(i) and (ii).

(6) Also, a business undertaking for general commercial or industrial purposes is not a ***fund***.

(7) In subsection (6), the reference to a business undertaking for general commercial or industrial purposes includes a business undertaking that directly engages in any one or more of the following—

(a) a commercial activity that involves—

(i) any purchase, sale or exchange of goods or commodities; or

(ii) any supply of services;

(b) an industrial activity that involves any production of goods or construction of immovable property as defined by section 20AP(4);

(c) property development or property holding;

(d) finance, including—

(i) banking;

(ii) providing capital (other than providing capital to a special purpose entity, or an investee private company, as defined by section 20AO(4)) ;

(iii) leasing;

(iv) factoring;

(v) securitization; and

(vi) money-lending;

(e) insurance business;

(f) construction or direct acquisition of infrastructure as defined by section 20AP(4);

(g) making direct investments that derive rent, royalties or lease payments.

(Added 5 of 2019 s. 6)

20AN. Certain profits of certain funds exempt from payment of profits tax

(1) This section applies subject to section 20AS.

(2) If, in respect of a fund, a condition specified in subsection (3) is met at all times during the basis period for a year of assessment, the fund is, subject to sections 20AP and 20AQ, exempt from the payment of tax otherwise chargeable under this Part in respect of its assessable profits for the basis period earned from—

(a) transactions in assets of a class specified in Schedule 16C (***qualifying transactions***);

(b) subject to subsection (4), transactions incidental to the carrying out of qualifying transactions (***incidental transactions***); and

(c) if the fund is an open-ended fund company—transactions in assets of a class that is not specified in Schedule 16C.

(2A) For the purposes of subsection (2)(a), assets of a class specified in Schedule 16C may be held by a special purpose entity on behalf of a fund that owns the entity and transactions in such assets may be carried out by the entity on behalf of the fund. *(Added 9 of 2021 s. 6)*

(3) The condition is—

(a) that the qualifying transactions of the fund are—

(i) carried out in Hong Kong by or through a specified person; or

(ii) arranged in Hong Kong by a specified person; or

(b) that the fund is a qualified investment fund.

(4) The exemption under subsection (2) does not apply to assessable profits earned from incidental transactions if the percentage calculated according to the following formula exceeds 5%—

$$A/B \times 100\%$$

where—

A = the fund's trading receipts from incidental transactions in the basis period;

B = the total of the fund's trading receipts from qualifying transactions and incidental transactions in the basis period.

(5) The Commissioner may by notice published in the Gazette amend Schedule 16C.

(6) In this section—

aggregate capital commitment (資本認繳總額), in relation to a qualified investment fund, means the total of the capital commitments made by the investors, the originator and the originator's associates;

associate (相聯者)—

(a) in relation to a natural person, means—

(i) a relative of the person;

(ii) a partner of the person;

(iii) if a partner of the person is a natural person—a relative of the partner;

(iv) a partnership in which the person is a partner;

(v) a corporation controlled by—

(A) the person;

(B) if the person is a natural person—a relative of the person;

(C) a partner of the person;

(D) if a partner of the person is a natural person—a relative of that partner; or

(E) a partnership in which the person is a partner; or

(vi) a director or principal officer of a corporation mentioned in subparagraph (v);

(b) in relation to a corporation, means—

(i) a person who controls the corporation;

(ii) a partner of the person mentioned in subparagraph (i);

(iii) if the person mentioned in subparagraph (i) is a natural person—a relative of the person;

(iv) if the partner mentioned in subparagraph (ii) is a natural person—a relative of the partner;

(v) a director or principal officer of—

(A) the corporation; or

(B) an associated corporation of the corporation;

(vi) a relative of the director or principal officer mentioned in subparagraph (v);

(vii) a partner of the corporation;

(viii) if a partner of the corporation is a natural person—a relative of the partner;

(ix) a partnership in which the corporation is a partner; or

(x) an associated corporation of the corporation;

(c) in relation to a partnership, means—

(i) a partner in the partnership;

(ii) if a partner in the partnership is a natural person—a relative of the partner;

(iii) if a partner in the partnership is another partnership —

(A) a partner in the other partnership (***Partner A***); or

(B) a partner with the other partnership in any other partnership (***Partner B***);

(iv) if Partner A is a partnership—a partner in Partner A (***Partner C***);

(v) if Partner B is a partnership—a partner in Partner B (***Partner D***);

(vi) if Partner A, Partner B, Partner C or Partner D is a natural person—a relative of the partner;

(vii) a corporation controlled by—

(A) the partnership;

(B) a partner in the partnership;

(C) if a partner in the partnership is a natural person—a relative of the partner; or

(D) a partnership in which the partnership is a partner;

(viii) a director or principal officer of the corporation mentioned in subparagraph (vii);

(ix) a corporation of which a partner in the partnership is a director or principal officer; or

(x) an associated partnership of the partnership;

associated corporation (相聯法團), in relation to a corporation, means—

(a) another corporation over which the corporation has control;

(b) another corporation that has control over the corporation; or

(c) another corporation that is under the control of the same person as is the corporation;

associated partnership (相聯合夥), in relation to a partnership, means—

(a) another partnership over which the partnership has control;

(b) another partnership that has control over the partnership; or

(c) another partnership that is under the control of the same person as is the partnership;

capital commitment (資本認繳), in relation to a qualified investment fund, means a commitment—

(a) in the form of an amount of money payable by an investor, the originator or the originator's associate to the fund under an agreement governing the operation of the fund; and

(b) in respect of which the originator may make capital calls from time to time according to the terms of the agreement;

control (控制)—

(a) in relation to a corporation, means the power of a person to secure—

(i) by means of the holding of shares or the possession of voting power in or in relation to the corporation or any other corporation; or

(ii) by virtue of any powers conferred by the articles of association or other document regulating the corporation or any other corporation,

that the affairs of the corporation are conducted in accordance with the wishes of the person;

(b) in relation to a partnership, means the power of a person to secure—

(i) by means of the holding of interests or the possession of voting power in or in relation to the partnership or any other partnership; or

(ii) by virtue of any powers conferred by the partnership agreement or other document regulating the partnership or any other partnership,

that the affairs of the partnership are conducted in accordance with the wishes of the person;

final closing of sale of interests (權益出售最終截止日), in relation to a qualified investment fund, means the date on which the originator last accepts subscriptions from investors for making capital commitments;

investor (投資者), in relation to a qualified investment fund, means a person, other than the originator or the originator's associates, who makes capital commitment to the fund;

net proceeds (淨收益), in relation to a qualified investment fund at a particular time, means an amount calculated by—

(a) adding together—

(i) the sum of the cumulative distributions received by the investors, the originator and the originator's associates from the fund by the particular time; and

(ii) the value at the particular time of all assets, if any, held by the fund; and

(b) subtracting the cumulative capital contributions of the investors, the originator and the originator's associates by the particular time;

originator (發起人), in relation to a qualified investment fund, means a person who directly or indirectly—

(a) originates or sponsors the fund; and

(b) has the power to make investment decisions on behalf of the fund;

principal officer (主要職員), in relation to a corporation, means—

(a) a person employed by the corporation who, either alone or jointly with one or more other persons, is responsible, under the immediate authority of the directors of the corporation, for the conduct of the business of the corporation; or

(b) a person so employed who, under the immediate authority of a director of the corporation or a person to whom paragraph (a) applies, exercises managerial functions in respect of the corporation;

qualified investment fund (合資格投資基金) means a fund in relation to which—

(a) at all times after the final closing of sale of interests—

(i) the number of investors exceeds 4; and

(ii) the capital commitments made by investors exceed 90% of the aggregate capital commitments; and

(b) an agreement governing the operation of the fund provides that not more than 30% of the net proceeds arising out of the transactions of the fund are to be received by the originator and the originator's associates, after deducting the portion attributable to their capital contributions (which is proportionate to that attributable to the investors' capital contributions);

relative (親屬), in relation to a person, means the spouse, parent, child, brother or sister of the person, and, in deducing such a relationship—

(a) an adopted child is to be regarded as a child of both the natural parents and any adoptive parent; and

(b) a step child is to be regarded as a child of both the natural parents and any step parent;

special purpose entity (特定目的實體) has the meaning given by section 20AO(4); *(Added 9 of 2021 s. 6)*

specified person (指明人士) means a corporation licensed under Part V of the Securities and Futures Ordinance (Cap. 571) to carry on, or an authorized financial institution registered under that Part for carrying on, a business in any regulated activity as defined by Part 1 of Schedule 5 to that Ordinance.

(7) Section 21 of Schedule 17A (specified alternative bond scheme and its treatment under this Ordinance (other than Part 4AA)) provides for modifications to this section. *(Amended 21 of 2025 s. 33)*

(Added 5 of 2019 s. 6)

20AO. Certain profits of special purpose entities exempt from payment of profits tax

(1) This section applies to a special purpose entity owned by a fund that is exempt from the payment of tax under section 20AN in respect of its assessable profits for a year of assessment.

(2) The special purpose entity is, subject to sections 20AP and 20AQ, exempt to the extent provided by subsection (3) from the payment of tax chargeable under this Part in respect of its assessable profits for the year of assessment earned from—

(a) transactions in shares, stocks, debentures, loan stocks, funds, bonds or notes (***specified securities***) of, or issued by, an investee private company or an interposed special purpose entity;

(b) transactions in rights, options or interests (whether described as units or otherwise) in, or in respect of, the specified securities;

(c) transactions in certificates of interest or participation in, temporary or interim certificates for, receipts for, or warrants to subscribe for or purchase, the specified securities; *(Amended 9 of 2021 s.7)*

(d) transactions in assets of a class specified in Schedule 16C; and *(Added 9 of 2021 s.7)*

(e) transactions incidental (***incidental transactions***) to the carrying out of transactions mentioned in paragraph (a), (b), (c) or (d) if, in the basis period for the year of assessment, the entity's trading receipts from the incidental transactions do not exceed 5% of the total trading receipts from—

(i) the transactions mentioned in those paragraphs; and

(ii) the incidental transactions. *(Added 9 of 2021 s.7)*

(3) The extent of exemption under subsection (2) is the percentage equal to the percentage of the fund's ownership of the special purpose entity in the year of assessment.

(4) In this section—

interposed special purpose entity (中間特定目的實體) means—

(a) in relation to a special purpose entity that has an indirect beneficial interest in an investee private company through an interposed person that is a special purpose entity—the interposed person;

(b) in relation to a special purpose entity that has an indirect beneficial interest in an investee private company through a series of 2 or more interposed persons each of which is a special purpose entity—any of the interposed persons;

investee private company (獲投資私人公司), in relation to a fund, means a private company held by a special purpose entity or an interposed special purpose entity as a shareholder on behalf of the fund;

private company (私人公司) means a company (whether incorporated in or outside Hong Kong) that is not allowed to issue any invitations to the public to subscribe for any shares or debentures of the company;

special purpose entity (特定目的實體) means a corporation, partnership, trustee of a trust estate or any other entity that—

(a) is wholly or partially owned by a fund;

(b) is established solely for the purpose of holding (whether directly or indirectly) and administering only one or both of the following—

(i) one or more investee private companies;

(ii) assets of a class specified in Schedule 16C; *(Replaced 9 of 2021 s.7)*

(c) is incorporated, registered or appointed in or outside Hong Kong;

(d) does not carry on any trade or activities except for the purpose of—

(i) holding (whether directly or indirectly) and administering one or more investee private companies;

(ii) holding (whether directly or indirectly) and administering assets of a class specified in Schedule 16C; or

(iii) executing a legal document relating to an activity mentioned in subparagraph (i) or (ii) on behalf of the fund mentioned in paragraph (a); and *(Replaced 9 of 2021 s.7)*

(e) is not itself a fund or an investee private company.

(Added 5 of 2019 s. 6)

20AP. When does exemption under section 20AN or 20AO not apply to specified body holding immovable property through another company

(1) Subject to section 20AR, this section applies if, during the basis period for a year of assessment—

(a) a specified body carries out transactions in shares, stocks, debentures, loan stocks, funds, bonds or notes (***specified securities***) of, or issued by, a private company (***relevant company***); and

(b) the relevant company holds (whether directly or indirectly)—

(i) immovable property in Hong Kong; or

(ii) share capital (however described) in another private company that holds (whether directly or indirectly) immovable property in Hong Kong.

(2) If the aggregate value of the immovable property and share capital held by the relevant company—

(a) exceeds 10% of the value of its assets—the specified body is not exempt from the payment of tax under this Part in respect of its assessable profits for the period earned from the transactions; or

(b) does not exceed 10% of the value of its assets—the specified body is not, unless a condition specified in subsection (3) is met in good faith by the specified body, exempt from the payment of tax under this Part in respect of its assessable profits for the period earned from the transactions.

(3) The condition is—

(a) that the specified body disposes of, through a transaction or a series of transactions, the specified securities not less than 2 years after they are acquired (whether or not the specified body has control over the relevant company); or

(b) that the specified body disposes of, through a transaction or a series of transactions, the specified securities less than 2 years after they are acquired and—

(i) the specified body does not have control over the relevant company; or

(ii) if the specified body has control over the relevant company—the relevant company holds (whether directly or indirectly) short-term assets the aggregate value of which does not exceed 50% of the value of the relevant company's assets.

(4) In this section—

control (控制) has the meaning given by section 20AN(6);

immovable property (不動產) means—

(a) land (whether covered by water or not);

(b) any estate, right, interest or easement in or over any land; and

(c) things attached to land or permanently fastened to anything attached to land,

but does not include infrastructure;

infrastructure (基礎設施) means any publicly or privately owned facility providing or distributing services for the benefit of the public, and includes any water, sewage, energy, fuel, transportation or communication facility;

private company (私人公司) has the meaning given by section 20AO(4);

short-term asset (短期資產), in relation to a private company the shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, which are being disposed of by a fund, means an asset—

(a) that is of a class not specified in Schedule 16C;

(b) that is not immovable property in Hong Kong; and

(c) that has been held by the company for less than 3 consecutive years before the date of disposal;

special purpose entity (特定目的實體) has the meaning given by section 20AO(4);

specified body (指明團體) means a fund or a special purpose entity.

(Added 5 of 2019 s. 6)

20AQ. When does exemption under section 20AN or 20AO not apply to specified body not holding immovable property through another company

(1) Subject to section 20AR, this section applies if, during the basis period for a year of assessment—

(a) a specified body carries out transactions in shares, stocks, debentures, loan stocks, funds, bonds or notes (***specified securities***) of, or issued by, a private company (***relevant company***); and

(b) the relevant company does not hold (whether directly or indirectly)—

(i) immovable property in Hong Kong; or

(ii) share capital (however described) in another private company that holds (whether directly or indirectly) immovable property in Hong Kong.

(2) The specified body is not, unless a condition specified in subsection (3) is met in good faith by the specified body, exempt from the payment of tax chargeable under this Part in respect of its assessable profits for the period earned from the transactions.

(3) The condition is—

(a) that the specified body disposes of, through a transaction or a series of transactions, the specified securities not less than 2 years after they are acquired (whether or not the specified body has control over the relevant company); or

(b) that the specified body disposes of, through a transaction or a series of transactions, the specified securities less than 2 years after they are acquired and—

(i) the specified body does not have control over the relevant company; or

(ii) if the specified body has control over the relevant company—the relevant company holds (whether directly or indirectly) short-term assets the aggregate value of which does not exceed 50% of the value of the relevant company's assets.

(4) In this section—

control (控制) has the meaning given by section 20AN(6);

immovable property (不動產) has the meaning given by section 20AP(4);

private company (私人公司) has the meaning given by section 20AO(4);

short-term asset (短期資產) has the meaning given by section 20AP(4);

special purpose entity (特定目的實體) has the meaning given by section 20AO(4);

specified body (指明團體) has the meaning given by section 20AP(4).

(Added 5 of 2019 s. 6)

20AS. When does exemption under section 20AN not apply to open-ended fund companies

Despite section 20AN, if, during the basis period for a year of assessment, an open-ended fund company—

(a) carries on a direct trading or direct business undertaking in Hong Kong in assets of a class that is not specified in Schedule 16C (***non-Schedule 16C class***); or

(b) holds assets of a non-Schedule 16C class that are utilized to generate income,

the company is not exempt from the payment of tax chargeable under this Part in respect of its assessable profits for the basis period earned from the trading, business undertaking or utilization.

(Added 5 of 2019 s. 6)

20AU. Losses sustained by funds (other than open-ended fund companies) and special purpose entities

(1) This section applies in relation to a fund (other than an open-ended fund company) and a special purpose entity.

(2) If a fund is exempt from the payment of tax under section 20AN in respect of its assessable profits for a year of assessment, any loss sustained by the fund from a transaction referred to in section 20AN(2)(a) or (b) in the year of assessment is not available for set off against any of its assessable profits for the year of assessment or any subsequent year of assessment.

(3) If a special purpose entity is exempt from the payment of tax under section 20AO in respect of its assessable profits for a year of assessment, any loss sustained by the entity from a transaction referred to in section 20AO(2) in the year of assessment is not available for set off against any of its assessable profits for the year of assessment or any subsequent year of assessment.

(4) In this section—

special purpose entity (特定目的實體) has the meaning given by section 20AO(4).

(Added 5 of 2019 s. 6)

20AV. Losses sustained by open-ended fund companies

(1) This section applies in relation to an open-ended fund company.

(2) If the company is exempt from the payment of tax under section 20AN in respect of its assessable profits for a year of assessment, any loss sustained by the company from a transaction referred to in section 20AN(2)(a), (b) or (c) in the year of assessment is not available for set off against any of its assessable profits for the year of assessment or any subsequent year of assessment.

(3) Any loss sustained by the company from a specified activity in respect of which there is not an exemption from the payment of tax for assessable profits under section 20AN or 20AS for a year of assessment is only available for set off against any assessable profits of the company earned from the specified activity for the year of assessment or any subsequent year of assessment.

(4) In this section—

specified activity (指明活動) means a transaction, a direct trading, a direct business undertaking or utilization of assets.

(Added 5 of 2019 s. 6)

20AW. Interpretation of sections 20AX and 20AY and Schedules 15C and 15D

(1) This section applies to the interpretation of sections 20AX and 20AY and Schedules 15C and 15D.

(2) In relation to any year of assessment, a person is to be regarded as a resident person if—

(a) where the person is a natural person who is not a trustee of a trust estate, the person—

(i) ordinarily resides in Hong Kong in the year of assessment; or

(ii) stays in Hong Kong for a period or a number of periods amounting to—

(A) more than 180 days during the year of assessment; or

(B) more than 300 days in 2 consecutive years of assessment one of which is the year of assessment;

(b) where the person is a corporation that is not a trustee of a trust estate—the central management and control of the corporation is exercised in Hong Kong in the year of assessment;

(c) where the person is a partnership that is not a trustee of a trust estate—the central management and control of the partnership is exercised in Hong Kong in the year of assessment; or

(d) where the person is a trustee of a trust estate—the central management and control of the trust estate is exercised in Hong Kong in the year of assessment.

(3) In relation to any year of assessment, a person is a non-resident person if the person is not a resident person in relation to the year of assessment.

(4) A person (***the person***) is to be regarded as having a direct beneficial interest in another person (***the other person***) if—

(a) where the other person is a corporation that is not a trustee of a trust estate—the person holds any of the issued share capital (however described) of the corporation;

(b) where the other person is a partnership that is not a trustee of a trust estate—the person, as a partner in the partnership, is entitled to any of the profits of the partnership;

(c) where the other person is a trustee of a trust estate, the person—

(i) benefits under the trust estate; or

(ii) not being a trustee of the trust estate or, if the trustee is a corporation, a director of the trustee—is able (or might reasonably be expected to be able) to control the activities of the trust estate or the application of its corpus or income,

otherwise than through the other person; or

(d) where the other person is an entity that does not fall within any of paragraphs (a), (b) and (c)—the person has any of the ownership interests in the entity.

(5) A person (***the person***) is to be regarded as having an indirect beneficial interest in another person (***the other person***) if—

(a) where the other person is a corporation that is not a trustee of a trust estate—the person is interested in any of the issued share capital (however described) of the corporation;

(b) where the other person is a partnership that is not a trustee of a trust estate—the person is entitled to any of the profits of the partnership;

(c) where the other person is a trustee of a trust estate, the person—

(i) benefits under the trust estate; or

(ii) not being a trustee of the trust estate or, if the trustee is a corporation, a director of the trustee—is able (or might reasonably be expected to be able) to control the activities of the trust estate or the application of its corpus or income; or

(d) where the other person is an entity that does not fall within any of paragraphs (a), (b) and (c)—the person has any of the ownership interests in the entity,

through a third person (***interposed person***), or through a series of 2 or more interposed persons, who is or are related to the person and the other person in the way described in subsections (6) and (7).

(6) If there is one interposed person—

(a) the person has a direct beneficial interest in the interposed person; and

(b) the interposed person has a direct beneficial interest in the other person.

(7) If there is a series of 2 or more interposed persons—

(a) the person has a direct beneficial interest in the first interposed person in the series;

(b) each interposed person (other than the last interposed person) in the series has a direct beneficial interest in the next interposed person in the series; and

(c) the last interposed person in the series has a direct beneficial interest in the other person.

(8) If the partners in a partnership are not entitled to its profits but are only entitled to a distribution of its assets on its dissolution —a reference to an entitlement to the profits of a partnership is taken to be a reference to an entitlement to a distribution of the assets of the partnership on its dissolution.

(9) A reference to the issued share capital of a corporation does not include the shares comprised in the issued share capital that do not entitle their holders to receive dividends (whether in cash or in kind) and a distribution of the corporation's assets on its dissolution other than a return of capital.

(Added 5 of 2019 s. 6)

20AX. Assessable profits of funds regarded as assessable profits of resident persons

(1) If, in a year of assessment commencing on or after 1 April 2019—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect or both) in a fund to the extent set out in subsection (2); and

(b) the fund is exempt from the payment of tax under section 20AN, the assessable profits of the fund for the period of time that would have been chargeable to tax under this Part but for that section are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(2) The extent of a resident person's beneficial interest in a fund referred to in subsection (1) is that the person, either alone or jointly with any of the person's associates (whether a resident person or not)—

(a) if the fund is a corporation that is not a trustee of a trust estate—holds or is interested in not less than 30% of the issued share capital (however described) of the corporation;

(b) if the fund is a partnership that is not a trustee of a trust estate—is entitled to not less than 30% of the profits of the partnership;

(c) if the fund is a trustee of a trust estate—is interested in not less than 30% in value of the trust estate; or

(d) if the fund is an entity that does not fall within any of paragraphs (a), (b) and (c)—has not less than 30% of the ownership interests in the fund.

(3) If, in a year of assessment commencing on or after 1 April 2019—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect or both) in a fund;

(b) the fund is exempt from the payment of tax under section 20AN; and

(c) the fund is an associate of the resident person,

the assessable profits of the fund for the period of time that would have been chargeable to tax under this Part but for that section are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(4) Subsections (1) and (3) apply in relation to a resident person irrespective of whether the person has received or will receive (whether directly or indirectly) from the fund concerned any money or other property representing the profits of the fund for the relevant year of assessment.

(5) A resident person who has a direct or indirect beneficial interest in a trustee of a trust estate because of the fact that the resident person is able (or might reasonably be expected to be able) to control the activities of the trust estate or the application of its corpus or income is, for the purposes of this section, to be regarded as being interested in 100% of the value of the trust estate.

(6) The extent of a resident person's beneficial interest in a fund is to be determined in accordance with Part 2 of Schedule 15C.

(7) The amount regarded as the assessable profits of a resident person for a year of assessment under subsection (1) or (3) is to be ascertained in accordance with Schedule 15C.

(8) Subsections (1) and (3) do not apply in relation to a resident person who has a direct or indirect beneficial interest in a fund if the Commissioner is satisfied that the beneficial interests in the fund are bona fide widely held.

(9) If—

(a) a resident person is liable to tax in respect of the profits of a fund by the operation of subsection (1) or (3) because the person has an indirect beneficial interest in the fund through an interposed person (or through a series of 2 or more interposed persons); and

(b) the interposed person (or any of the interposed persons) is a resident person who is also liable to tax in respect of the profits by the operation of subsection (1) or (3),

the resident person mentioned in paragraph (a) is discharged from the person's liability to tax in respect of the profits.

(10) In this section—

associate (相聯者) has the meaning given by section 20AN(6).

(Added 5 of 2019 s. 6)

20AY. Assessable profits of special purpose entities held by funds regarded as assessable profits of resident persons

(1) If, in a year of assessment commencing on or after 1 April 2019—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect or both) in a fund to the extent set out in section 20AX(2);

(b) the fund is exempt from the payment of tax under section 20AN;

(c) the fund has, during the period of time, a beneficial interest (whether direct or indirect or both) in a special purpose entity; and

(d) the special purpose entity is exempt from the payment of tax under section 20AO,

the assessable profits of the special purpose entity for the period of time that are chargeable to tax under this Part and in respect of which tax would have been payable but for section 20AO are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(2) If, in a year of assessment commencing on or after 1 April 2019—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect or both) in a fund;

(b) the fund is exempt from the payment of tax under section 20AN;

(c) the fund is an associate of the resident person;

(d) the fund has, during the period of time, a beneficial interest (whether direct or indirect or both) in a special purpose entity; and

(e) the special purpose entity is exempt from the payment of tax under section 20AO,

the assessable profits of the special purpose entity for the period of time that are chargeable to tax under this Part and in respect of which tax would have been payable but for section 20AO are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(3) Subsections (1) and (2) apply in relation to a resident person irrespective of whether the person has received or will receive (whether directly or indirectly) from the special purpose entity concerned any money or other property representing the profits of the special purpose entity for the relevant year of assessment.

(4) A resident person who has a direct or indirect beneficial interest in a trustee of a trust estate because of the fact that the resident person is able (or might reasonably be expected to be able) to control the activities of the trust estate or the application of its corpus or income is, for the purposes of this section, to be regarded as being interested in 100% of the value of the trust estate.

(5) The extent of a fund's beneficial interest in a special purpose entity is to be determined in accordance with Part 2 of Schedule 15D.

(6) The amount regarded as the assessable profits of a resident person for a year of assessment under subsection (1) or (2) is to be ascertained in accordance with Schedule 15D.

(7) Subsections (1) and (2) do not apply in relation to a resident person who has a direct or indirect beneficial interest in a fund if the Commissioner is satisfied that the beneficial interests in the fund are bona fide widely held.

(8) If—

(a) a resident person is liable to tax in respect of the profits of a special purpose entity by the operation of subsection (1) or (2) because the person has an indirect beneficial interest in the special purpose entity through an interposed person (or through a series of 2 or more interposed persons); and

(b) the interposed person (or any of the interposed persons) is a resident person who is also liable to tax in respect of the profits by the operation of subsection (1) or (2),

the resident person mentioned in paragraph (a) is discharged from the person's liability to tax in respect of the profits.

(9) In this section—

associate (相聯者) has the meaning given by section 20AN(6);

special purpose entity (特定目的實體) has the meaning given by section 20AO(4).

(Added 5 of 2019 s. 6)

40AD. Power to amend Schedule 16D

(1) The Secretary for Financial Services and the Treasury may, by notice published in the Gazette, amend sections 2, 5(3), 7 and 9 of Schedule 16D.

(2) A notice published under subsection (1) may contain any incidental, supplemental, evidential, consequential, savings and transitional provisions that are necessary and expedient in consequence of the amendments made under that subsection.

40AV. Schedule 16E: tax treatment of family-owned investment holding vehicle and family-owned special purpose entity

(1) Schedule 16E contains provisions about—

(a) the tax treatment of a family-owned investment holding vehicle within the meaning of that Schedule; and

(b) the tax treatment of a family-owned special purpose entity within the meaning of that Schedule.

(2) Schedules 16F, 16G, 16H, 16I, 16J and 16K contain provisions supplementary to Schedule 16E.

(3) Schedules 16E, 16F, 16G, 16H, 16I, 16J and 16K apply in respect of a year of assessment commencing on or after 1 April 2022.

51C. Business records to be kept

(1) Subject to subsection (2), every person carrying on a trade, profession or business in Hong Kong shall keep sufficient records in the English or Chinese language of his income and expenditure to enable the assessable profits of such trade, profession or business to be readily ascertained and shall retain such records for a period of not less than 7 years after the completion of the transactions, acts or operations to which they relate. *(Amended 7 of 1986 s. 12)*

(2) Subsection (1) shall not require the preservation of any records —

(a) which the Commissioner has specified need not be preserved; or

(b) of a corporation which has been dissolved.

(3) For the purposes of this section, ***records*** (紀錄) includes—

(a) books of account (whether kept in a legible form, or in a non-legible form by means of a computer or otherwise) recording receipts and payments, or income and expenditure; and

(b) vouchers, bank statements, invoices, receipts, and such other documents as are necessary to verify the entries in the books of account referred to in paragraph (a). *(Added 48 of 1995 s. 10)*

(4) Without limiting the generality of subsection (3), the records required to be kept and retained pursuant to subsection (1) in respect of any trade, profession or business carried on during any year of assessment by any person, include—

(a) a record of the assets and liabilities of the person in relation to that trade, profession or business;

(b) a record of all entries from day to day of all sums of money received and expended by the person in relation to that trade, profession or business and the matters in respect of which the receipt and expenditure take place;

(c) where that trade, profession or business involves dealing in goods—

(i) a record of all goods purchased, and of all goods sold in the carrying on of that trade, profession or business (except those sold in the course of cash retail trading customarily conducted in a trade, profession or business of the kind of which that trade, profession or business is one) showing the goods, and the sellers and buyers in sufficient detail to enable the Commissioner to readily verify the quantities and values of the goods and the identities of the sellers and buyers; and all invoices relating thereto; and

(ii) statements (including quantities and values) of trading stock held by the person—

(A) at the end of each year of assessment; or

(B) where the Commissioner is satisfied that the accounts of such trade, profession or business are made up to a day other than 31 March, on that day in the year of assessment,

and all records of stocktakings from which any such statement of trading stock has been prepared; and

(d) where that trade, profession or business involves the provision of services, records of the services provided in sufficient detail to enable the Commissioner to readily verify the entries referred to in paragraph (b). *(Added 48 of 1995 s. 10)*

(5) The following provisions provide for modifications to this section—

(aa) section 15S (records to be kept); *(Added 17 of 2022 s. 7)*

(a) section 10 of Schedule 16D (eligible carried interest and its tax treatment);

(b) section 25 of Schedule 17A (specified alternative bond scheme and its treatment under this Ordinance (other than Part 4AA)); *(Replaced 9 of 2021 s. 9. Amended 17 of 2022 s. 7; 21 of 2025 s. 33)*

(c) section 9 of Schedule 17FC (qualifying IP income: nexus requirement for ascertaining excepted portion etc.); *(Added 17 of 2022 s. 7. Amended 17 of 2024 s. 8)*

(d) section 22 of Schedule 17FD (eligible IP income: concessionary tax treatment and nexus requirement for ascertaining concessionary portion). *(Added 17 of 2024 s. 8)*

(Added 26 of 1969 s. 28)

80. Penalties for failure to make returns, making incorrect returns, etc.

(1) Any person who without reasonable excuse—

(a) fails to comply with the requirements of a notice given to him under section 51(3), 51A(1), 52(1) or (2), or 64(2); or

(b) fails to attend in answer to a summons issued under section 64(2) or 68(6), or having attended fails to answer any questions put to him, being questions which, under section 64(2) or 68(6), as the case may be, may be put to him; or

(c) fails to comply with the requirements of section 5(2)(c), 51(6), (7) or (8), 51D(1), 52(4), (5), (6) or (7), or 76(3), *(Amended 48 of 1995 s. 11)*

commits an offence and is liable on conviction to a fine at level 3, and the court may order the person convicted within a time specified in the order to do the act which he has failed to do. *(Replaced 35 of 1965 s. 40. Amended 26 of 1969 s. 37; 2 of 1971 s. 46; 43 of 1975 s. 6; 8 of 1983 s. 19; L.N. 411 of 1984; 17 of 1989 s. 18; 56 of 1993 s. 31; L.N. 338 of 1995; 4 of 2010 s. 13)*

(1A) Any person who without reasonable excuse fails to comply with the requirements of section 51C commits an offence and is liable on conviction to a fine at level 6 and the court may order the person convicted within a time specified in the order to do the act which he has failed to do. *(Added 48 of 1995 s. 11. Amended 4 of 2010 s. 13)*

(1AA) Without prejudice to the generality of the term "reasonable excuse" as it is used in subsection (1) in relation to section 52(4), (5), (6) or (7), where a person has failed to comply with the requirements of that section in the case of an individual in respect of whom that person is treated as the employer by virtue of the operation of section 9A, then it shall constitute a defence in any proceedings under this section against that person in respect of such failure if he shows that—

(a) he did not comply with those requirements because he relied upon a statement in writing—

(i) by that individual; and

(ii) in the form specified under subsection (1AC); and

(b) it was reasonable for him to rely upon that statement. *(Added 54 of 1995 s. 3)*

(1AB) A person who knowingly or recklessly makes a statement of the kind referred to in subsection (1AA)(a) which in a material respect is false or misleading commits an offence and is liable on conviction to a fine at level 3. *(Added 54 of 1995 s. 3. Amended 4 of 2010 s. 13)*

(1AC) The Commissioner may, by notice in the Gazette, specify a form for the purposes of subsection (1AA)(a). *(Added 54 of 1995 s. 3)*

(1AD) For the avoidance of doubt, it is hereby declared that a form specified under subsection (1AC) is not subsidiary legislation. *(Added 54 of 1995 s. 3)*

(2) Any person who without reasonable excuse—

(a) makes, or causes or allows to be made on the person's behalf, an incorrect return by omitting or understating anything in respect of which he is required by this Ordinance to make a return, either on his behalf or on behalf of another person; *(Amended 1 of 2010 s. 7; 18 of 2021 s. 11)*

(b) makes an incorrect statement in connection with a claim for any deduction or allowance under this Ordinance;

(c) gives any incorrect information in relation to any matter or thing affecting his own liability (or the liability of any other person) to tax; *(Amended 1 of 2010 s. 7)*

(ca) fails to comply with section 26M(3)(a); *(Added 31 of 2018 s. 11)*

(cb) fails to comply with section 26Q(3)(a); *(Added 7 of 2019 s. 6)* (cc) fails to comply with section 26ZB(3)(a); *(Added 10 of 2024 s. 12)*

(cd) fails to comply with section 26ZI(3)(a); *(Added 2 of 2025 s. 6)*

(d) fails to comply with the requirements of a notice given to him under section 51(1); or *(Amended 18 of 2021 s. 18)*

(e) fails to comply with section 51(2),

commits an offence and is liable on conviction to a fine at level 3 and a further fine of treble the undercharged amount. *(Replaced 43 of 1975 s. 6. Amended L.N. 411 of 1984; 43 of 1989 s. 27; L.N. 338 of 1995; 4 of 2010 s. 13; 27 of 2018 s. 20)*

(2AA) For the purposes of subsection (2)(a), (b), (c) and (d), engaging a service provider (as defined by section 51AAD(8)) under section 51AAD(1) does not in itself constitute a reasonable excuse. *(Added 18 of 2021 s. 11)*

(2A) In the case of an offence under subsection (2)(d), the court may order the person convicted to comply with the requirements of the notice given to him under section 51(1) within such time as may be specified in the order. *(Added 43 of 1975 s. 6. Amended 43 of 1989 s. 27; 18 of 2021 s. 18)*

(2B) Any person who does not comply with an order of the court under subsection (1) or (2A) or under section 51(4B)(b) commits an offence and is liable on conviction to a fine at level 4. *(Added 43 of 1975 s. 6. Amended L.N. 338 of 1995; 4 of 2010 s. 13)*

(2C) Any person who does not comply with an order of the court under subsection (1A) commits an offence and is liable on conviction to a fine at level 6. *(Added 48 of 1995 s. 11. Amended 4 of 2010 s. 13)*

(2D) Any person who without reasonable excuse gives any incorrect information in relation to any matter or thing affecting the person's own liability (or the liability of any other person) to any tax of a territory outside Hong Kong commits an offence if—

(a) arrangements having effect under section 49(1A) are made with the government of that territory; and

(b) that tax is the subject of a provision of the arrangements that requires disclosure of information concerning tax of that territory,

and is liable to a fine at level 3. *(Added 1 of 2010 s. 7)*

(2E) A person commits an offence if the person, in making a self-certification that is required to be collected under Schedule 17D by a reporting financial institution—

(a) makes a statement that is misleading, false or incorrect in a material particular; and

(b) knows, or is reckless as to whether, the statement is misleading, false or incorrect in a material particular. *(Added 22 of 2016 s. 9)*

(2F) A person who commits an offence under subsection (2E) is liable on conviction to a fine at level 3. *(Added 22 of 2016 s. 9)*

(2G) A person commits an offence—

(a) if the person, without reasonable excuse, fails to comply with section 50AA(5);

(b) if the person, without reasonable excuse, fails to comply with a requirement of a notice given to the person under section 50AAB(2); or

(c) if—

(i) the person, without reasonable excuse—

(A) makes an incorrect statement, or provides incorrect information, in connection with any mutual agreement procedure or arbitration referred to in section 50AAB; or

(B) omits anything from a statement or information made or provided in connection with the procedure or arbitration; and

(ii) the statement or information referred to in subparagraph (i)(A), or the thing referred to in subparagraph (i)(B), is material to the case or issue to which the procedure or arbitration relates. *(Added 27 of 2018 s. 20)*

(2H) A person who commits an offence under subsection (2G)(a) is liable on conviction to—

(a) a fine at level 3; and

(b) a further fine of the undercharged amount. *(Added 27 of 2018 s. 20)*

(2I) A person who commits an offence under subsection (2G)(b) is liable on conviction to a fine at level 3, and the court may order the person to comply, within a time specified in the order, with the requirements of the notice given to the person under section 50AAB(2). *(Added 27 of 2018 s. 20)*

(2J) If a person fails to comply with an order of the court under subsection (2I), the person commits an offence and is liable on conviction to a fine at level 4. *(Added 27 of 2018 s. 20)*

(2K) A person who commits an offence under subsection (2G)(c) is liable on conviction to—

(a) a fine at level 3; and

(b) a further fine of treble the undercharged amount. *(Added 27 of 2018 s. 20)*

(2L) A person commits an offence—

(a) if the person, without reasonable excuse, fails to comply with a requirement under section 50AAM(11), 50AAN(3) or 50AAO(3);

(b) if—

(i) the person, without reasonable excuse, makes an incorrect statement or provides incorrect information in connection with the following claim or application, or omits anything from a statement made or information provided in connection with the following claim or application—

(A) the person's claim for relief under section 50AAM, 50AAN or 50AAO; or

(B) the person's application for an advance pricing arrangement under section 50AAP(1); and

(ii) the statement or information that is incorrect, or thing that is omitted, is material to the claim or application;

(c) if the person, without reasonable excuse, fails to comply with a requirement under section 50AAS;

(d) if—

(i) the person either—

(A) without reasonable excuse and in purported compliance with a requirement under section 50AAS, provides incorrect information in relation to an advance pricing arrangement; or

(B) without reasonable excuse, omits anything from information provided, in relation to an advance pricing arrangement, in purported compliance with the requirement; and

(ii) the information referred to in subparagraph (i)(A), or the thing referred to in subparagraph (i)(B), is material to the arrangement;

(e) if the person, without reasonable excuse, fails to comply with a requirement of section 50AAT; or

(f) if the person, without reasonable excuse, fails to comply with the requirement of a notice given to the person under section 3 of Schedule 17H. *(Added 27 of 2018 s. 20)*

(2M) A person who commits an offence under subsection (2L)(a), (b), (c) or (d) is liable on conviction to—

(a) a fine at level 3; and

(b) a further fine of the undercharged amount. *(Added 27 of 2018 s. 20)*

(2N) A person who commits an offence under subsection (2L)(e) is liable on conviction to a fine at level 5, and the court may order the person to do, within a time specified in the order, the act that the person has failed to do. *(Added 27 of 2018 s. 20)*

(2O) If a person fails to comply with an order of the court under subsection (2N), the person commits an offence and is liable on conviction to a fine at level 6. *(Added 27 of 2018 s. 20)*

(2P) A person who commits an offence under subsection (2L)(f) is liable on conviction to a fine at level 3. *(Added 27 of 2018 s. 20)*

(2Q) A person commits an offence if the person, without reasonable excuse, fails to comply with a requirement of section 58C. *(Added 27 of 2018 s. 20)*

(2R) A person who commits an offence under subsection (2Q) is liable on conviction to a fine at level 5, and the court may order the person to do, within a time specified in the order, the act that the person has failed to do. *(Added 27 of 2018 s. 20)*

(2S) If a person fails to comply with an order of the court under subsection (2R), the person commits an offence and is liable on conviction to a fine at level 6. *(Added 27 of 2018 s. 20)*

(2T) A person commits an offence if the person, without reasonable excuse, fails to comply with a requirement under section 10(2) of Schedule 16D. *(Added 9 of 2021 s. 10)*

(2U) A person who commits an offence under subsection (2T) is liable on conviction to a fine at level 3, and the court may order the person to do, within a time specified in the order, the act that the person has failed to do. *(Added 9 of 2021 s. 10)*

(2V) If a person fails to comply with an order of the court under subsection (2U), the person commits an offence and is liable on conviction to a fine at level 4. *(Added 9 of 2021 s. 10)*

(2W) A person who, without reasonable excuse, fails to comply with section 15J commits an offence and is liable on conviction to—

(a) a fine at level 3; and

(b) a further fine of treble the undercharged amount. *(Added 17 of 2022 s. 11)*

(2X) A person who, without reasonable excuse, fails to comply with section 8(2) of Schedule 17FC commits an offence and is liable on conviction to—

(a) a fine at level 3; and

(b) a further fine of treble the undercharged amount. *(Added 17 of 2022 s. 11)*

(2Y) A person who, without reasonable excuse, fails to comply with a Schedule 16E provision commits an offence and is liable on conviction to a fine at level 3. *(Added 8 of 2023 s. 5)*

(2Z) For the purposes of subsection (2Y)—

Schedule 16E provision (附表 16E 條文) means any of the following provisions of Schedule 16E—

(a) section 28(2);

(b) section 28(3);

(c) section 28(4);

(d) section 28(5);

(e) section 28(6);

(f) section 29(2);

(g) section 29(3);

(h) section 29(4);

(i) section 29(5);

(j) section 29(6);

(k) section 29(7);

(l) section 29(8);

(m) section 29(9). *(Added 8 of 2023 s. 5)*

(2ZA) If a person is convicted of an offence under subsection (2Y) for failing to do an act, the court may order the person to do the act within a time specified in the order. *(Added 8 of 2023 s. 5)*

(2ZB) A person who fails to comply with an order of the court under subsection (2ZA) commits an offence and is liable on conviction to a fine at level 4. *(Added 8 of 2023 s. 5)*

(2ZC) A person who, without reasonable excuse, fails to comply with section 21 of Schedule 17FD commits an offence and is liable on conviction to—

(a) a fine at level 3; and

(b) a further fine of treble the undercharged amount. *(Added 17 of 2024 s. 10)*

(3) No person shall be liable to any penalty under this section unless the complaint concerning such offence was made in the year of assessment in respect of or during which the offence was committed or within 6 years after the expiration thereof. *(Amended 49 of 1956 s. 61)*

(4) Any person who aids, abets or incites another person to commit an offence under this section shall be deemed to have committed the same offence and to be liable to the same penalty. *(Added 49 of 1956 s. 61)*

(5) The Commissioner may compound any offence under this section and may before judgment stay or compound any proceedings thereunder. *(Amended 49 of 1956 s. 61)*

(6) The following provisions provide for modifications to this section—

(aa) section 15S (records to be kept); *(Added 17 of 2022 s. 11)*

(a) section 10 of Schedule 16D (eligible carried interest and its tax treatment);

(b) sections 25 and 26 of Schedule 17A (specified alternative bond scheme and its treatment under this Ordinance (other than Part 4AA)); *(Replaced 9 of 2021 s. 10. Amended 17 of 2022 s. 11; 21 of 2025 s. 33)*

(c) section 9 of Schedule 17FC (qualifying IP income: nexus requirement for ascertaining excepted portion etc.); *(Added 17 of 2022 s. 11. Amended 17 of 2024 s. 10)*

(d) section 22 of Schedule 17FD (eligible IP income: concessionary tax treatment and nexus requirement for ascertaining concessionary portion). *(Added 17 of 2024 s. 10)*

(7) In this section—

undercharged amount (少徵稅款)—

(a) for an offence that relates to any incorrect return, statement or information or an omission from any statement or information—means the amount of tax that—

(i) has been undercharged as a result of the incorrect return, statement or information or omission; or

(ii) would have been so undercharged if the return, statement or information had been accepted as correct or the omission had not been detected;

(b) for an offence that relates to a failure to comply with a provision of this Ordinance or with a notice under the provision—means the amount of tax that has been undercharged as a result of the failure, or would have been so undercharged if the failure had not been detected; or

(c) for any other offence—means the amount of tax that has been undercharged as a result of the offence, or would have been so undercharged had the offence not been detected. *(Added 27 of 2018 s. 20)*

89. Transitional provisions or other provisions having effect for purposes of amendments to this Ordinance

(Amended 5 of 2024 s. 21)

(1) *(Repealed 12 of 2004 s. 20)*

(2) In relation to amendments made by the Inland Revenue (Amendment) (No. 2) Ordinance 1993 (52 of 1993)—

(a) it is declared that the amendments shall be without prejudice to the provisions of Part 14. *(Amended 4 of 2010 s. 17)*

(b) *(Repealed 4 of 2010 s. 17)*

(3) The transitional provisions of Schedule 9 shall have effect in relation to recognized occupational retirement schemes approved under section 87A prior to the repeal of that section by the Inland Revenue (Amendment) (No. 5) Ordinance 1993 (76 of 1993). *(Added 76 of 1993 s. 10)*

(4) The transitional provisions of Schedule 12 shall have effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment 2001/02. *(Added 29 of 2001 s. 2)*

(5) Schedule 14 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment 2005/06. *(Added 8 of 2005 s. 6)*

(6) Schedule 21 has effect in relation to the amendments made by the Inland Revenue (Amendment) Ordinance 2011 (4 of 2011). *(Added 4 of 2011 s. 5)*

(7) Schedule 22 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2011. *(Added 9 of 2011 s. 3)*

(8) Schedule 24 sets out transitional provisions that have effect for the purposes of the Inland Revenue (Amendment) (No. 3) Ordinance 2011 (21 of 2011). *(Added 21 of 2011 s. 8)*

(9) Schedule 25 has effect in relation to the following persons—

(a) a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2012 or the year of assessment commencing on 1 April 2013;

(b) a person liable to pay provisional profits tax in respect of the year of assessment commencing on 1 April 2012 or the year of assessment commencing on 1 April 2013. *(Added 21 of 2012 s. 5)*

(10) Schedule 27 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2013. *(Added 5 of 2013 s. 3)*

(11) Schedule 29 sets out transitional provisions that have effect for the purposes of amendments to this Ordinance made by the Inland Revenue and Stamp Duty Legislation (Alternative Bond Schemes) (Amendment) Ordinance 2013 (10 of 2013). *(Added 10 of 2013 s. 17)*

(12) Schedule 30 has effect in relation to the following persons—

(a) a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2014 or the year of assessment commencing on 1 April 2015;

(b) a person liable to pay provisional profits tax in respect of the year of assessment commencing on 1 April 2014 or the year of assessment commencing on 1 April 2015. *(Added 3 of 2014 s. 8)*

(13) Schedule 31 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2014. *(Added 10 of 2014 s. 3)*

(14) Schedule 33 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2015. *(Added 10 of 2015 s. 3)*

(15) Schedule 35 sets out transitional provisions relating to appeals against decisions of the Board of Review made before the commencement date of the Inland Revenue (Amendment) (No. 3) Ordinance 2015 (17 of 2015). *(Added 17 of 2015 s. 12)*

(16) Schedule 36 sets out transitional provisions that have effect for the purposes of amendments to this Ordinance made by the Inland Revenue (Amendment) (No. 2) Ordinance 2016 (12 of 2016). *(Added 12 of 2016 s. 17)*

(17) Schedule 37 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2016. *(Added 8 of 2016 s. 3)*

(18) Schedule 39 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2017. *(Added 3 of 2017 s. 4)*

(19) Schedule 41 sets out transitional provisions that have effect for the purposes of amendments to this Ordinance made by the Inland Revenue (Amendment) (No. 3) Ordinance 2017 (9 of 2017). *(Added 9 of 2017 s. 14)*

(20) Schedule 42 has effect in relation to a person liable to pay provisional profits tax in respect of the year of assessment commencing on 1 April 2018. *(Added 13 of 2018 s. 8)*

(21) Schedule 44 sets out transitional provisions that have effect for the purposes of amendments to this Ordinance made by the Inland Revenue (Amendment) (No. 6) Ordinance 2018 (27 of 2018). *(Added 27 of 2018 s. 34)*

(22) Schedule 46 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2019. *(Added 31 of 2018 s. 13)*

(23) Schedule 47 sets out transitional provisions that have effect for the purposes of amendments to this Ordinance made by the Inland Revenue (Amendment) Ordinance 2019 (4 of 2019). *(Added 4 of 2019 s. 12)*

(24) Schedule 48 sets out transitional provisions that have effect for the purposes of amendments to this Ordinance made by the Inland Revenue (Amendment) (No. 2) Ordinance 2019 (6 of 2019). *(Added 6 of 2019 s. 12)*

(25) Schedule 50 sets out transitional provisions that have effect for the purposes of the amendments to this Ordinance made by the Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Ordinance 2020 (15 of 2020). *(Added 15 of 2020 s. 15)*

(26) Schedule 51 sets out transitional provisions that have effect for the purposes of amendments to this Ordinance made by the Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Ordinance 2020 (5 of 2020). *(Added 5 of 2020 s. 15)*

(27) Schedule 52 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2022. *(Added 7 of 2022 s. 6)*

(28) Schedule 53 sets out a transitional provision that has effect for the purposes of amendments to this Ordinance made by the Inland Revenue (Amendment) (Tax Concessions for Certain Shipping-related Activities) Ordinance 2022 (10 of 2022). *(Added 10 of 2022 s. 8)*

(29) Schedule 55 sets out transitional provisions that have effect for the purposes of the amendments to this Ordinance made by the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 (17 of 2022). *(Added 17 of 2022 s. 13)*

(30) Schedule 56 sets out transitional provisions that have effect for the purposes of the amendments to this Ordinance made by the Inland Revenue (Amendment) (Taxation on Foreign-sourced Disposal Gains) Ordinance 2023 (32 of 2023). *(Added 32 of 2023 s. 10)*

(31) Schedule 58 sets out the provisions that have effect for the purposes of the amendments to this Ordinance made by the Inland Revenue (Amendment) (Aircraft Leasing Tax Concessions) Ordinance 2024 (5 of 2024). *(Added 5 of 2024 s. 21)*

(32) Schedule 59 sets out the provisions that have effect for the purposes of the amendments to this Ordinance made by the Inland Revenue (Amendment) (Tax Concessions and Two-tiered Standard Rates) Ordinance 2024 (10 of 2024). *(Added 10 of 2024 s. 14)*

(33) Schedule 60 has effect in relation to a person liable to pay provisional salaries tax in respect of the year of assessment commencing on 1 April 2024. *(Added 2 of 2025 s. 8)*

(Amended E.R. 1 of 2012)

Schedule 15C

[ss. 20AM, 20AW & 20AX & Sch. 15D]

Provisions for Ascertaining Amount of Assessable Profits of Resident Person under Section 20AX

(Schedule 15C added 5 of 2019 s. 8)

Part 1

1. The amount regarded as the assessable profits of a resident person for a year of assessment is the total sum arrived at by adding up the assessable profits of the fund that are chargeable to tax under Part 4 and in respect of which tax would have been payable but for section 20AN (***exempt profits***) for each day in the period in the year of assessment during which the resident person has a direct or indirect beneficial interest in the fund.

2. For the purposes of section 1 of this Part, the exempt profits of a fund for a particular day in a year of assessment are to be ascertained in accordance with the following formula—

$$A = \frac{B \times C}{D}$$

where: A means the exempt profits of the fund for a particular day in a year of assessment;

B means the extent of the resident person's beneficial interest in the fund on the particular day, expressed as a percentage determined in accordance with Part 2 of this Schedule;

C means the exempt profits of the fund for the accounting period of the fund in which the particular day falls;

D means the total number of days in the accounting period of the fund in which the particular day falls.

Part 2

1. For a resident person having a direct beneficial interest in a fund, the extent of the beneficial interest of the resident person in the fund is—

   (a) if the fund is a corporation that is not a trustee of a trust estate—the percentage of the issued share capital (however described) of the corporation held by the resident person;

(b) if the fund is a partnership that is not a trustee of a trust estate—the percentage of the profits of the partnership to which the resident person is entitled;

(c) if the fund is a trustee of a trust estate—the percentage in value of the trust estate in which the resident person is interested; or

(d) if the fund is an entity that does not fall within any of paragraphs (a), (b) and (c)—the percentage of ownership interests that the resident person has in the entity.

2. For a resident person having an indirect beneficial interest in a fund, the extent of the beneficial interest of the resident person in the fund is—

(a) if there is only one interposed person—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the resident person in the interposed person by the percentage representing the extent of the beneficial interest of the interposed person in the fund; or

(b) if there is a series of 2 or more interposed persons—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the resident person in the first interposed person in the series by—

(i) the percentage representing the extent of the beneficial interest of each interposed person (other than the last interposed person) in the series in the next interposed person in the series; and

(ii) the percentage representing the extent of the beneficial interest of the last interposed person in the series in the fund.

3. For the purposes of section 2 of this Part—

(a) section 1 of this Part applies in determining the extent of the beneficial interest of a resident person in an interposed person as if the references to a fund in that section were references to an interposed person;

(b) section 1 of this Part applies in determining the extent of the beneficial interest of an interposed person in a fund as if the references to a resident person in that section were references to an interposed person; and

(c) section 1 of this Part applies in determining the extent of the beneficial interest of an interposed person (***Interposed Person A***) in another interposed person (***Interposed Person B***) as if—

(i) the references to a resident person in that section were references to Interposed Person A; and

(ii) the references to a fund in that section were references to Interposed Person B.

Schedule 15D

[ss. 20AM, 20AW & 20AY]

Provisions for Ascertaining Amount of Assessable Profits of Resident Person under Section 20AY

(Schedule 15D added 5 of 2019 s. 8)

Part 1

1. The amount regarded as the assessable profits of a resident person for a year of assessment is the total sum arrived at by adding up the assessable profits of the special purpose entity that are chargeable to tax under Part 4 and in respect of which tax would have been payable but for section 20AO (***exempt profits***) for each day in the period in the year of assessment during which the resident person has an indirect beneficial interest in the special purpose entity.

2. For the purposes of section 1 of this Part, the exempt profits of a special purpose entity for a particular day in a year of assessment are to be ascertained in accordance with the following formula—

$$A = \frac{B1 \times B2 \times C}{D}$$

where: A means the exempt profits of the special purpose entity for a particular day in a year of assessment;

B1 means the extent of the resident person's beneficial interest in the fund on the particular day, expressed as a percentage determined in accordance with Part 2 of Schedule 15C;

B2 means the extent of the fund's beneficial interest in the special purpose entity on the particular day, expressed as a percentage determined in accordance with Part 2 of this Schedule;

C means the exempt profits of the special purpose entity for the accounting period of the special purpose entity in which the particular day falls;

D means the total number of days in the accounting period of the special purpose entity in which the particular day falls.

3. In this Part—

special purpose entity (特定目的實體) has the meaning given by section 20AO(4).

Part 2

1. For a fund having a direct beneficial interest in a special purpose entity, the extent of the beneficial interest of the fund in the special purpose entity is—

(a) if the special purpose entity is a corporation that is not a trustee of a trust estate—the percentage of the issued share capital (however described) of the corporation held by the fund;

(b) if the special purpose entity is a partnership that is not a trustee of a trust estate—the percentage of the profits of the partnership to which the fund is entitled;

(c) if the special purpose entity is a trustee of a trust estate—the percentage in value of the trust estate in which the fund is interested; or

(d) if the special purpose entity is an entity that does not fall within any of paragraphs (a), (b) and (c)—the percentage of ownership interests that the fund has in the entity.

2. For a fund having an indirect beneficial interest in a special purpose entity, the extent of the beneficial interest of the fund in the special purpose entity is—

(a) if there is only one interposed person—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the fund in the interposed person by the percentage representing the extent of the beneficial interest of the interposed person in the special purpose entity; or

(b) if there is a series of 2 or more interposed persons—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the fund in the first interposed person in the series by—

(i) the percentage representing the extent of the beneficial interest of each interposed person (other than the last interposed person) in the series in the next interposed person in the series; and

(ii) the percentage representing the extent of the beneficial interest of the last interposed person in the series in the special purpose entity.

3. For the purposes of section 2 of this Part—

(a) section 1 of this Part applies in determining the extent of the beneficial interest of a fund in an interposed person as if the references to a special purpose entity in that section were references to an interposed person;

(b) section 1 of this Part applies in determining the extent of the beneficial interest of an interposed person in a special purpose entity as if the references to a fund in that section were references to an interposed person; and

(c) section 1 of this Part applies in determining the extent of the beneficial interest of an interposed person (***Interposed Person A***) in another interposed person (***Interposed Person B***) as if—

(i) the references to a fund in that section were references to Interposed Person A; and

(ii) the references to a special purpose entity in that section were references to Interposed Person B.

4. In this Part—

special purpose entity (特定目的實體) has the meaning given by section 20AO(4).

Schedule 16C

[ss. 20AM, 20AN, 20AO, 20AP & 20AS & Schs. 16D, 16E & 17A]

(Amended 9 of 2021 s. 11; 8 of 2023 s. 6)

Classes of Assets Specified for Transactions for Purposes of Sections 20AN and 20AO and Schedule 16E

(Amended 9 of 2021 s. 11; 8 of 2023 s. 6)
(Schedule 16C added 5 of 2019 s. 11)

Part 1

1. Securities

2. Shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, a private company

3. Futures contracts

4. Foreign exchange contracts under which the parties to the contracts agree to exchange different currencies on a particular date

5. Deposits other than those made by way of a money-lending business

6. Deposits (as defined by section 2(1) of the Banking Ordinance (Cap. 155)) made with a bank (as defined by Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571))

7. Certificates of deposit (as defined by Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571))

8. Exchange-traded commodities

9. Foreign currencies

10. OTC derivative products (as defined by Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571))

11. An investee company's shares co-invested by a partner fund and ITVFC under the ITVF Scheme

Part 2

1. In this Schedule—

collective investment scheme (集體投資計劃) means an arrangement in respect of any property—

(a) under which either or both of the following apply—

(i) the property is managed as a whole by, or on behalf of, the person operating the arrangement;

(ii) the contributions of the persons participating in the arrangement (***participating persons***) and the profits or income from which payments are made to them are pooled;

(b) under which the participating persons do not have day-to-day control over the management of the property (whether or not they have the right to be consulted on, or to give directions in respect of, the management); and

(c) the purpose or effect (or pretended purpose or effect) of which is to enable the participating persons (whether by acquiring any right, interest, title or benefit in the property or any part of the property or otherwise) to participate in or receive—

(i) profits, income or other returns represented to arise (or to be likely to arise) from the acquisition, holding, management or disposal of the property (or any part of the property), or sums represented to be paid (or to be likely to be paid) out of any such profits, income or other returns; or

(ii) a payment or other returns arising from the acquisition, holding or disposal of, the exercise of any right in, the redemption of, or the expiry of, any right, interest, title or benefit in the property (or any part of the property);

contract for differences (差價合約) means an agreement the purpose or effect of which is to obtain a profit or avoid a loss by reference to fluctuations in the value or price of property of any description or in an index or other factor designated for that purpose in the agreement;

debenture (債權證) includes debenture stocks, bonds, and other debt securities of a corporation (whether constituting a charge on the assets of the corporation or not);

deposit (存款) means a loan of money—

(a) at interest; or

(b) repayable at a premium or repayable with any consideration in money or money's worth;

exchange-traded commodity (交易所買賣商品) means gold or silver traded on a commodity exchange in Hong Kong to which the Commodity Exchanges (Prohibition) Ordinance

(Cap. 82) does not apply by virtue of section 3(d) of that Ordinance;

futures contract (期貨合約) means—

(a) a contract or an option on a contract made under the rules or convention of a futures market; or

(b) any other contract for differences—

(i) that is listed on a specified stock exchange, or traded on a specified futures exchange, within the meaning of section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

(ii) that an authorized institution within the meaning of the Banking Ordinance (Cap. 155) may enter into under that Ordinance; or

(iii) the transaction in respect of which is regulated by or under, or is carried out in compliance with, the Securities and Futures Ordinance (Cap. 571);

futures market (期貨市場) has the meaning given by section 1 of Part 1 of Schedule 1 to the Securities and Futures Ordinance (Cap. 571);

investee company (獲投資公司) has the meaning given by section 20AR(2);

ITVF Scheme (創基計劃) has the meaning given by section 20AR(2);

ITVFC (創基公司) has the meaning given by section 20AR(2);

partner fund (夥伴基金) has the meaning given by section 20AR(2);

private company (私人公司) has the meaning given by section 20AO(4);

property (財產) has the meaning given by section 20AM(3);

securities (證券) means—

(a) subject to section 21(6) of Schedule 17A (specified alternative bond scheme and its treatment under this Ordinance (other than Part 4AA)), shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, a body (including a special purpose entity), whether incorporated or unincorporated, or a government or municipal government authority; *(Amended 21 of 2025 s. 33)*

(b) rights, options or interests (whether described as units or otherwise) in, or in respect of, such shares, stocks, debentures, loan stocks, funds, bonds or notes;

(c) certificates of interest or participation in, temporary or interim certificates for, receipts for, or warrants to subscribe for or purchase, such shares, stocks, debentures, loan stocks, funds, bonds or notes;

(d) interests in any collective investment scheme;

(e) interests, rights or property (whether in the form of an instrument or otherwise) commonly known as securities; or

(f) a structured product in respect of which the issue of any advertisement, invitation or document that is or contains an invitation to the public to do any act referred to in section 103(1)(a) of the Securities and Futures Ordinance (Cap. 571) is authorized, or required to be authorized, under section 105(1) of that Ordinance;

share (股份) means any share in the share capital of a corporation, and, except where a distinction between stock and shares is express or implied, includes stock;

special purpose entity (特定目的實體) has the meaning given by section 20AO(4).

Schedule 16D

[ss. 2, 4, 19CA, 40AC, 40AD, 51C & 80]

(Amended 21 of 2025 s. 32)

Eligible Carried Interest and its Tax Treatment

(Schedule 16D added 9 of 2021 s. 12)

Part 1

Preliminary

1. Interpretation

In this Schedule—

associated corporation (相聯法團), in relation to a corporation, means—

(a) another corporation over which the corporation has control;

(b) another corporation that has control over the corporation; or

(c) another corporation that is under the control of the same person as is the corporation;

associated partnership (相聯合夥), in relation to a partnership, means—

(a) another partnership over which the partnership has control;

(b) another partnership that has control over the partnership; or

(c) another partnership that is under the control of the same person as is the partnership;

certified investment fund (經核證投資基金)—see section 2 of this Schedule;

control (控制)—

(a) in relation to a corporation, means the power of a person to secure—

(i) by means of the holding of shares or the possession of voting power in or in relation to that corporation or any other corporation; or

(ii) by virtue of any powers conferred by the articles of association or other document regulating that corporation or any other corporation,

that the affairs of that corporation are conducted in accordance with the wishes of the person;

(b) in relation to a partnership, means the power of a person to secure—

(i) by means of the holding of interests or the possession of voting power in or in relation to that partnership or any other partnership; or

(ii) by virtue of any powers conferred by the partnership agreement or other document regulating that partnership or any other partnership,

that the affairs of that partnership are conducted in accordance with the wishes of the person;

disposal of investment (投資處置) includes part disposal of an investment and the disposal of particular investments;

eligible carried interest (具資格附帶權益)—see section 3 of this Schedule;

entity (實體) means a body of persons (corporate or unincorporate) or a legal arrangement, and includes—

(a) a corporation;

(b) a partnership; and

(c) a trust;

external investor (外部投資者) means a person who participates in a certified investment fund or a specified entity as an investor without day-to-day control over the fund or entity;

investment management services (投資管理服務), in relation to a certified investment fund or a specified entity, include—

(a) seeking funds for the fund or entity from external investors or potential external investors;

(b) researching and advising on potential investments to be made for the fund or entity;

(c) acquiring, managing or disposing of property or investments for the fund or entity; and

(d) acting for the fund or entity with a view to assisting an entity in which the fund or entity has made an investment to raise funds;

profit-related return (利潤關聯回報)—see section 3 of this Schedule;

qualifying employee (合資格僱員)—see section 8(4) of this Schedule;

qualifying payer (合資格支付人)—see section 2 of this Schedule;

qualifying person (合資格人士)—see section 4(3) of this Schedule;

specified entity (指明實體)—see section 2 of this Schedule;

sum (款項) includes any money or money's worth.

2. Meaning of *certified investment fund*, *qualifying payer* and *specified entity*

In this Schedule—

certified investment fund (經核證投資基金) means a fund within the meaning of section 20AM that is certified by the Monetary Authority to be in compliance with the criteria for certification published by the Monetary Authority;

qualifying payer (合資格支付人) means—

(a) a certified investment fund;

(b) an associated corporation, or an associated partnership, of a certified investment fund that is a corporation or a partnership; or

(c) a specified entity;

specified entity (指明實體) means The Innovation and Technology Venture Fund Corporation incorporated under the Companies Ordinance (Cap. 622).

3. Meaning of *eligible carried interest* and *profit-related return*

(1) Eligible carried interest is a sum received by, or accrued to, a person by way of profit-related return from the provision of investment management services by the person for a certified investment fund or a specified entity.

(2) A sum received by, or accrued to, a person is so received or accrued by way of profit-related return if, under the agreement governing the operation of the certified investment fund or the specified entity, all of the following conditions are satisfied—

(a) the sum is received or accrued after the payment of a return on investments in the fund or entity subject to the fulfilment of the hurdle rate in the fund or entity;

(b) the sum is to be, or may be, received or accrued only if—

(i) there are profits for a period on the investments, or on particular investments, made for the fund or entity; or

(ii) there are profits arising from a disposal of investment made for the fund or entity;

(c) the sum that is to be, or may be, received or accrued is variable by reference to those profits;

(d) the returns to external investors of the fund or entity are also determined by reference to those profits.

(3) If a part of the sum does not satisfy any one of the conditions in subsection (2), that part is not to be regarded as received by, or accrued to, a person by way of profit-related return.

(4) If—

(a) one or more sums are received by, or accrued to, a person from a certified investment fund or a specified entity by way of profit-related return in a year of assessment (***actual sums***); and

(b) there was no significant risk that at least a certain amount of the actual sum (***minimum amount***) would not be received by, or accrued to, the person,

then the amount of the actual sum, or of the aggregate of the actual sums, that is equal to the minimum amount is not to be regarded as eligible carried interest.

(5) For the purposes of subsection (4)(b), the risk is to be assessed —

(a) in relation to each actual sum (and the investments to which it relates) individually—by taking into account any other sums that might have been received by, or accrued to, the person from the certified investment fund or the specified entity instead of that actual sum; and

(b) in relation to the actual sum or sums, and any other sums that might have been received by, or accrued to, the person from the fund or entity by way of profit-related return in the year of assessment (and the investments to which all those sums relate)—by taking into account all those sums as a whole.

(6) For the purposes of subsection (4)(b), the risk is also to be assessed as at the latest of—

(a) the time when the person enters into an agreement for the provision of investment management services for the certified investment fund or the specified entity;

(b) the time when the person begins to carry out investment management services directly or indirectly for the fund or entity; and

(c) the time when a change is made to the agreement referred to in paragraph (a) so far as relating to the amount of the sums that are to be, or may be, received by or accrued to the person.

(7) For the purposes of subsection (4)(b), any risk that a sum is prevented from being received by, or accrued to, a person (by reason of insolvency or otherwise) is to be ignored.

(8) If more than one actual sum is received by, or accrued to, a person in a year of assessment, the minimum amount is to be apportioned between the actual sums so that, for the purposes of subsection (4)—

(a) the part of the minimum amount that is attributable to a particular actual sum is to be apportioned to that actual sum; and

(b) the part of the minimum amount that is not attributable to any particular actual sum is to be apportioned between the actual sums on a just and reasonable basis.

(9) For the purposes of subsection (8), any part of the minimum amount is attributable to a particular actual sum (so that the risk under subsection (4)(b) for that part is to be assessed in accordance with subsection (5)(a)) to the extent that there was no significant risk that that part would not be received by, or accrued to, the person in relation to that actual sum.

(10) Despite subsections (2), (3), (4), (5), (6), (7), (8) and (9), any sum received by, or accrued to, a person in respect of investment management services, that—

(a) is distributed by a specified entity; and

(b) arises from profits derived from a disposal of shares of an investee company (as defined by section 20AR(2)),

is to be regarded as received or accrued by way of profit-related return.

(11) In this section—

hurdle rate (門檻回報率) means a preferred rate of return on investments in a certified investment fund or a specified entity, that is stipulated in the agreement governing the operation of the fund or entity.

Part 2

Profits Tax Treatment of Eligible Carried Interest

4. Profits tax concessions for qualifying person

(1) Where a person is chargeable to profits tax in respect of eligible carried interest for a year of assessment and all of the conditions in subsection (2) are satisfied in relation to the eligible carried interest, then—

(a) the person's assessable profits in respect of the eligible carried interest are to be calculated in accordance with section 6 of this Schedule; and

(b) profits tax is to be charged on those assessable profits of the person at the rate specified in section 7 of this Schedule.

(2) The conditions are that—

(a) for the year of assessment, the person by whom the eligible carried interest is received, or to whom the eligible carried interest is accrued, is a qualifying person;

(b) the eligible carried interest is received by, or accrued to, the person from one, or more than one, qualifying payer;

(c) the eligible carried interest arises from profits on investments, profits on particular investments, or profits on a disposal of investment, that are earned from a transaction—

(i) in shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, a private company (as specified in Schedule 16C);

(ii) in shares of, or comparable interests in, a special purpose entity or an interposed special purpose entity (as defined by section 20AO(4)) that holds (whether directly or indirectly) and administers—

(A) one or more investee private companies (as defined by section 20AO(4)); and

(B) no other assets of a class specified in Schedule 16C;

(iii) in shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, an investee private company (as defined by section 20AO(4)); or

(iv) incidental to the carrying out of a transaction mentioned in subparagraph (i), (ii) or (iii);

(d) if the profits that are earned from a transaction mentioned in paragraph (c) are from a transaction by a certified investment fund or a special purpose entity—those profits are exempt from profits tax in accordance with section 20AN or 20AO.

(3) A person is a qualifying person for a year of assessment if, during the basis period for the year of assessment, the person —

(a) is a corporation licensed under Part V of the Securities and Futures Ordinance (Cap. 571) to carry on, or an authorized financial institution registered under that Part for carrying on, a business in any regulated activity as defined by Part 1 of Schedule 5 to that Ordinance;

(b) carries out investment management services in Hong Kong, or arranges such services to be carried out in Hong Kong, for a certified investment fund that is a qualified investment fund as defined by section 20AN(6); or

(c) carries out investment management services in Hong Kong, or arranges such services to be carried out in Hong Kong, for a specified entity.

5. Investment management services carried out in Hong Kong

(1) Section 4(1) of this Schedule does not apply to a person in relation to eligible carried interest received by, or accrued to, the person from the provision of investment management services by the person for a certified investment fund or a specified entity for a year of assessment unless the person satisfies the conditions in both subsections (2) and (3).

(2) The condition in this subsection is satisfied if, during the whole of the applicable period, the investment management services concerned are—

(a) either—

(i) carried out in Hong Kong by the person; or

(ii) arranged by the person to be carried out in Hong Kong; and

(b) not carried out outside Hong Kong by a permanent establishment (that is, a branch, management or other place of business, but not including an agency, unless the agent has, and habitually exercises, a general authority to negotiate and conclude contracts on behalf of a principal).

(3) The condition in this subsection is satisfied if, during the whole of the applicable period—

(a) the average number of full-time employees in Hong Kong who carry out the investment management services concerned and have the qualifications necessary for doing so during the basis period for each year of assessment falling within the applicable period is—

(i) adequate in the opinion of the Commissioner; and

(ii) in any event, 2 or more; and

(b) the total amount of operating expenditure incurred in Hong Kong for the provision of the investment management services concerned during the basis period for each year of assessment falling within the applicable period is—

(i) adequate in the opinion of the Commissioner; and

(ii) in any event, $2,000,000 or more.

(4) In this section—

applicable period (適用期間) means the period beginning on the day on which a person begins to carry out investment management services directly or indirectly for a certified investment fund or a specified entity and ending on the day on which eligible carried interest is received by, or accrued to, the person.

6. Profits tax calculation for qualifying person

(1) If section 4(1) of this Schedule applies to a qualifying person in relation to eligible carried interest—

(a) the person is chargeable to profits tax for the basis period for a year of assessment on the net eligible carried interest calculated in accordance with subsection (2); and

(b) the person's assessable profits in respect of the eligible carried interest are to be calculated on the basis of the net eligible carried interest calculated in accordance with subsection (2).

(2) The calculation of net eligible carried interest is in accordance with the following formula—

$$A = B - C - D + E$$

where:

A means the net eligible carried interest;

B means the eligible carried interest received by, or accrued to, the qualifying person from one, or more than one, qualifying payer during the basis period for the year of assessment;

C means the outgoings and expenses to the extent that they are incurred during the basis period for the year of assessment to produce B;

D means the allowances allowed under Part 6, to the extent that the relevant assets counted for the allowances are used during the basis period for the year of assessment to produce B;

E means the balancing charge to be made under Part 6, to the extent that the relevant assets counted for the balancing charge are used during the basis period for the year of assessment to produce B.

7. Rate of profits tax for qualifying person

For a year of assessment commencing on or after 1 April 2020, the rate of profits tax in respect of the net eligible carried interest mentioned in section 6 of this Schedule is 0%.

Part 3

Salaries Tax Treatment of Eligible Carried Interest

8. Salaries tax concessions for qualifying employee

(1) This section applies to an individual who, for a year of assessment, is a qualifying employee.

(2) If assessable income is accrued to a qualifying employee from an employment under which investment management services are provided by the employee for, or on behalf of, a qualifying person for a certified investment fund or a specified entity, the employee's assessable income from the employment for the year of assessment is to be calculated in accordance with subsection (3).

(3) The calculation is in accordance with the following formula—

$$A = B - (C \times D)$$

where:

A means the assessable income accrued from the employment for the year of assessment;

B means the income accrued from the employment for the year of assessment;

C means that part of B paid out of the eligible carried interest received by, or accrued to, a qualifying person and to which section 4(1) of this Schedule applies for the assessment of that eligible carried interest for profits tax;

D means the percentage specified in section 9 of this Schedule.

(4) In this section—

qualifying employee (合資格僱員) means an individual who satisfies both of the following conditions—

(a) the individual is employed by—

(i) a qualifying person; or

(ii) the associated corporation, or the associated partnership, of a qualifying person who is a corporation or a partnership, if the associated corporation or the associated partnership carries on a business in Hong Kong;

(b) the individual is carrying out the duties of the employment by providing investment management services in Hong Kong for, or on behalf of, the qualifying person.

9. Percentage of eligible carried interest to be excluded for salaries tax calculation

For a year of assessment commencing on or after 1 April 2020, the percentage mentioned in section 8(3) of this Schedule is 100%.

Part 4

Provision of Information and Retention of Records

10. Obligations of qualifying person: information and records

(1) Part 9 and section 80 apply, with the modifications specified in this section, to a person who makes a claim to the Commissioner that—

(a) the person is a qualifying person; and

(b) eligible carried interest received by, or accrued to, the person is to be assessed for profits tax in accordance with section 4(1) of this Schedule for a year of assessment.

(2) The person must provide to the Commissioner in the person's return or in other manner or form that may be required by the Commissioner—

(a) the information in relation to the eligible carried interest; and

(b) the additional information in relation to an employee of the person, if—

(i) the person makes a payment or an accrual of eligible carried interest to the employee; and

(ii) the employee makes a claim to the Commissioner that—

(A) the employee is a qualifying employee; and

(B) eligible carried interest received by, or accrued to, the employee is to be assessed for salaries tax in accordance with section 8 of this Schedule for a year of assessment.

(3) The additional information in relation to an employee includes —

(a) the employee's name;

(b) the employee's address;

(c) the employee's Hong Kong Identity Card number (or the number and issuing country of the employee's passport);

(d) the amount of eligible carried interest received by, or accrued to, the employee for the year of assessment; and

(e) details of the qualifying payer from which the eligible carried interest was received by, or accrued to, the employee for the year of assessment.

(4) For the purposes of section 51C, a person mentioned in subsection (1) must—

(a) keep sufficient records to enable the accuracy and completeness of a payment or an accrual of eligible carried interest made by the person to be readily ascertained; and

(b) retain the records for a period of not less than 7 years beginning on the date of the payment or the accrual of eligible carried interest, whichever is the later.

(5) Section 80 applies to a failure to comply with section 51C, as modified by subsection (4), in the same way that section 80 applies to a failure to comply with that section 51C.

11. Obligations of qualifying payer: information and records

(1) This section applies to a qualifying payer if—

(a) a person makes a claim to the Commissioner that—

(i) the person is a qualifying person; and

(ii) eligible carried interest received by, or accrued to, the person is to be assessed for profits tax in accordance with section 4(1) of this Schedule for a year of assessment; and

(b) the eligible carried interest was paid or accrued to the person by the qualifying payer for the year of assessment.

(2) The qualifying payer must provide to the Commissioner the information that may be required by the Commissioner in relation to the payments or the accruals of eligible carried interest made to the person mentioned in subsection (1).

(3) For the purposes of providing information to the Commissioner, the qualifying payer must—

(a) keep sufficient records to enable the accuracy and completeness of a payment or an accrual of eligible carried interest made by the qualifying payer to be readily ascertained; and

(b) retain the records for a period of not less than 7 years beginning on the date of the payment or the accrual of eligible carried interest, whichever is the later.

(4) If a qualifying payer fails to comply with the requirements in subsection (2) or (3), the Commissioner may determine that—

(a) the person making the claim is not a person by whom the eligible carried interest is received, or to whom the eligible carried interest is accrued; and

(b) the eligible carried interest is not to be assessed for profits tax in accordance with section 4(1) of this Schedule.

Part 5

Miscellaneous Matters

12. Commissioner may seek advice from Monetary Authority on certain matters

(1) This section applies if a claim is made by a person to the Commissioner in relation to—

(a) profits tax treatment of eligible carried interest under section 4 of this Schedule; or

(b) salaries tax treatment of eligible carried interest under section 8 of this Schedule.

(2) After receiving the claim, the Commissioner may seek advice from the Monetary Authority, or an officer authorized by the Monetary Authority, in order to ascertain—

(a) whether a service constitutes an investment management service;

(b) whether a sum has been received by, or accrued to, a person by way of profit-related return so that it may be eligible carried interest;

(c) whether an entity is, and has remained, a certified investment fund; and

(d) any other matter that the Commissioner considers appropriate in relation to the claim.

13. Anti-avoidance provisions relating to arrangement to obtain tax benefit

(1) If—

(a) a person enters into an arrangement; and

(b) the Commissioner is satisfied that the main purpose, or one of the main purposes, of the person entering into the arrangement is to obtain a tax benefit, whether for the person or any other person, in relation to a liability to pay profits tax or salaries tax in respect of eligible carried interest under this Schedule,

this Schedule does not apply in relation to any sums received by, or accrued to, the person or any other person during a basis period for a year of assessment relevant to the arrangement.

(2) For the purposes of subsection (1), a basis period for a year of assessment is relevant to an arrangement if, in the opinion of the Commissioner, the arrangement has effect during the basis period.

(3) Without limiting subsection (1), an arrangement to disguise as eligible carried interest a management fee that a person receives, or that accrues, from a qualifying payer is an arrangement to obtain a tax benefit.

(4) In this section—

management fee (管理費用), in relation to a certified investment fund or a specified entity, means a sum received by, or accrued to, a person from the provision of investment management services by the person for the fund or entity, except in so far as the sum constitutes eligible carried interest;

tax benefit (稅務利益) means an avoidance, postponement or reduction of a liability to pay tax.

14. Loss sustained by qualifying person

(1) This section applies to a qualifying person if, because of sections 4, 6 and 7 of this Schedule, the person does not need to pay any profits tax in respect of eligible carried interest for a year of assessment.

(2) Any associated loss is not available for set off against any of the assessable profits of the person for the year of assessment or any subsequent year of assessment.

(3) In this section—

associated loss (相聯虧損) means any loss sustained by a qualifying person in a year of assessment in respect of eligible carried interest received by, or accrued to, the person arising from a transaction mentioned in section 4(2)(c) of this Schedule.

Part 6

Application

15. Application of this Schedule

(1) The tax treatment of eligible carried interest under this Schedule applies in relation to eligible carried interest received by, or accrued to, a qualifying person or a qualifying employee on or after 1 April 2020, for any year of assessment commencing on or after that date.

(2) To avoid doubt, this Schedule does not apply in relation to eligible carried interest received by, or accrued to, a qualifying person before 1 April 2020 but falling within the basis period for a year of assessment commencing on or after 1 April 2020.

(3) For any year of assessment mentioned in subsection (1), this Schedule applies in relation to eligible carried interest received by, or accrued to, a qualifying person or a qualifying employee in the period beginning on 1 April 2020 and ending on the day immediately before the date of commencement* of the Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Ordinance 2021 (9 of 2021) as it applies in relation to eligible carried interest received or accrued after that period.

Editorial Note:
* Commencement date: 7 May 2021.

Schedule 16E

[ss. 2, 19CA, 40AV, 40AW & 80 & Schs. 16C, 16F, 16G, 16H, 16I, 16J & 16K]
(Amended 21 of 2025 s. 32)

Tax Treatment of Family-owned Investment Holding Vehicle and Family-owned Special Purpose Entity

(Schedule 16E added 8 of 2023 s. 7)

Part 1

Preliminary

1. Interpretation

(1) In this Schedule—

direct beneficial interest (直接實益權益)—see section 7 of this Schedule;

entity (實體) means a body of persons (corporate or unincorporate) or a legal arrangement, and includes—

(a) a corporation;

(b) a partnership; and

(c) a trust;

ESF Office (具資格辦公室), in relation to a family—see section 2 of this Schedule;

family (家族)—see section 4 of this Schedule;

family office (家族辦公室) means a family office within the meaning of section 2 of this Schedule;

FIHV (家控工具) means a family-owned investment holding vehicle within the meaning of section 5 of this Schedule;

FSPE (家族特體) means a family-owned special purpose entity within the meaning of section 6 of this Schedule;

IFSPE (中間家族特體) means an interposed family-owned special purpose entity within the meaning of section 6 of this Schedule;

immovable property (不動產)—

(a) means—

(i) land (whether covered by water or not);

(ii) any estate, right, interest or easement in or over any land; and

(iii) things attached to land or permanently fastened to anything attached to land; and

(b) does not include infrastructure;

indirect beneficial interest (間接實益權益)—see section 7 of this Schedule;

infrastructure (基礎設施)—

(a) means any publicly or privately owned facility providing or distributing services for the benefit of the public; and

(b) includes any water, sewage, energy, fuel, transportation or communication facility;

investee private company (獲投資私人公司)—see subsections (2) and (3);

investment activity (投資活動), in relation to an FIHV, includes—

(a) conducting research and advising on any potential investments to be made by the FIHV;

(b) acquiring, holding, managing or disposing of property for the FIHV; and

(c) establishing or administering an FSPE for holding and administering one or more underlying investments of the FIHV;

member (成員), in relation to a family—see section 4 of this Schedule;

private company (私人公司) means a company (whether incorporated in or outside Hong Kong) that is not allowed to issue any invitations to the public to subscribe for any shares or debentures of the company;

property (財產) includes—

(a) money, goods, choses in action and land (whether in Hong Kong or elsewhere); and

(b) obligations, easements and every description of estate, interest and profit, present or future, vested or contingent, arising out of or incidental to property mentioned in paragraph (a);

Schedule 16C asset (附表16C資產) means an asset that falls within a class specified in Schedule 16C.

(2) An investee private company, in relation to an FIHV, is a private company any shares of which is held by an FSPE or IFSPE for the FIHV.

(3) A reference to an FSPE or IFSPE in subsection (2) includes—

(a) if the FSPE or IFSPE is a partnership—a partner in the partnership; and

(b) if the FSPE or IFSPE is a trust—a trustee of the trust.

(4) For the purposes of this Schedule, an FIHV is related to a family if one or more than one member of the family has or is taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the FIHV.

(5) For the purposes of this Schedule, an FIHV is managed by an ESF Office of the family to which the FIHV is related if the ESF Office carries out any investment activities.

2. Meaning of *ESF office* of family

(1) A private company is a family office if—

(a) the company is normally managed or controlled in Hong Kong; and

(b) the company provides services to specified persons of a family.

(2) A family office is an eligible single family office (***ESF Office***) of a family (***particular family***) for a year of assessment if—

(a) at all times during the basis period for the year of assessment, one or more than one member of the family has at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the family office;

(b) the family office satisfies the safe harbour rule in relation to the family for the year of assessment; and

(c) the following conditions are met in respect of the family office—

(i) the family office provides services to specified persons of the family during the basis period for the year of assessment; and

(ii) the fees for the provision of those services are chargeable to profits tax under section 14 for that year.

(3) Without limiting subsection (2)(a), if both Condition 1 and Condition 2 are met with respect to the family office, the members of the particular family are taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the family office.

(4) Condition 1 is that one or more than one member of the particular family has at least 75%, but less than 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the family office.

(5) Condition 2 is—

(a) that one or more than one charitable entity has a beneficial interest (whether direct or indirect) in the family office; and

(b) that—

(i) no unrelated person has a beneficial interest (whether direct or indirect) in the family office; or

(ii) the total percentage of the beneficial interest (whether direct or indirect) that an unrelated person has in the family office or, if there is more than one unrelated person, the total percentage of the beneficial interest (whether direct or indirect) that those unrelated persons have in that office does not exceed 5%.

(6) For the purposes of subsection (5)(b)(i), an unrelated person is not regarded as having a beneficial interest in the family office if the unrelated person has the beneficial interest only because a charitable entity has a beneficial interest (whether direct or indirect) in the office.

(7) For the purposes of subsection (5)(b)(ii), in determining the extent of the beneficial interest (whether direct or indirect) that an unrelated person has in the family office, any beneficial interest (whether direct or indirect) that the unrelated person has—

(a) in a charitable entity that has a beneficial interest (whether direct or indirect) in the family office; or

(b) in any other unrelated person that is an entity and that has a beneficial interest (whether direct or indirect) in the office,

is not to be taken into account.

(8) In this section—

charitable entity (慈善實體) means a charitable institution or trust of a public character that is exempt from tax under section 88;

safe harbour rule (安全港規則)—see section 3 of this Schedule;

specified person (指明人士), in relation to a family, means—

(a) an FIHV that is related to the family;

(b) an FSPE in which an FIHV mentioned in paragraph (a) has a beneficial interest (whether direct or indirect);

(c) an IFSPE of an FIHV mentioned in paragraph (a); and

(d) a member of the family;

unrelated person (無關連人士), in relation to a particular family—

(a) means—

(i) an entity in which no member of the particular family has a beneficial interest (whether direct or indirect); or

(ii) a natural person who is not a member of the family; and

(b) does not include a charitable entity.

3. Provision supplementary to section 2 of this Schedule—safe harbour rule

(1) For the purposes of section 2 of this Schedule, a family office satisfies the safe harbour rule in relation to a family for a year of assessment (***subject year***) if the family office—

(a) falls within the 1-year safe harbour under subsection (2) in relation to the family for the subject year; or

(b) falls within the multiple-year safe harbour under subsection (3) in relation to the family for the specified years.

(2) A family office falls within the 1-year safe harbour in relation to a family for a subject year if, for that year, the FOMP percentage of the family office is more than or equal to 75%.

(3) A family office falls within the multiple-year safe harbour in relation to a family for the specified years if, for those years, the average FOMP percentage of the family office is more than or equal to 75%.

(4) In this section, a reference to the specified years for a family office is—

(a) if the family office has provided services in Hong Kong, to any person or entity, for less than 2 consecutive years of assessment immediately before the subject year—a reference to the subject year and the preceding year of assessment (***the 2 years***); and

(b) if the family office has provided services in Hong Kong, to any person or entity, for 2 or more consecutive years of assessment immediately before the subject year—a reference to the subject year and the preceding 2 years of assessment (***the 3 years***).

(5) The FOMP percentage of a family office for a year of assessment is calculated in accordance with the following formula—

$$\frac{\text{FOMP}}{\text{P}}$$

where: FOMP means the aggregate amount of the management profits of the family office in the basis period for the year of assessment that are derived from services provided to any one or more specified persons of the family;

P means the aggregate amount of profits accruing to the family office from all sources in Hong Kong in the basis period for the year of assessment.

(6) The average FOMP percentage of a family office for the specified years is—

(a) for the specified years within the meaning of subsection (4)(a)—the percentage arrived at by dividing the sum of the FOMP percentage of the family office for the 2 years by 2; and

(b) for the specified years within the meaning of subsection (4)(b)—the percentage arrived at by dividing the sum of the FOMP percentage of the family office for the 3 years by 3.

(7) In this section—

specified person (指明人士) has the meaning given by section 2(8) of this Schedule.

4. Meaning of *family* and *member* of family

(1) For the purposes of this Schedule—

(a) a natural person (whether alive or deceased) (***Person A***) and all of the persons related to Person A together constitute a family; and

(b) each of the persons mentioned in paragraph (a) is a member of the family.

(2) For the purposes of subsection (1)(a)—

(a) a spouse (including a deceased spouse) of Person A (***Person B***) is a person related to Person A;

(b) any other natural person (whether alive or deceased) is a person related to Person A if the other natural person is—

(i) a lineal ancestor of Person A (***Person C***);

(ii) a lineal ancestor of Person B (***Person D***);

(iii) a lineal descendant of Person A (***Person E***);

(iv) a sibling of Person A, Person B, Person C or Person D (***Person F***); or

(v) a lineal descendant of Person F (***Person G***); and

(c) a spouse (including a deceased spouse) of Person E, Person F or Person G is also a person related to Person A.

(3) For the purposes of this section—

(a) a child of a natural person (***Child A***) is a lineal descendant of the natural person;

(b) a child of Child A (***Child B***), a child of Child B, and so on, is also a lineal descendant of the natural person mentioned in paragraph (a);

(c) a parent of a natural person (***Parent A***) is a lineal ancestor of the natural person; and

(d) a parent of Parent A (***Parent B***), a parent of Parent B, and so on, is also a lineal ancestor of the natural person mentioned in paragraph (c).

(4) In this section—

child (子女), in relation to a natural person—

(a) means a child of the person, or of a spouse (including a deceased spouse) or former spouse of the person, whether or not the child was born in wedlock; and

(b) includes an adopted child or step child of either or both of the following—

(i) the person;

(ii) a spouse (including a deceased spouse) or former spouse of the person;

parent (父母), in relation to a natural person, means—

(a) a parent of whose marriage the person is a child;

(b) the natural father or mother of the person;

(c) a parent by whom the person was adopted; or

(d) a step parent of the person;

sibling (兄弟姊妹), in relation to Person A, Person B, Person C or Person D (***relevant person***), means—

(a) a full or half blood sibling of the relevant person;

(b) an adopted sibling of the relevant person;

(c) a step sibling of the relevant person; or

(d) if the relevant person is an adopted person—a natural child of an adoptive parent of the relevant person.

(5) If a person (other than a deceased spouse of Person A) (***Person H***) ceases to be a spouse of Person A during a year of assessment that begins on or after 1 April 2022 (***subject year***), for the subject year and the year of assessment immediately after the subject year (and not for any subsequent year), Person H is still regarded as a spouse of Person A.

(6) If subsection (5) applies to Person H, for the subject year and the year of assessment immediately after the subject year (and not for any subsequent year)—

(a) a sibling of Person H (***Sibling A***) and a spouse of Sibling A are respectively a sibling and a spouse of a sibling of Person B;

(b) a lineal descendant and a spouse of a lineal descendant of Sibling A are respectively a lineal descendant and a spouse of a lineal descendant of a sibling of Person B;

(c) a lineal ancestor of Person H (***Ancestor A***) is a lineal ancestor of Person B;

(d) a sibling and a spouse of a sibling of Ancestor A are respectively a sibling and a spouse of a sibling of a lineal ancestor of Person B; and

(e) a lineal descendant and a spouse of a lineal descendant of a sibling of Ancestor A are respectively a lineal descendant and a spouse of a lineal descendant of a sibling of a lineal ancestor of Person B.

(7) If a person (other than a deceased spouse of Person E, Person F or Person G) (***Person I***) ceases to be a spouse of Person E, Person F or Person G during a year of assessment that begins on or after 1 April 2022 (***subject year***), for the subject year and the year of assessment immediately after the subject year (and not for any subsequent year), Person I is still regarded as a spouse of Person E, Person F or Person G (as the case requires).

5. Meaning of family-owned investment holding vehicle (*FIHV*)

(1) An entity (***Entity A***), whether established or created (however described) in or outside Hong Kong, is a family-owned investment holding vehicle for a year of assessment if—

(a) at all times during the basis period for that year, one or more than one member of a family (***particular family***) has at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in Entity A; and

(b) Entity A is not a business undertaking for general commercial or industrial purposes mentioned in section 20AM(6).

(2) Without limiting subsection (1)(a), if both Condition 1 and Condition 2 are met with respect to Entity A, the members of the particular family are taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in Entity A.

(3) Condition 1 is that one or more than one member of the particular family has at least 75%, but less than 95%, in aggregate, of the beneficial interest (whether direct or indirect) in Entity A.

(4) Condition 2 is—

(a) that one or more than one charitable entity has a beneficial interest (whether direct or indirect) in Entity A; and

(b) that—

(i) no unrelated person has a beneficial interest (whether direct or indirect) in Entity A; or

(ii) the total percentage of the beneficial interest (whether direct or indirect) that an unrelated person has in Entity A or, if there is more than one unrelated person, the total percentage of the beneficial interest (whether direct or indirect) that those unrelated persons have in Entity A does not exceed 5%.

(5) For the purposes of subsection (4)(b)(i), an unrelated person is not regarded as having a beneficial interest in Entity A if the unrelated person has the beneficial interest only because a charitable entity has a beneficial interest (whether direct or indirect) in Entity A.

(6) For the purposes of subsection (4)(b)(ii), in determining the extent of the beneficial interest (whether direct or indirect) that an unrelated person has in Entity A, any beneficial interest (whether direct or indirect) that the unrelated person has—

(a) in a charitable entity that has a beneficial interest (whether direct or indirect) in Entity A; or

(b) in any other unrelated person that is an entity and that has a beneficial interest (whether direct or indirect) in Entity A,

is not to be taken into account.

(7) In this section—

charitable entity (慈善實體) means a charitable institution or trust of a public character that is exempt from tax under section 88;

unrelated person (無關連人士), in relation to a particular family—

(a) means—

(i) an entity in which no member of the particular family has a beneficial interest (whether direct or indirect); or

(ii) a natural person who is not a member of the family; and

(b) does not include a charitable entity.

6. Meaning of family-owned special purpose entity (*FSPE*) and interposed family-owned special purpose entity (*IFSPE*)

(1) An entity (***Entity B***), whether established or created (however described) in or outside Hong Kong, is a family-owned special purpose entity (***FSPE***) if all of the conditions specified in subsection (2) are met in respect of Entity B.

(2) The conditions are—

(a) an FIHV (***relevant FIHV***) has a beneficial interest (whether direct or indirect) in Entity B;

(b) Entity B is established or created (however described) solely—

(i) for holding (whether directly or indirectly) and administering one or more investee private companies;

(ii) for holding (whether directly or indirectly) and administering any Schedule 16C assets; or

(iii) for the purposes mentioned in subparagraphs (i) and (ii);

(c) Entity B does not carry on any trade or activity (including executing a legal document) except for either or both of the purposes mentioned in paragraph (b)(i) and (ii); and

(d) Entity B is neither an FIHV nor an investee private company.

(3) If an FSPE has an indirect beneficial interest in an investee private company through an entity (***interposed entity***) that is an FSPE in which the relevant FIHV has an indirect beneficial interest, the interposed entity is an interposed family-owned special purpose entity (***IFSPE***) of the relevant FIHV.

(4) If an FSPE has an indirect beneficial interest in an investee private company through a series of 2 or more interposed entities each of which is an FSPE in which the relevant FIHV has an indirect beneficial interest, each of the interposed entities is an IFSPE of the relevant FIHV.

7. Meaning of *direct beneficial interest* and *indirect beneficial interest* in person or entity

(1) A person or entity (***the particular person***) has a direct beneficial interest in another person or entity (***the other person***) if—

(a) where the other person is a corporation—

(i) the particular person holds any of the issued share capital (however described) of the corporation; or

(ii) (if the corporation does not have any issued share capital) the particular person is entitled to exercise or control the exercise of any voting rights in the corporation;

(b) where the other person is a partnership—

(i) the particular person, as a partner in the partnership, is entitled to any of the profits of the partnership; or

(ii) (if the partners in the partnership are neither entitled to the profits of the partnership nor entitled to a distribution of the assets of the partnership on its dissolution) the particular person, as a partner in the partnership, is entitled to exercise or control the exercise of any voting rights in the partnership;

(c) where the other person is a trust—

(i) the particular person benefits under the trust estate otherwise than through the trustee of the trust; or

(ii) the particular person, not being a trustee of the trust or—

(A) if the trustee of the trust is a corporation—a director of the corporation;

(B) if the trustee of the trust is a partnership—a partner in the partnership; or

(C) if the trustee of the trust is any other entity—a principal officer of the entity,

is able (or might reasonably be expected to be able) to control the activities of the trust estate or the application of its corpus or income, otherwise than through the trustee of the trust; or

(d) where the other person is a person or entity that does not fall within any of paragraphs (a), (b) and (c)—

(i) the particular person is entitled to any capital of the other person;

(ii) (if subparagraph (i) is not applicable in relation to the other person) the particular person has any of the ownership interests in the other person;

(iii) (if neither subparagraph (i) nor (ii) is applicable in relation to the other person) the particular person is entitled to any profits of the other person; or

(iv) (if none of subparagraphs (i), (ii) and (iii) is applicable in relation to the other person) the particular person is entitled to exercise or control the exercise of any voting rights in the other person.

(2) A person or entity (***the particular person***) has an indirect beneficial interest in another person or entity (***the other person***) if—

(a) where the other person is a corporation—

(i) the particular person is interested in any of the issued share capital (however described) of the corporation; or

(ii) (if the corporation does not have any issued share capital) the particular person is entitled to exercise or control the exercise of any voting rights in the corporation;

(b) where the other person is a partnership—

(i) the particular person is entitled to any of the profits of the partnership; or

(ii) (if the partners in the partnership are neither entitled to the profits of the partnership nor entitled to a distribution of the assets of the partnership on its dissolution) the particular person is entitled to exercise or control the exercise of any voting rights in the partnership;

(c) where the other person is a trust—

(i) the particular person benefits under the trust estate; or

(ii) the particular person, not being a trustee of the trust or—

(A) if the trustee of the trust is a corporation—a director of the corporation;

(B) if the trustee of the trust is a partnership—a partner in the partnership; or

(C) if the trustee of the trust is any other entity—a principal officer of the entity,

is able (or might reasonably be expected to be able) to control the activities of the trust estate or the application of its corpus or income; or

(d) where the other person is a person or entity that does not fall within any of paragraphs (a), (b) and (c)—

(i) the particular person is entitled to any capital of the other person;

(ii) (if subparagraph (i) is not applicable in relation to the other person) the particular person has any of the ownership interests in the other person;

(iii) (if neither subparagraph (i) nor (ii) is applicable in relation to the other person) the particular person is entitled to any profits of the other person; or

(iv) (if none of subparagraphs (i), (ii) and (iii) is applicable in relation to the other person) the particular person is entitled to exercise or control the exercise of any voting rights in the other person,

through a third person that is an entity (***interposed entity***), or a series of 2 or more interposed entities, that is or are related to the particular person and the other person in the way described in subsection (3) or (4).

(3) If there is only one interposed entity—

(a) the particular person has a direct beneficial interest in the interposed entity; and

(b) the interposed entity has a direct beneficial interest in the other person.

(4) If there is a series of 2 or more interposed entities—

(a) the particular person has a direct beneficial interest in the first interposed entity in the series;

(b) each interposed entity (other than the last interposed entity) in the series has a direct beneficial interest in the next interposed entity in the series; and

(c) the last interposed entity in the series has a direct beneficial interest in the other person.

(5) In this section, a reference to the issued share capital of a corporation does not include the shares comprised in the issued share capital that do not entitle their holders to receive dividends (whether in cash or in kind) and a distribution of the assets of the corporation on its dissolution other than a return of capital.

(6) In this section, a reference to the exercise of any voting rights in the corporation is a reference to the exercise of any voting rights at a general meeting of the corporation.

(7) For a partnership the partners in which are not entitled to its profits but are entitled to a distribution of the assets of the partnership on its dissolution—a reference in this section to an entitlement to any of the profits of the partnership is taken to be a reference to an entitlement to a distribution of any of the assets of the partnership on its dissolution.

(8) A reference to the particular person in subsections (1) and (2) (other than the last reference in subsection (2)) includes—

(a) if the particular person is a partnership—a partner in the partnership; and

(b) if the particular person is a trust—a trustee of the trust.

(9) In this section—

principal officer (主要職員), in relation to an entity, means a person who exercises the managerial functions of the entity.

8. Determination of extent of family member's beneficial interest in entity etc.

(1) Schedule 16F applies in determining the extent of the beneficial interest that a member of a family has in the entity mentioned in section 2(2) or 5(1) of this Schedule.

(2) Schedule 16G applies, for the purposes of sections 2(5)(b)(ii) and 5(4)(b)(ii) of this Schedule, in determining the extent of the beneficial interest that an unrelated natural person has in a subject entity.

(3) Schedule 16H applies, for the purposes of sections 2(5)(b)(ii) and 5(4)(b)(ii) of this Schedule, in determining the extent of the beneficial interest that an unrelated entity has in a subject entity.

(4) If it is not practicable to determine the extent, in aggregate, of the beneficial interest that one or more than one member of a family has in a subject entity, subsection (5) or (6) (as the case requires) applies.

(5) For a subject entity that is a specified trust related to a family, if the aggregate percentage in value of the relevant estate of the trust is at least 95%, the members of the family who are qualified beneficiaries of the trust, and those other members of the family who are entitled to benefit from the trust estate, are taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the trust.

(6) Subsections (7), (8), (9), (10) and (11) apply if the subject entity is not a specified trust (***particular entity***).

(7) If—

(a) an entity that is a specified trust related to a family (***Interposed Entity A***) has a direct beneficial interest in a particular entity;

(b) the extent of the beneficial interest mentioned in paragraph (a) is 100%; and

(c) the aggregate percentage in value of the relevant estate of the trust is at least 95%,

the members of the family who are qualified beneficiaries of Interposed Entity A, and those other members of the family who are entitled to benefit from the trust estate of Interposed Entity A, are taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in Interposed Entity A.

(8) If, because of subsection (7), any members of a family are taken to have at least 95%, in aggregate, of the beneficial interest in Interposed Entity A, those members are also taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the particular entity.

(9) If—

(a) an entity that is a specified trust related to a family (***Interposed Entity B***) has an indirect beneficial interest in a particular entity through one or more other entities each of which is an eligible entity;

(b) the extent of the beneficial interest mentioned in paragraph (a) is 100%; and

(c) the aggregate percentage in value of the relevant estate of the trust is at least 95%,

the members of the family who are qualified beneficiaries of Interposed Entity B, and those other members of the family who are entitled to benefit from the trust estate of Interposed Entity B, are taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in Interposed Entity B.

(10) If, because of subsection (9), any members of a family are taken to have at least 95%, in aggregate, of the beneficial interest in Interposed Entity B, those members are also taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the particular entity.

(11) Schedule 16H applies in determining the extent of the beneficial interest that Interposed Entity A or Interposed Entity B has in a particular entity.

(12) Subsection (19) applies in relation to a subject entity and a family if—

(a) Condition 1 or Condition 2 is met;

(b) it is not practicable to apply Schedule 16F or 16H, or both; and

(c) none of the deeming provisions can be relied on.

(13) Condition 1 is that the subject entity is a specified trust (***Trust A***) and one or more than one member of a family—

(a) is a specified beneficiary under Trust A; or

(b) has a connection with the subject entity through—

(i) another specified trust; or

(ii) a series of 2 or more entities in which there is one or more than one specified trust.

(14) Condition 2 is that the subject entity is not a specified trust but one or more than one member of a family has a connection with the subject entity through—

(a) a specified trust (***Trust B***); or

(b) a series of 2 or more entities in which there is one or more than one specified trust.

(15) For the purposes of subsection (13)(b)(i), a member of a family has a connection with Trust A through a specified trust if—

(a) the specified trust is related to the family; and

(b) the specified trust—

(i) is a specified beneficiary under Trust A; or

(ii) has a beneficial interest (whether direct or indirect) in Trust A.

(16) For the purposes of subsection (13)(b)(ii), a member of a family has a connection with Trust A through a series of 2 or more entities—

(a) if—

(i) the member of the family has a beneficial interest (whether direct or indirect) in the first entity in the series;

(ii) each entity in the series—

(A) has a beneficial interest (whether direct or indirect) in the next following entity in the series (***next following interposed entity***); or

(B) if the next following interposed entity is a specified trust—is a specified beneficiary under the trust; and

(iii) the last entity in the series—

(A) has a beneficial interest (whether direct or indirect) in Trust A; or

(B) is a specified beneficiary under Trust A; or

(b) if—

(i) the first entity in the series is a specified trust related to the family;

(ii) each entity in the series—

(A) has a beneficial interest (whether direct or indirect) in the next following interposed entity; or

(B) if the next following interposed entity is a specified trust—is a specified beneficiary under the trust; and

(iii) the last entity in the series—

(A) has a beneficial interest (whether direct or indirect) in Trust A; or

(B) is a specified beneficiary under Trust A.

(17) For the purposes of subsection (14)(a), a member of a family has a connection with the subject entity through Trust B if—

(a) Trust B is related to the family; and

(b) Trust B has a beneficial interest (whether direct or indirect) in the subject entity.

(18) For the purposes of subsection (14)(b), a member of a family has a connection with the subject entity through a series of 2 or more entities—

(a) if—

(i) the member of the family has a beneficial interest (whether direct or indirect) in the first entity in the series;

(ii) each entity in the series—

(A) has a beneficial interest (whether direct or indirect) in the next following entity in the series (***next following entity***); or

(B) if the next following entity is a specified trust—is a specified beneficiary under the trust; and

(iii) the last entity in the series has a beneficial interest (whether direct or indirect) in the subject entity; or

(b) if—

(i) the first entity in the series is a specified trust related to the family;

(ii) each entity in the series—

(A) has a beneficial interest (whether direct or indirect) in the next following entity; or

(B) if the next following entity is a specified trust—is a specified beneficiary under the trust; and

(iii) the last entity in the series has a beneficial interest (whether direct or indirect) in the subject entity.

(19) If the Commissioner is satisfied that it is highly probable that one or more than one member of the family will have at least 95%, in aggregate, of the beneficial interest in the subject entity—

(a) the Commissioner may regard the extent requirement as having been complied with in relation to the family and the subject entity; and

(b) one or more than one member of the family is taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the subject entity.

(20) In considering whether it is highly probable that one or more than one member of a family would have at least 95%, in aggregate, of the beneficial interest in a subject entity, regard is to be had to all the circumstances of the case, including the following—

(a) the extent of the beneficial interest (whether direct or indirect) that a member of the family has in one or more than one entity;

(b) the extent of the beneficial interest (whether direct or indirect) that an entity has in one or more than one other entity;

(c) the value, in aggregate, of the trust estate, or each part of the trust estate, of one or more than one specified trust related to the family that a member of the family would be able to benefit if—

(i) the trustee of the trust exercises a discretionary power under the trust instrument in favour of the member or a specified beneficiary under the trust; or

(ii) the conditions under the trust instrument that are applicable to the member or a specified beneficiary under the trust are met;

(d) the value, in aggregate, of the trust estate, or each part of the trust estate, of one or more than one specified trust that an entity would be able to benefit if—

(i) the trustee of the trust exercises a discretionary power under the trust instrument in favour of the entity or a specified beneficiary under the trust; or

(ii) the conditions under the trust instrument that are applicable to the entity or a specified beneficiary under the trust are met.

(21) In this section—

deeming provisions (推定條文) means sections 2(3), 5(2) and 8(5), (7), (8), (9) and (10) of this Schedule;

eligible entity (具資格實體) means an entity that is not a specified trust;

extent requirement (程度規定), in relation to a subject entity and a family, means the requirement that one or more than one member of the family has at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the entity;

qualified beneficiary (合資格受益人), in relation to a specified trust related to a family, means—

(a) a member of the family who is a specified beneficiary under the trust;

(b) a member of the family who has a direct beneficial interest in a specified beneficiary under the trust that is an eligible entity; or

(c) a member of the family who, through an eligible entity or a series of entities each of which is an eligible entity, has an indirect beneficial interest in a specified beneficiary under the trust that is an eligible entity;

qualified entity (合資格實體)—see subsection (25);

relevant estate (有關產業), in relation to a specified trust related to a family, means the trust estate of the trust, or each part of the trust estate of the trust, from which one or more than one member of the family is entitled to benefit or that is distributable for the benefit of one or more than one specified beneficiary under the trust who is a member of the family or a qualified entity of the family;

specified beneficiary (指明受益人)—see subsection (24);

specified trust (指明信託)—see subsection (22);

subject entity (標的實體) means an entity mentioned in subsection (1);

unrelated entity (無關連實體) means an entity that is an unrelated person under section 2 or 5 of this Schedule;

unrelated natural person (無關連自然人) means a natural person who is an unrelated person under section 2 or 5 of this Schedule.

(22) For the purposes of this section, a trust created or established (however described) under a trust instrument is a specified trust if, under the trust—

(a) there is one or more than one specified beneficiary;

(b) there is one or more than one class of persons or entities any of the members of which is a specified beneficiary; or

(c) there is a combination of paragraphs (a) and (b).

(23) For the purposes of this section, a specified trust is related to a family if one or more than one specified beneficiary under the trust is—

(a) a member of the family; or

(b) an entity in which one or more than one member of the family has a beneficial interest (whether direct or indirect).

(24) For the purposes of this section, a person or entity is a specified beneficiary under a trust if—

(a) the person or entity would be able to benefit from the trust estate if the trustee of the trust exercises a discretionary power under the trust instrument in the favour of the person or entity; or

(b) the person or entity would be able to benefit from the trust estate if the conditions under the trust instrument that are applicable to the person or entity are met.

(25) For the purposes of this section, an entity is a qualified entity of a family if—

(a) the entity is an eligible entity; and

(b) one or more than one member of the family has 100%, in aggregate, of the beneficial interest (whether direct or indirect) in the entity.

(26) For the purposes of subsection (25)(b), the extent of the beneficial interest that a member of the family has in the eligible entity is to be determined in accordance with Schedule 16F.

Part 2

Tax Concession for Certain Profits of Family-owned Investment Holding Vehicle

9. Profits tax concession for FIHV

(1) This section applies to an FIHV for the basis period for a year of assessment.

(2) Profits tax is to be charged, at the rate specified in section 24(2) of this Schedule, on the FIHV's assessable profits for the basis period earned from the transactions specified in subsection (3) if the condition specified in subsection (4) is met.

(3) The transactions are—

(a) transactions in Schedule 16C assets (***qualifying transactions***); and

(b) subject to subsection (5), transactions incidental to the carrying out of qualifying transactions (***incidental transactions***).

(4) The condition referred to in subsection (2) is—

(a) that the FIHV is normally managed or controlled in Hong Kong during the basis period; and

(b) that, at all times during the basis period, the qualifying transactions of the FIHV—

(i) are carried out in Hong Kong by or through an ESF Office of the family that manages the FIHV; or

(ii) are arranged in Hong Kong by such an office.

(5) Subsection (2) however does not apply to assessable profits earned from incidental transactions if the percentage calculated in accordance with the following formula exceeds 5%—

$$\frac{A}{B} \times 100\%$$

where—

A = the FIHV's trading receipts from incidental transactions in the basis period;

B = the total of the FIHV's trading receipts from qualifying transactions and incidental transactions in the basis period.

(6) This section is subject to sections 10, 12, 13 and 14 of this Schedule.

10. When does section 9 of this Schedule not apply—Exception 1 (FIHV)

(1) Section 9 of this Schedule does not apply to an FIHV for the basis period for a year of assessment (***subject year***) unless—

(a) the subject ESF Office complies with the Specified NAV Rule under section 11 of this Schedule;

(b) the average number of qualified employees during the basis period—

(i) is adequate in the opinion of the Commissioner; and

(ii) is in any event not less than 2; and

(c) the total amount of operating expenditure incurred in Hong Kong for carrying out investment activities during the basis period—

(i) is adequate in the opinion of the Commissioner; and

(ii) is in any event not less than $2,000,000.

(2) For the purposes of subsection (1)(b), a person is a qualified employee in relation to an FIHV if—

(a) the person is a full-time employee in Hong Kong; and

(b) the person—

(i) carries out any investment activities in Hong Kong during the basis period; and

(ii) has the qualifications necessary for doing so.

(3) In this section—

subject ESF Office (標的具資格辦公室), in relation to an FIHV for the basis period for the subject year, means a family office —

(a) that is an ESF Office of the family to which the FIHV is related; and

(b) that, on the last day of the basis period, manages the FIHV.

11. Provision supplementary to section 10 of this Schedule—Specified NAV Rule

(1) For the purposes of section 10(1)(a) of this Schedule, a subject ESF Office complies with the Specified NAV Rule in relation to an FIHV (***subject FIHV***) for the basis period for a year of assessment (***subject year***) if Requirement 1, Requirement 2 or Requirement 3 is met.

(2) Requirement 1 is that—the aggregate of the amount of the NAV of the Schedule 16C assets of each relevant FIHV managed by the subject ESF Office (***the Office***), as at the end of the basis period of the relevant FIHV for the subject year, is not less than $240,000,000 (or its equivalent in a foreign currency).

(3) Requirement 2 applies if—

(a) the Office is established in or before the year preceding the subject year (***1st preceding year***); and

(b) the Office does not meet Requirement 1.

(4) Requirement 2 is that—the aggregate of the amount of the NAV of the Schedule 16C assets of each relevant FIHV managed by the Office, as at the end of the basis period of the relevant FIHV for the 1st preceding year, is not less than $240,000,000 (or its equivalent in a foreign currency).

(5) Requirement 3 applies if—

(a) the Office is established in or before the year preceding the 1st preceding year (***2nd preceding year***); and

(b) the Office meets neither Requirement 1 nor Requirement 2.

(6) Requirement 3 is that—the aggregate of the amount of the NAV of the Schedule 16C assets of each relevant FIHV managed by the Office, as at the end of the basis period of the relevant FIHV for the 2nd preceding year, is not less than $240,000,000 (or its equivalent in a foreign currency).

(7) For the purposes of this section, the NAV of any Schedule 16C assets is to be determined in the manner specified by the Commissioner.

(8) For the purposes of this section, a reference to the NAV of the Schedule 16C assets of an FIHV includes the NAV of the Schedule 16C assets held by each FSPE in which the FIHV has a beneficial interest (whether direct or indirect) to the extent specified in subsection (9).

(9) The extent mentioned in subsection (8) is the percentage equal to the percentage of the FIHV's beneficial interest (whether direct or indirect) in the FSPE.

(10) Schedule 16I applies in determining the extent of the beneficial interest mentioned in subsection (9).

(11) For the purposes of this section—

(a) the subject FIHV is a relevant FIHV; and

(b) any other FIHV that is related to the relevant family is also a relevant FIHV if an election has been made in relation to that other FIHV under section 14 of this Schedule.

(12) For the purposes of this section—

(a) if an FSPE is a partnership—any Schedule 16C asset held by a partner in the partnership is regarded as held by the FSPE; and

(b) if an FSPE is a trust—any Schedule 16C asset held by a trustee of the trust is regarded as held by the FSPE.

(13) In this section—

NAV means net asset value;

relevant family (有關家族) means the family to which the subject FIHV is related;

relevant FIHV (有關家控工具)—see subsection (11);

subject ESF Office (標的具資格辦公室), in relation to a subject FIHV for the basis period for the subject year, has the meaning given by section 10(3) of this Schedule.

12. When does section 9 of this Schedule not apply—Exception 2 (FIHV)

(1) This section applies if, during the basis period for a year of assessment—

(a) an FIHV carries out transactions in shares, stocks, debentures, loan stocks, funds, bonds or notes (***specified securities***) of, or issued by, a private company (***relevant company***); and

(b) the relevant company holds (whether directly or indirectly)—

(i) immovable property in Hong Kong; or

(ii) share capital (however described) in another private company that holds (whether directly or indirectly) immovable property in Hong Kong.

(2) If the aggregate value of the immovable property and share capital held by the relevant company exceeds 10% of the value of the company's assets, section 9 of this Schedule does not apply to the assessable profits of the FIHV for the basis period earned from the transactions.

(3) If the aggregate value of the immovable property and share capital held by the relevant company does not exceed 10% of the value of the company's assets, section 9 of this Schedule does not apply to the assessable profits of the FIHV for the basis period earned from the transactions unless a condition specified in subsection (4) is met in good faith by the FIHV.

(4) The condition is—

(a) that the FIHV disposes of, through a transaction or a series of transactions, the subject securities not less than 2 years after they are acquired (whether or not the FIHV has control over the relevant company); or

(b) that the FIHV disposes of, through a transaction or a series of transactions, the subject securities less than 2 years after they are acquired and—

(i) the FIHV does not have control over the relevant company; or

(ii) if the FIHV has control over the relevant company—the relevant company holds (whether directly or indirectly) short-term assets the aggregate value of which does not exceed 50% of the value of the relevant company's assets.

(5) For the purposes of this section, an FIHV has control over a company if the FIHV has power to secure—

(a) by means of the holding of shares or the possession of voting power in or in relation to the company or any other company; or

(b) by virtue of any powers conferred by the articles of association or any other document regulating the company or any other company,

that the affairs of the company are conducted in accordance with the wishes of the FIHV.

(6) For the purposes of this section, a reference to an FIHV (***reference***) in subsection (1), the second reference in subsection (3), the first reference in subsection (4)(a) and (b), and the second and last references in subsection (5) include—

(a) if the FIHV is a partnership—a partner in the partnership; and

(b) if the FIHV is a trust—a trustee of the trust.

(7) In this section—

short-term asset (短期資產), in relation to a private company, the shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, which are being disposed of by or for an FIHV, means an asset—

(a) that is not a Schedule 16C asset;

(b) that is not immovable property in Hong Kong; and

(c) that has been held by the company for less than 3 consecutive years before the date of disposal;

subject securities (標的證券), in relation to a relevant company, means the specified securities of, or issued by, the company.

13. When does section 9 of this Schedule not apply—Exception 3 (FIHV)

(1) This section applies if, during the basis period for a year of assessment—

(a) an FIHV carries out transactions in shares, stocks, debentures, loan stocks, funds, bonds or notes (***specified securities***) of, or issued by, a private company (***relevant company***); and

(b) the relevant company holds (whether directly or indirectly) neither of the following—

(i) immovable property in Hong Kong;

(ii) share capital (however described) in another private company that holds (whether directly or indirectly) immovable property in Hong Kong.

(2) Unless a condition specified in subsection (3) is met in good faith by the FIHV, section 9 of this Schedule does not apply to the assessable profits of the FIHV for the basis period earned from the transactions.

(3) The condition is—

(a) that the FIHV disposes of, through a transaction or a series of transactions, the subject securities not less than 2 years after they are acquired (whether or not the FIHV has control over the relevant company); or

(b) that the FIHV disposes of, through a transaction or a series of transactions, the subject securities less than 2 years after they are acquired and—

(i) the FIHV does not have control over the relevant company; or

(ii) if the FIHV has control over the relevant company—the relevant company holds (whether directly or indirectly) short-term assets the aggregate value of which does not exceed 50% of the value of the relevant company's assets.

(4) For the purposes of this section, an FIHV has control over a company if the FIHV has power to secure—

(a) by means of the holding of shares or the possession of voting power in or in relation to the company or any other company; or

(b) by virtue of any powers conferred by the articles of association or any other document regulating the company or any other company,

that the affairs of the company are conducted in accordance with the wishes of the FIHV.

(5) For the purposes of this section, a reference to an FIHV (***reference***) in subsection (1), the first reference in subsections (2) and (3)(a) and (b), and the second and last references in subsection (4) include—

(a) if the FIHV is a partnership—a partner in the partnership; and

(b) if the FIHV is a trust—a trustee of the trust.

(6) In this section—

short-term asset (短期資產) has the meaning given by section 12(7) of this Schedule;

subject securities (標的證券), in relation to a relevant company, means the specified securities of, or issued by, the company.

14. When does section 9 of this Schedule not apply—Exception 4 (FIHV)

(1) Section 9 of this Schedule does not apply to an FIHV unless—

(a) an election is made in relation to the FIHV under this section; and

(b) the FIHV is managed by only one ESF Office of the family to which the FIHV is related.

(2) Subject to subsection (3), an FIHV that is managed by an ESF Office of the family to which the FIHV is related (***eligible FIHV***) may in writing elect that section 9 of this Schedule applies to it.

(3) For each ESF Office of the family, not more than 50 eligible FIHVs that are managed by the ESF Office may make an election under this section.

(4) An election under this section, once made, is not revocable by the FIHV concerned.

15. Losses sustained by FIHV—where rate specified in section 24(2) of this Schedule is 0%

If, because of sections 9 and 24 of this Schedule, an FIHV is exempt from the payment of profits tax in respect of its assessable profits earned from the transactions specified in section 9(3) of this Schedule for the basis period for a year of assessment, any loss sustained by the FIHV from any of those transactions is not available for set off against any of its assessable profits for that basis period or the basis period for any subsequent year of assessment.

Part 3

Tax Concession for Certain Profits of Family-owned Special Purpose Entity

16. Profits tax concession for FSPE

(1) This section applies to an FSPE for the basis period for a year of assessment if section 9 of this Schedule applies, for that year, to an FIHV that has a beneficial interest (whether direct or indirect) in the FSPE.

(2) Profits tax is to be charged, at the rate specified in section 25(2) of this Schedule, on the FSPE's assessable profits for the basis period earned from the transactions specified in subsection (3).

(3) The transactions are—

(a) transactions in shares, stocks, debentures, loan stocks, funds, bonds or notes (***specified securities***) of, or issued by, an investee private company or an IFSPE;

(b) transactions in rights, options or interests (whether described in units or otherwise) in, or in respect of, the specified securities mentioned in paragraph (a);

(c) transactions in certificates of interest or participation in, temporary or interim certificates for, receipts for, or warrants to subscribe for or purchase, the specified securities mentioned in paragraph (a);

(d) transactions in Schedule 16C assets; and

(e) qualified incidental transactions.

(4) For the purposes of subsection (3)(e), the transactions that are incidental to the carrying out of the transactions mentioned in subsection (3)(a), (b), (c) or (d) (***incidental transactions***) are qualified incidental transactions if, in the basis period for the year of assessment, the FSPE's trading receipts from the incidental transactions do not exceed 5% of the total trading receipts from—

(a) the transactions mentioned in subsection (3)(a), (b), (c) and (d); and

(b) the incidental transactions.

(5) The extent of assessable profits to be charged under subsection (2) is the percentage equal to the percentage of the FIHV's beneficial interest (whether direct or indirect) in the FSPE in the year of assessment.

(6) Schedule 16I applies in determining the extent of the beneficial interest of the FIHV in the FSPE.

(7) This section is subject to sections 17 and 18 of this Schedule.

17. When does section 16 of this Schedule not apply—Exception 1 (FSPE)

(1) This section applies if, during the basis period for a year of assessment—

(a) an FSPE carries out transactions in shares, stocks, debentures, loan stocks, funds, bonds or notes (***specified securities***) of, or issued by, a private company (***relevant company***); and

(b) the relevant company holds (whether directly or indirectly)—

(i) immovable property in Hong Kong; or

(ii) share capital (however described) in another private company that holds (whether directly or indirectly) immovable property in Hong Kong.

(2) If the aggregate value of the immovable property and share capital held by the relevant company exceeds 10% of the value of the company's assets, section 16 of this Schedule does not apply to the assessable profits of the FSPE for the basis period earned from the transactions.

(3) If the aggregate value of the immovable property and share capital held by the relevant company does not exceed 10% of the value of the company's assets, section 16 of this Schedule does not apply to the assessable profits of the FSPE for the basis period earned from the transactions unless a condition specified in subsection (4) is met in good faith by the FSPE.

(4) The condition is—

(a) that the FSPE disposes of, through a transaction or a series of transactions, the subject securities not less than 2 years after they are acquired (whether or not the FSPE has control over the relevant company); or

(b) that the FSPE disposes of, through a transaction or a series of transactions, the subject securities less than 2 years after they are acquired and—

(i) the FSPE does not have control over the relevant company; or

(ii) if the FSPE has control over the relevant company—the relevant company holds (whether directly or indirectly) short-term assets the aggregate value of which does not exceed 50% of the value of the relevant company's assets.

(5) For the purposes of this section, an FSPE has control over a company if the FSPE has power to secure—

(a) by means of the holding of shares or the possession of voting power in or in relation to the company or any other company; or

(b) by virtue of any powers conferred by the articles of association or any other document regulating the company or any other company,

that the affairs of the company are conducted in accordance with the wishes of the FSPE.

(6) For the purposes of this section, a reference to an FSPE (***reference***) in subsection (1), the second reference in subsection (3), the first reference in subsection (4)(a) and (b), and the second and last references in subsection (5) include—

(a) if the FSPE is a partnership—a partner in the partnership; and

(b) if the FSPE is a trust—a trustee of the trust.

(7) In this section—

short-term asset (短期資產), in relation to a private company, the shares, stocks, debentures, loan stocks, funds, bonds or notes of, or issued by, which are being disposed of by or for an FSPE, means an asset—

(a) that is not a Schedule 16C asset;

(b) that is not immovable property in Hong Kong; and

(c) that has been held by the company for less than 3 consecutive years before the date of disposal;

subject securities (標的證券), in relation to a relevant company, means the specified securities of, or issued by, the company.

18. When does section 16 of this Schedule not apply—Exception 2 (FSPE)

(1) This section applies if, during the basis period for a year of assessment—

(a) an FSPE carries out transactions in shares, stocks, debentures, loan stocks, funds, bonds or notes (***specified securities***) of, or issued by, a private company (***relevant company***); and

(b) the relevant company holds (whether directly or indirectly) neither of the following—

(i) immovable property in Hong Kong;

(ii) share capital (however described) in another private company that holds (whether directly or indirectly) immovable property in Hong Kong.

(2) Unless a condition specified in subsection (3) is met in good faith by the FSPE, section 16 of this Schedule does not apply to the assessable profits of the FSPE for the basis period earned from the transactions.

(3) The condition is—

(a) that the FSPE disposes of, through a transaction or a series of transactions, the subject securities not less than 2 years after they are acquired (whether or not the FSPE has control over the relevant company); or

(b) that the FSPE disposes of, through a transaction or a series of transactions, the subject securities less than 2 years after they are acquired and—

(i) the FSPE does not have control over the relevant company; or

(ii) if the FSPE has control over the relevant company—the relevant company holds (whether directly or indirectly) short-term assets the aggregate value of which does not exceed 50% of the value of the relevant company's assets.

(4) For the purposes of this section, an FSPE has control over a company if the FSPE has power to secure—

(a) by means of the holding of shares or the possession of voting power in or in relation to the company or any other company; or

(b) by virtue of any powers conferred by the articles of association or any other document regulating the company or any other company,

that the affairs of the company are conducted in accordance with the wishes of the FSPE.

(5) For the purposes of this section, a reference to an FSPE (***reference***) in subsection (1), the first reference in subsections (2) and (3)(a) and (b), and the second and last references in subsection (4) include—

(a) if the FSPE is a partnership—a partner in the partnership; and

(b) if the FSPE is a trust—a trustee of the trust.

(6) In this section—

short-term asset (短期資產) has the meaning given by section 17(7) of this Schedule;

subject securities (標的證券), in relation to a relevant company, means the specified securities of, or issued by, the company.

19. Losses sustained by FSPE—where rate specified in section 25(2) of this Schedule is 0%

If, because of sections 16 and 25 of this Schedule, an FSPE is exempt from the payment of profits tax in respect of its assessable profits earned from the transactions specified in section 16(3) of this Schedule for the basis period for a year of assessment, any loss sustained by the FSPE from any of those transactions is not available for set off against any of its assessable profits for that basis period or the basis period for any subsequent year of assessment.

Part 4

Assessable Profits of Resident Persons

20. Meaning of *resident person*, *specified entity*, etc. in this Part

(1) In this Part—

resident person (居港者)—see subsection (2);

specified entity (指明實體)—see subsections (3), (4), (5), (6) and (7);

specified members (指明成員), in relation to an entity, means members of a family who, because of section 8 of this Schedule, are taken to have at least 95%, in aggregate, of the beneficial interest (whether direct or indirect) in the entity.

(2) In relation to a year of assessment—

(a) a corporation that is not a trustee of a trust is a resident person if the central management and control of the corporation is exercised in Hong Kong in the year of assessment;

(b) a partnership that is not a trustee of a trust is a resident person if the central management and control of the partnership is exercised in Hong Kong in the year of assessment; and

(c) a trustee of a trust is a resident person if the central management and control of the trust is exercised in Hong Kong in the year of assessment.

(3) An entity (***Entity C***) is a specified entity in relation to the family to which an FIHV is related if Condition 1 or Condition 2 is met.

(4) Condition 1 is—

(a) that Entity C—

(i) is not a business undertaking for general commercial or industrial purpose; and

(ii) does not carry on any trade or business;

(b) that at least one member of the family to which the FIHV is related has a direct or indirect beneficial interest in the entity (***relevant family member***); and

(c) that Entity C is the entity, or one of the entities in a series of 2 or more entities, through which any one or more than one relevant family member has an indirect beneficial interest in the FIHV.

(5) Condition 2 is—

(a) that Entity C—

(i) is not a business undertaking for general commercial or industrial purpose; and

(ii) does not carry on any trade or business; and

(b) that Entity C is a qualified entity.

(6) For the purposes of subsection (5), Entity C is a qualified entity if—

(a) Entity C has either—

(i) 100% direct beneficial interest in the FIHV mentioned in subsection (3); or

(ii) 100% indirect beneficial interest in that FIHV; and

(b) there are any specified members in relation to Entity C.

(7) For the purposes of subsection (5), an entity is also a qualified entity if it is an entity, or one of the entities in a series of 2 or more entities, through which an entity falling within the description in subsection (6) has the beneficial interest mentioned in subsection (6)(a)(ii).

(8) Schedule 16H applies in determining the extent of the beneficial interest of Entity C in the FIHV.

21. Meaning of *associate* in sections 22 and 23 of this Schedule

(1) In sections 22(2) and (4) and 23(2) of this Schedule—

associate (相聯者)—

(a) in relation to a resident person that is a corporation but is not a trustee of a trust, means—

(i) a person or entity who has control over the corporation;

(ii) if a person mentioned in subparagraph (i) is a partner in a partnership—another partner in the partnership;

(iii) if a person mentioned in subparagraph (i) is a natural person—a relative of the person;

(iv) if another partner mentioned in subparagraph (ii) is a natural person—a relative of that other partner;

(v) a director or principal officer of—

(A) the corporation; or

(B) an associated corporation of the corporation;

(vi) if a director mentioned in subparagraph (v) is a natural person—a relative of the director;

(vii) a relative of a principal officer mentioned in subparagraph (v);

(viii) if the corporation is a partner in a partnership—another partner in the partnership;

(ix) if another partner mentioned in subparagraph (viii) is a natural person—a relative of that other partner;

(x) a partnership in which the corporation is a partner; or

(xi) an associated corporation of the corporation;

(b) in relation to a resident person that is a partnership but is not a trustee of a trust, means—

(i) a partner in the partnership;

(ii) if a partner in the partnership is a natural person—a relative of the partner;

(iii) if a partner in the partnership is another partnership —

(A) a partner in the other partnership (***Partner A***); or

(B) a partner with the other partnership in any other partnership (***Partner B***);

(iv) if Partner A is a partnership—a partner in Partner A (***Partner C***);

(v) if Partner B is a partnership—a partner in Partner B (***Partner D***);

(vi) if Partner A, Partner B, Partner C or Partner D is a natural person—a relative of the partner;

(vii) a corporation over which any of the following persons has control—

(A) the partnership;

(B) a partner in the partnership;

(C) if a partner in the partnership is a natural person—a relative of the partner;

(D) a partnership in which the partnership is a partner;

(viii) a director or principal officer of the corporation mentioned in subparagraph (vii);

(ix) if a director mentioned in subparagraph (viii) is a natural person—a relative of the director;

(x) a relative of a principal officer mentioned in subparagraph (viii);

(xi) a corporation of which a partner in the partnership is a director or principal officer; or

(xii) an associated partnership of the partnership; and

(c) in relation to a resident person that is a trustee of a trust, means—

(i) a settlor, a protector, an enforcer or a beneficiary of the trust; or

(ii) (if the resident person does not act in the capacity of a trustee in the course of a business or profession) a related person of the trustee.

(2) In paragraph (c)(ii) of the definition of ***associate*** in subsection (1)—

related person (有關連人士), in relation to a trustee of a trust—

(a) if the trustee is a corporation, means—

(i) a person or entity who has control over the corporation;

(ii) if a person mentioned in subparagraph (i) is a partner in a partnership—another partner in the partnership;

(iii) if a person mentioned in subparagraph (i) is a natural person—a relative of the person;

(iv) if another partner mentioned in subparagraph (ii) is a natural person—a relative of that other partner;

(v) a director or principal officer of—

(A) the corporation; or

(B) an associated corporation of the corporation;

(vi) if a director mentioned in subparagraph (v) is a natural person—a relative of the director;

(vii) a relative of a principal officer mentioned in subparagraph (v);

(viii) if the corporation is a partner in a partnership—another partner in the partnership;

(ix) if another partner mentioned in subparagraph (viii) is a natural person—a relative of that other partner;

(x) a partnership in which the corporation is a partner; or

(xi) an associated corporation of the corporation;

(b) if the trustee is a partnership, means—

(i) a partner in the partnership;

(ii) if a partner in the partnership is a natural person—a relative of the partner;

(iii) if a partner in the partnership is another partnership —

(A) a partner in the other partnership (***Partner E***); or

(B) a partner with the other partnership in any other partnership (***Partner F***);

(iv) if Partner E is a partnership—a partner in Partner E (***Partner G***);

(v) if Partner F is a partnership—a partner in Partner F (***Partner H***);

(vi) if Partner E, Partner F, Partner G or Partner H is a natural person—a relative of the partner;

(vii) a corporation over which any of the following persons has control—

(A) the partnership;

(B) a partner in the partnership;

(C) if a partner in the partnership is a natural person—a relative of the partner;

(D) a partnership in which the partnership is a partner;

(viii) a director or principal officer of the corporation mentioned in subparagraph (vii);

(ix) if a director mentioned in subparagraph (viii) is a natural person—a relative of the director;

(x) a relative of a principal officer mentioned in subparagraph (viii);

(xi) a corporation of which a partner in the partnership is a director or principal officer; or

(xii) an associated partnership of the partnership; and

(c) if the trustee is a natural person, means—

(i) a relative of the person;

(ii) if the person is a partner in a partnership—another partner in the partnership;

(iii) if another partner mentioned in subparagraph (ii) is a natural person—a relative of that other partner;

(iv) a partnership in which the person is a partner;

(v) a corporation over which any of the following persons has control—

(A) the person;

(B) a relative of the person;

(C) if the person is a partner in a partnership—another partner in the partnership;

(D) if the person is a partner in a partnership and another partner in the partnership is a natural person—a relative of that other partner;

(E) a partnership in which the person is a partner; or

(vi) a director or principal officer of the corporation mentioned in subparagraph (v).

(3) In the definitions of ***associate*** in subsection (1) and ***related person*** in subsection (2)—

associated corporation (相聯法團), in relation to a corporation, means—

(a) another corporation over which the corporation has control;

(b) another corporation that has control over the corporation; or

(c) another corporation that is under the control of the same person as is the corporation;

associated partnership (相聯合夥), in relation to a partnership, means—

(a) another partnership over which the partnership has control;

(b) another partnership that has control over the partnership; or

(c) another partnership that is under the control of the same person as is the partnership;

principal officer (主要職員), in relation to a corporation, means—

(a) a person employed by the corporation who, either alone or jointly with one or more other persons, is responsible under the immediate authority of the directors of the corporation for the conduct of the business of the corporation; or

(b) a person employed by the corporation who, under the immediate authority of a director of the corporation or a person to whom paragraph (a) applies, exercises managerial functions in respect of the corporation;

relative (親屬) has the meaning given by section 20AN(6).

(4) For the purposes of the definitions of ***associate***, ***associated corporation*** and ***associated partnership*** in this section—

(a) a person or entity (***particular person***) has control over a corporation if the particular person has power to secure —

(i) by means of the holding of shares or the possession of voting power in or in relation to the corporation or any other corporation; or

(ii) by virtue of any powers conferred by the articles of association or any other document regulating the corporation or any other corporation,

that the affairs of the corporation are conducted in accordance with the wishes of the particular person; and

(b) a particular person has control over a partnership if the particular person has power to secure—

(i) by means of the holding of interests or the possession of voting power in or in relation to the partnership or any other partnership; or

(ii) by virtue of any powers conferred by the partnership agreement or any other document regulating the partnership or any other partnership,

that the affairs of the partnership are conducted in accordance with the wishes of the particular person.

22. Assessable profits of FIHVs to be regarded as assessable profits of resident persons

(1) If, in respect of a year of assessment—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect) in an FIHV to the extent prescribed in subsection (2); and

(b) section 9 of this Schedule applies to the FIHV,

the assessable profits of the FIHV for the period of time (***subsection (1) period***) that would have been chargeable to tax under Part 4 of this Ordinance but for section 9 of this Schedule are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(2) The extent of a resident person's beneficial interest in an FIHV referred to in subsection (1) is that the person, either alone or jointly with any of the person's associate (whether a resident person or not)—

(a) if the FIHV is a corporation—has not less than 30% of the beneficial interest in the corporation;

(b) if the FIHV is a partnership—has not less than 30% of the beneficial interest in the partnership;

(c) if the FIHV is a trust—has not less than 30% of the beneficial interest in the trust; and

(d) if the FIHV is an entity that does not fall within any of paragraphs (a), (b) and (c)—has not less than 30% of the beneficial interest in the entity.

(3) For the purposes of subsection (2), the extent of a resident person's beneficial interest in an FIHV is to be determined in accordance with Part 3 of Schedule 16J.

(4) If, in respect of a year of assessment—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect) in an FIHV;

(b) section 9 of this Schedule applies to the FIHV; and

(c) the FIHV is an associate of the resident person,

the assessable profits of the FIHV for the period of time (***subsection (4) period***) that would have been chargeable to tax under Part 4 of this Ordinance but for section 9 of this Schedule are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(5) Subsections (1) and (4) apply in relation to a resident person irrespective of whether the person has received or will receive (whether directly or indirectly) from the FIHV any money or other property representing the profits of the FIHV for the relevant year of assessment.

(6) A resident person who has a direct or indirect beneficial interest in a trust because of the fact that the resident person is able (or might reasonably be expected to be able) to control the activities of the trust estate or the application of its corpus or income is, for the purposes of this section, to be regarded as being interested in 100% of the value of the trust estate.

(7) The amount regarded as the assessable profits of a resident person for a year of assessment under subsection (1) or (4) is to be ascertained in accordance with Schedule 16J.

(8) However, subsections (1) and (4) do not apply to a resident person in relation to a subsection (1) period or subsection (4) period if, at all times during the subsection (1) period or subsection (4) period, the person is—

(a) a specified entity in relation to the family to which the FIHV is related;

(b) a trustee of a trust that is a specified entity mentioned in paragraph (a); or

(c) an ESF Office of the family that manages the FIHV.

(9) If—

(a) a resident person is liable to tax in respect of the profits of an FIHV by the operation of subsection (1) or (4) because the person has an indirect beneficial interest in the FIHV through a third person that is an entity (***interposed entity***) or through a series of 2 or more interposed entities; and

(b) the interposed entity or any of the interposed entities is a resident person who is also liable to tax in respect of the profits by the operation of subsection (1) or (4),

the resident person mentioned in paragraph (a) is discharged from the person's liability to tax in respect of the profits.

23. Assessable profits of FSPEs to be regarded as assessable profits of resident persons

(1) If, in respect of a year of assessment—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect) in an FIHV to the extent prescribed in section 22(2) of this Schedule;

(b) section 9 of this Schedule applies to the FIHV;

(c) the FIHV has, during the period of time (***subsection (1) period***), a beneficial interest (whether direct or indirect) in an FSPE; and

(d) section 16 of this Schedule applies to the FSPE,

the assessable profits of the FSPE for the subsection (1) period that would have been chargeable to tax under Part 4 of this Ordinance but for section 16 of this Schedule are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(2) If, in respect of a year of assessment—

(a) a resident person has, during any period of time, a beneficial interest (whether direct or indirect) in an FIHV;

(b) section 9 of this Schedule applies to the FIHV;

(c) the FIHV is an associate of the resident person;

(d) the FIHV has, during the period of time (***subsection (2) period***), a beneficial interest (whether direct or indirect) in an FSPE; and

(e) section 16 of this Schedule applies to the FSPE,

the assessable profits of the FSPE for the subsection (2) period that would have been chargeable to tax under Part 4 of this Ordinance but for section 16 of this Schedule are to be regarded as the assessable profits arising in, or derived from, Hong Kong of the resident person for the year of assessment from a trade, profession or business carried on by the resident person in Hong Kong.

(3) Subsections (1) and (2) apply in relation to a resident person irrespective of whether the person has received or will receive (whether directly or indirectly) from the FSPE any money or other property representing the profits of the FSPE for the relevant year of assessment.

(4) A resident person who has a direct or indirect beneficial interest in a trust because of the fact that the resident person is able (or might reasonably be expected to be able) to control the activities of the trust estate or the application of its corpus or income is, for the purposes of this section, to be regarded as being interested in 100% of the value of the trust estate.

(5) The amount regarded as the assessable profits of a resident person for a year of assessment under subsection (1) or (2) is to be ascertained in accordance with Schedule 16K.

(6) However, subsections (1) and (2) do not apply to a resident person in relation to a subsection (1) period or subsection (2) period if, at all times during the subsection (1) period or subsection (2) period, the person is—

(a) a specified entity in relation to the family to which the FIHV is related;

(b) a trustee of a trust that is a specified entity mentioned in paragraph (a); or

(c) an ESF Office of the family that manages the FIHV.

(7) If—

(a) a resident person is liable to tax in respect of the profits of an FSPE by the operation of subsection (1) or (2) because the person has an indirect beneficial interest in the FSPE through a third person that is an entity (***interposed entity***) or through a series of 2 or more interposed entities; and

(b) the interposed entity or any of the interposed entities is a resident person who is also liable to tax in respect of the profits by the operation of subsection (1) or (2),

the resident person mentioned in paragraph (a) is discharged from the person's liability to tax in respect of the profits.

Part 5

Rate of Profits Tax for FIHV and FSPE

24. Rate of profits tax for FIHV

(1) This section applies for the purposes of section 9(2) of this Schedule.

(2) The rate specified for the basis period for a year of assessment commencing on or after 1 April 2022 is 0%.

25. Rate of profits tax for FSPE

(1) This section applies for the purposes of section 16(2) of this Schedule.

(2) The rate specified for the basis period for a year of assessment commencing on or after 1 April 2022 is 0%.

Part 6

Miscellaneous Matters

Division 1—Anti-avoidance Provisions

26. Anti-avoidance provisions relating to arrangement to obtain tax benefits—FIHV

(1) Subsection (2) applies to an FIHV if—

(a) the FIHV enters into an arrangement; and

(b) the Commissioner is satisfied that the main purpose, or one of the main purposes, of the FIHV in entering into the arrangement is to obtain a tax benefit, whether for the FIHV or another person or entity, in relation to a liability to pay profits tax under this Ordinance.

(2) Section 9 of this Schedule does not apply in relation to any relevant assessable profits accrued to the FIHV during a relevant basis period.

(3) Subsection (4) applies to an FIHV if—

(a) any assets or businesses are transferred directly or indirectly from a person (***transferor***) carrying on a business in Hong Kong to the FIHV;

(b) the income of the transferor in relation to the transferred assets or businesses (as the case requires) would have been subject to tax under Part 4 of this Ordinance but for the transfer; and

(c) the Commissioner is satisfied that the main purpose, or one of the main purposes, of the FIHV in making the transfer is to obtain a tax benefit, whether for the FIHV or another person or entity, in relation to a liability to pay profits tax under this Ordinance.

(4) Section 9 of this Schedule does not apply in relation to any relevant assessable profits accrued to the FIHV during a relevant basis period unless the transfer—

(a) is carried out on an arm's length basis; and

(b) is chargeable to tax under Part 4 of this Ordinance in respect of the assessable profits arising from the transfer.

(5) For the purposes of this section, a reference to an FIHV (***reference***) in subsection (1)(a), the first reference in subsection (1)(b), the reference in subsection (3)(a), and the first reference in subsection (3)(c) include—

(a) if the FIHV is a partnership—a partner in the partnership; and

(b) if the FIHV is a trust—a trustee of the trust.

(6) For the purposes of this section, a basis period for a year of assessment is a relevant basis period in relation to an arrangement if, in the opinion of the Commissioner, the arrangement has effect during the basis period.

(7) For the purposes of this section, a basis period for a year of assessment is a relevant basis period in relation to a transfer if, in the opinion of the Commissioner, the transfer has effect during the basis period.

(8) In this section—

relevant assessable profits (有關應評稅利潤)—

(a) in relation to an arrangement, means the assessable profits arising from the arrangement; and

(b) in relation to a transfer, means the assessable profits arising from the transfer;

tax benefit (稅務利益) means an avoidance, postponement or reduction of a liability to pay tax.

27. Anti-avoidance provisions relating to arrangement to obtain tax benefits—FSPE

(1) Subsection (2) applies to an FSPE if—

(a) the FSPE enters into an arrangement; and

(b) the Commissioner is satisfied that the main purpose, or one of the main purposes, of the FSPE in entering into the arrangement is to obtain a tax benefit, whether for the FSPE or another person or entity, in relation to a liability to pay profits tax under this Ordinance.

(2) Section 16 of this Schedule does not apply in relation to any relevant assessable profits accrued to the FSPE during a relevant basis period.

(3) Subsection (4) applies to an FSPE if—

(a) any assets or businesses are transferred directly or indirectly from a person (***transferor***) carrying on a business in Hong Kong to the FSPE;

(b) the income of the transferor in relation to the transferred assets or businesses (as the case requires) would have been subject to tax under Part 4 of this Ordinance but for the transfer; and

(c) the Commissioner is satisfied that the main purpose, or one of the main purposes, of the FSPE in making the transfer is to obtain a tax benefit, whether for the FSPE or another person or entity, in relation to a liability to pay profits tax under this Ordinance.

(4) Section 16 of this Schedule does not apply in relation to any relevant assessable profits accrued to the FSPE during a relevant basis period unless the transfer—

(a) is carried out on an arm’s length basis; and

(b) is chargeable to tax under Part 4 of this Ordinance in respect of the assessable profits arising from the transfer.

(5) For the purposes of this section, a reference to an FSPE (***reference***) in subsection (1)(a), the first reference in subsection (1)(b), the reference in subsection (3)(a), and the first reference in subsection (3)(c) include—

(a) if the FSPE is a partnership—a partner in the partnership; and

(b) if the FSPE is a trust—a trustee of the trust.

(6) For the purposes of this section, a basis period for a year of assessment is a relevant basis period in relation to an arrangement if, in the opinion of the Commissioner, the arrangement has effect during the basis period.

(7) For the purposes of this section, a basis period for a year of assessment is a relevant basis period in relation to a transfer if, in the opinion of the Commissioner, the transfer has effect during the basis period.

(8) In this section—

relevant assessable profits (有關應評稅利潤) has the meaning given by section 26(8) of this Schedule;

tax benefit (稅務利益) has the meaning given by section 26(8) of this Schedule.

Division 2—Records of FIHV and ESF Office

28. Obligations of responsible persons to keep records relating to beneficial owners

(1) This section applies, for the purposes of this Schedule, to and in relation to an FIHV.

(2) A responsible person for an entity that is an FIHV must keep sufficient records to enable the identity and particulars of each beneficial owner of the FIHV to be readily ascertained.

(3) Any record that is required under subsection (2) to be kept by a responsible person for an entity, in relation to a person or entity (***particular person***) that is a beneficial owner of the FIHV, must be kept by the responsible person throughout the period within which the particular person is such an owner.

(4) If a particular person ceases to be a beneficial owner of an FIHV, the responsible person for the entity must retain, for at least 7 years after the date of cessation, the records required under subsections (2) and (3) to be kept in relation to the particular person.

(5) If an entity ceases to be an FIHV but continues to exist, a responsible person for the entity must retain, for at least 7 years after the date of cessation, the records that, but for the cessation, would have been required under subsection (2), (3) or (4) to be kept or retained.

(6) If the entity ceases to exist, a person who immediately before the cessation was a responsible person for the entity must retain, for at least 7 years after the date of cessation, the records that, but for the cessation, would have been required under subsection (2), (3), (4) or (5) to be kept or retained.

(7) In this section—

beneficial owner (實益擁有人), in relation to an entity—

(a) means a particular person who has a direct or indirect beneficial interest in the entity; and

(b) includes any specified members;

responsible person (負責人)—

(a) in relation to an entity that is a corporation, means the corporation; and

(b) in relation to any other entity, means a person who is responsible for the management of the entity;

specified members (指明成員) has the meaning given by section 20(1) of this Schedule.

29. Obligations of ESF Office to keep records relating to beneficial owners

(1) This section applies, for the purposes of this Schedule, to and in relation to an ESF Office of a family (***relevant family office***).

(2) A relevant family office must keep sufficient records, for each FIHV managed by the family office, to enable the identity and particulars of each beneficial owner of the FIHV to be readily ascertained.

(3) Any record that is required under subsection (2) to be kept by a relevant family office, in relation to a person or entity (***particular person***) that is a beneficial owner of the FIHV, must be kept by the family office throughout the period within which the particular person is such an owner.

(4) In addition, a relevant family office must keep sufficient records to enable the identity and particulars of each beneficial owner of the family office to be readily ascertained.

(5) Any record that is required under subsection (4) to be kept by a relevant family office, in relation to a person or entity (***specified person***) that is a beneficial owner of the family office, must be kept by the family office throughout the period within which the specified person is such an owner.

(6) If a particular person ceases to be a beneficial owner of an FIHV managed by a relevant family office, the family office must retain, for at least 7 years after the date of cessation, the records required under subsections (2) and (3) to be kept in relation to the particular person.

(7) If a specified person ceases to be a beneficial owner of a relevant family office, the family office must retain, for at least 7 years after the date of cessation, the records required under subsections (4) and (5) to be kept in relation to the specified person.

(8) If an entity managed by a relevant family office ceases to be an FIHV (whether or not the entity continues to exist), or ceases to be managed by a relevant family office, the family office must retain, for at least 7 years after the date of cessation, the records that, but for the cessation, would have been required under subsection (2), (3) or (6) to be kept or retained.

(9) If a relevant family office ceases to exist, a person who immediately before the cessation was a director of the family office must retain, for at least 7 years after the date of cessation, the records that, but for the cessation, would have been required under subsection (2), (3), (4), (5), (6), (7) or (8) to be kept or retained.

(10) In this section—

beneficial owner (實益擁有人) has the meaning given by section 28(7) of this Schedule.

Schedule 16I

[s. 40AV & Sch. 16E]

Provisions for Determining Extent of FIHV's Beneficial Interest in FSPE (Sections 11 and 16 of Schedule 16E)

(Schedule 16I added 8 of 2023 s. 7)

Part 1

1. In this Schedule—

direct beneficial interest (直接實益權益) has the meaning given by section 7 of Schedule 16E;

entity (實體) has the meaning given by section 1(1) of Schedule 16E;

FIHV (家控工具) has the meaning given by section 5 of Schedule 16E;

FSPE (家族特體) has the meaning given by section 6 of Schedule 16E;

indirect beneficial interest (間接實益權益) has the meaning given by section 7 of Schedule 16E.

Part 2

2. For an FIHV having a direct beneficial interest in an FSPE, the extent of the beneficial interest of the FIHV in the FSPE is—

(a) if the FSPE is a corporation—

(i) the percentage of the issued share capital (however described) of the corporation held by the FIHV; or

(ii) (if the corporation does not have any issued share capital) the percentage of the voting rights in the corporation that the FIHV is entitled to exercise or the exercise of which the FIHV is entitled to control;

(b) if the FSPE is a partnership—

(i) the percentage of the profits of the partnership to which the FIHV is entitled; or

(ii) (if the partners in the partnership are neither entitled to the profits of the partnership nor entitled to a distribution of the assets of the partnership on its dissolution) the percentage of the voting rights in the partnership that the FIHV is entitled to exercise or the exercise of which the FIHV is entitled to control;

(c) if the FSPE is a trust—the percentage in value of the trust estate in which the FIHV is interested; and

(d) if the FSPE is an entity that does not fall within any of paragraphs (a), (b) and (c)—

(i) the percentage of the capital of the entity to which the FIHV is entitled;

(ii) (if subparagraph (i) is not applicable in relation to the entity) the percentage of the ownership interests that the FIHV has in the entity;

(iii) (if neither subparagraph (i) nor (ii) is applicable in relation to the entity) the percentage of the profits of the entity to which the FIHV is entitled; or

(iv) (if none of subparagraphs (i), (ii) and (iii) is applicable in relation to the entity) the percentage of the voting rights in the entity that the FIHV is entitled to exercise or the exercise of which the FIHV is entitled to control.

3. For the purposes of section 2 of this Schedule—

(a) section 7(5), (6) and (7) of Schedule 16E applies; and

(b) a reference in section 2(a), (b), (c) and (d) of this Schedule to the FIHV includes—

(i) if the FIHV is a partnership—a partner in the partnership; and

(ii) if the FIHV is a trust—a trustee of the trust.

4. For an FIHV having an indirect beneficial interest in an FSPE, the extent of the beneficial interest of the FIHV in the FSPE is—

(a) if there is only one interposed entity—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the FIHV in the interposed entity by the percentage representing the extent of the beneficial interest of the interposed entity in the FSPE; or

(b) if there is a series of 2 or more interposed entities—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the FIHV in the first interposed entity in the series by—

(i) the percentage representing the extent of the beneficial interest of each interposed entity (other than the last interposed entity) in the series in the next interposed entity in the series; and

(ii) the percentage representing the extent of the beneficial interest of the last interposed entity in the series in the FSPE.

5. For the purposes of section 4 of this Schedule—

(a) section 2 of this Schedule applies in determining the extent of the beneficial interest of an FIHV in an interposed entity as if the references to an FSPE in that section were references to an interposed entity;

(b) section 2 of this Schedule applies in determining the extent of the beneficial interest of an interposed entity in an FSPE as if the references to an FIHV in that section were references to an interposed entity; and

(c) section 2 of this Schedule applies in determining the extent of the beneficial interest of an interposed entity (***Interposed Entity A***) in another interposed entity (***Interposed Entity B***) as if—

(i) the references to an FIHV in that section were references to Interposed Entity A; and

(ii) the references to an FSPE in that section were references to Interposed Entity B.

Schedule 16J

[s. 40AV & Schs. 16E & 16K]

Provisions for Ascertaining Amount of Assessable Profits of Resident Person under Section 22 of Schedule 16E

(Schedule 16J added 8 of 2023 s. 7)

Part 1

1. In this Schedule—

direct beneficial interest (直接實益權益) has the meaning given by section 7 of Schedule 16E;

entity (實體) has the meaning given by section 1(1) of Schedule 16E;

FIHV (家控工具) has the meaning given by section 5 of Schedule 16E;

indirect beneficial interest (間接實益權益) has the meaning given by section 7 of Schedule 16E;

resident person (居港者) has the meaning given by section 20(2) of Schedule 16E.

Part 2

2. The amount regarded as the assessable profits of a resident person for a year of assessment is the total sum arrived at by adding up the assessable profits of the FIHV that are chargeable to tax under Part 4 of this Ordinance and in respect of which tax would have been payable but for section 9 of Schedule 16E (***concessionary profits***) for each day in the period in the year of assessment during which the resident person has a direct or indirect beneficial interest in the FIHV.

3. For the purposes of section 2 of this Schedule, the concessionary profits of an FIHV for a particular day in a year of assessment are to be ascertained in accordance with the following formula—

$$A = \frac{B \times C}{D}$$

where: A means the concessionary profits of the FIHV for a particular day in a year of assessment;

B means the extent of the resident person's beneficial interest in the FIHV on the particular day, expressed as a percentage determined in accordance with Part 3 of this Schedule;

C means the concessionary profits of the FIHV for the accounting period of the FIHV in which the particular day falls;

D means the total number of days in the accounting period of the FIHV in which the particular day falls.

Part 3

4. For a resident person having a direct beneficial interest in an FIHV, the extent of the beneficial interest of the resident person in the FIHV is—

(a) if the FIHV is a corporation—

(i) the percentage of the issued share capital (however described) of the corporation held by the resident person; or

(ii) (if the corporation does not have any issued share capital) the percentage of the voting rights in the corporation that the resident person is entitled to exercise or the exercise of which the resident person is entitled to control;

(b) if the FIHV is a partnership—

(i) the percentage of the profits of the partnership to which the resident person is entitled; or

(ii) (if the partners in the partnership are neither entitled to the profits of the partnership nor entitled to a distribution of the assets of the partnership on its dissolution) the percentage of the voting rights in the partnership that the resident person is entitled to exercise or the exercise of which the resident person is entitled to control;

(c) if the FIHV is a trust—the percentage in value of the trust estate in which the resident person is interested; and

(d) if the FIHV is an entity that does not fall within any of paragraphs (a), (b) and (c)—

(i) the percentage of the capital of the entity to which the resident person is entitled;

(ii) (if subparagraph (i) is not applicable in relation to the entity) the percentage of the ownership interests that the resident person has in the entity;

(iii) (if neither subparagraph (i) nor (ii) is applicable in relation to the entity) the percentage of the profits of the entity to which the resident person is entitled; or

(iv) (if none of subparagraphs (i), (ii) and (iii) is applicable in relation to the entity) the percentage of the voting rights in the entity that the resident person is entitled to exercise or the exercise of which the resident person is entitled to control.

5. Section 7(5), (6) and (7) of Schedule 16E applies for the purposes of section 4 of this Schedule.

6. For a resident person having an indirect beneficial interest in an FIHV, the extent of the beneficial interest of the resident person in the FIHV is—

(a) if there is only one interposed entity—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the resident person in the interposed entity by the percentage representing the extent of the beneficial interest of the interposed entity in the FIHV; or

(b) if there is a series of 2 or more interposed entities—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the resident person in the first interposed entity in the series by—

(i) the percentage representing the extent of the beneficial interest of each interposed entity (other than the last interposed entity) in the series in the next interposed entity in the series; and

(ii) the percentage representing the extent of the beneficial interest of the last interposed entity in the series in the FIHV.

7. For the purposes of section 6 of this Schedule—

(a) section 4 of this Schedule applies in determining the extent of the beneficial interest of a resident person in an interposed entity as if the references to an FIHV in that section were references to an interposed entity;

(b) section 4 of this Schedule applies in determining the extent of the beneficial interest of an interposed entity in an FIHV as if the references to a resident person in that section were references to an interposed entity; and

(c) section 4 of this Schedule applies in determining the extent of the beneficial interest of an interposed entity (***Interposed Entity A***) in another interposed entity (***Interposed Entity B***) as if—

(i) the references to a resident person in that section were references to Interposed Entity A; and

(ii) the references to an FIHV in that section were references to Interposed Entity B.

Schedule 16K

[s. 40AV & Sch. 16E]

Provisions for Ascertaining Amount of Assessable Profits of Resident Person under Section 23 of Schedule 16E

(Schedule 16K added 8 of 2023 s. 7)

Part 1

1. In this Schedule—

direct beneficial interest (直接實益權益) has the meaning given by section 7 of Schedule 16E;

entity (實體) has the meaning given by section 1(1) of Schedule 16E;

FIHV (家控工具) has the meaning given by section 5 of Schedule 16E;

FSPE (家族特體) has the meaning given by section 6 of Schedule 16E;

indirect beneficial interest (間接實益權益) has the meaning given by section 7 of Schedule 16E;

resident person (居港者) has the meaning given by section 20(2) of Schedule 16E.

Part 2

2. The amount regarded as the assessable profits of a resident person for a year of assessment is the total sum arrived at by adding up the assessable profits of the FSPE that are chargeable to tax under Part 4 of this Ordinance and in respect of which tax would have been payable but for section 16 of Schedule 16E (***concessionary profits***) for each day in the period in the year of assessment during which the resident person has an indirect beneficial interest in the FSPE.

3. For the purposes of section 2 of this Schedule, the concessionary profits of an FSPE for a particular day in a year of assessment are to be ascertained in accordance with the following formula—

$$A = \frac{B1 \times B2 \times C}{D}$$

where: A means the concessionary profits of the FSPE for a particular day in a year of assessment;

B1 means the extent of the resident person's beneficial interest in the FIHV on the particular day, expressed as a percentage determined in accordance with Part 3 of Schedule 16J;

B2 means the extent of the FIHV's beneficial interest in the FSPE on the particular day, expressed as a percentage determined in accordance with Part 3 of this Schedule;

C means the concessionary profits of the FSPE for the accounting period of the FSPE in which the particular day falls;

D means the total number of days in the accounting period of the FSPE in which the particular day falls.

Part 3

4. For an FIHV having a direct beneficial interest in an FSPE, the extent of the beneficial interest of the FIHV in the FSPE is—

(a) if the FSPE is a corporation—

(i) the percentage of the issued share capital (however described) of the corporation held by the FIHV; or

(ii) (if the corporation does not have any issued share capital) the percentage of the voting rights in the corporation that the FIHV is entitled to exercise or the exercise of which the FIHV is entitled to control;

(b) if the FSPE is a partnership—

(i) the percentage of the profits of the partnership to which the FIHV is entitled; or

(ii) (if the partners in the partnership are neither entitled to the profits of the partnership nor entitled to a distribution of the assets of the partnership on its dissolution) the percentage of the voting rights in the partnership that the FIHV is entitled to exercise or the exercise of which the FIHV is entitled to control;

(c) if the FSPE is a trust—the percentage in value of the trust estate in which the FIHV is interested; and

(d) if the FSPE is an entity that does not fall within any of paragraphs (a), (b) and (c)—

(i) the percentage of the capital of the entity to which the FIHV is entitled;

(ii) (if subparagraph (i) is not applicable in relation to the entity) the percentage of the ownership interests that the FIHV has in the entity;

(iii) (if neither subparagraph (i) nor (ii) is applicable in relation to the entity) the percentage of the profits of the entity to which the FIHV is entitled; or

(iv) (if none of subparagraphs (i), (ii) and (iii) is applicable in relation to the entity) the percentage of the voting rights in the entity that the FIHV is entitled to exercise or the exercise of which the FIHV is entitled to control.

5. For the purposes of section 4 of this Schedule—

(a) section 7(5), (6) and (7) of Schedule 16E applies; and

(b) a reference in section 4(a), (b), (c) and (d) of this Schedule to the FIHV includes—

(i) if the FIHV is a partnership—a partner in the partnership; and

(ii) if the FIHV is a trust—a trustee of the trust.

6. For an FIHV having an indirect beneficial interest in an FSPE, the extent of the beneficial interest of the FIHV in the FSPE is—

(a) if there is only one interposed entity—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the FIHV in the interposed entity by the percentage representing the extent of the beneficial interest of the interposed entity in the FSPE; or

(b) if there is a series of 2 or more interposed entities—the percentage arrived at by multiplying the percentage representing the extent of the beneficial interest of the FIHV in the first interposed entity in the series by—

(i) the percentage representing the extent of the beneficial interest of each interposed entity (other than the last interposed entity) in the series in the next interposed entity in the series; and

(ii) the percentage representing the extent of the beneficial interest of the last interposed entity in the series in the FSPE.

7. For the purposes of section 6 of this Schedule—

(a) section 4 of this Schedule applies in determining the extent of the beneficial interest of an FIHV in an interposed entity as if the references to an FSPE in that section were references to an interposed entity;

(b) section 4 of this Schedule applies in determining the extent of the beneficial interest of an interposed entity in an FSPE as if the references to an FIHV in that section were references to an interposed entity; and

(c) section 4 of this Schedule applies in determining the extent of the beneficial interest of an interposed entity (***Interposed Entity A***) in another interposed entity (***Interposed Entity B***) as if—

(i) the references to an FIHV in that section were references to Interposed Entity A; and

(ii) the references to an FSPE in that section were references to Interposed Entity B.

Annex D

Financial and economic implications of the proposal

Financial Implications

It would be difficult to estimate the revenue forgone arising from the enhancement proposals as funds (except limited partnership funds and open-ended fund companies) benefitting from tax exemption under the UFR are currently not subject to any tax reporting obligations. By expanding the range of eligible funds and permissible investments of the preferential tax regimes, however, the proposed enhancements would attract more funds and family offices to set up and operate in Hong Kong, thereby stimulating business activities of the relevant industries of professional services which could contribute to tax revenue.

2. The Finance Committee of the Legislative Council approved on 29 May 2026 the creation of a new commitment of $76.125 million for the Inland Revenue Department's computerisation project to implement the tax reporting mechanism under the UFR and other policy initiatives about tax compliance and reporting.

Economic Implications

3. By expanding the range of eligible funds and qualifying investments of the preferential tax regimes, the proposed enhancements seek to attract more funds and family offices to set up and operate in Hong Kong, reinforcing Hong Kong's position as a leading asset and wealth management hub. Widening the definition of funds to cover specific types of fund-of-one structures, including those set up by international organisations such as the Asian Infrastructure Investment Bank ("AIIB"), complements the Government's objective to attract sizable asset owners to set up and manage funds in Hong Kong[1]. Moreover, the inclusion of private credit investments as qualifying investments can strengthen Hong Kong's position as the largest private credit fund hub in Asia and help further attract private credit investment activities in the region[2]. The expanded scope of qualifying investments would also complement Hong Kong's development in areas such as digital assets, and trading of precious metals and commodities through promoting the relevant investment activities in Hong Kong.

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[1] AIIB, which invested more than USD60 billion in over 300 projects in 38 economies in the past 10 years, has announced its plan to set up an office in Hong Kong..

[2] Based on Preqin's database, as of June 2025, the asset under management of private credit funds managed in Asia (ex-Hong Kong) amounted to USD58 billion.

4. The proposed enhancements would create new business opportunities for Hong Kong's WAM industry. This in turn would generate demand for other related professional services, including fund administration, legal and accounting services. In particular, with the imposition of the economic substance requirements of not less than an average of two qualified employees and HK$2 million annual operating expenditure in Hong Kong, it would bring measurable benefits to the Hong Kong's economy.