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

Background brief

Purpose

This paper provides background information on the Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Bill 2026 ("the Bill"). It also summarizes the major views and concerns raised by Members on the relevant subject.

Background

2. Hong Kong is an **international asset and wealth management ("WAM") centre**. As at end-2024, the total assets under management of WAM business in Hong Kong exceeded HK$35.1 trillion. The Government has been attracting more global capital to be managed in Hong Kong through a series of measures with the aim of propelling the all-rounded development of the fund industry.

3. **Family office ("FO") business** is an important segment of Hong Kong's WAM industry. As at end-2025, over 2 300 corporations were licensed by the Securities and Futures Commission ("SFC") for engaging in asset management activities (including multi-FOs). As at end-2024, the size of private banking and private wealth management business attributed to FOs and private trusts clients reached HK$1,551 billion, representing a year-on-year increase of 7%, providing huge business opportunities for the WAM sector and other related professional services.

4. **The Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Ordinance 2021** took effect in May 2021 to provide **tax**

concessions for carried interest distributed by **eligible private equity funds** operating in Hong Kong, thereby attracting more private equity funds to be domiciled and to operate in Hong Kong. Under the Ordinance, qualifying carried interest recipients have to fulfil substantial activities requirements (including the number of qualified full-time employees and operating expenditure incurred in Hong Kong) for the tax concessions to apply. In addition, the Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Ordinance 2021 also expands the classes of assets that may be held and administered by a special purpose entity ("SPE") on behalf of a fund for the purpose of the profits tax exemption regime for funds, with a view to facilitating the operation of funds in Hong Kong.

5. The Government issued the Policy Statement on Developing Family Office Businesses in Hong Kong in March 2023, setting out a number of policy measures to create a conducive and competitive environment for the businesses of global FOs and asset owners to thrive in Hong Kong. As one of the support measures, the **Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Ordinance 2023** came into operation in May 2023. Family-owned investment holding vehicles ("FIHVs") managed by single FOs in Hong Kong fulfilling the minimum asset threshold of HK$240 million and the substantial activities requirement (including employing at least two full-time qualified employees in Hong Kong) can enjoy profits tax exemption for qualifying transactions.

6. The 2025-2026 Budget announced **the proposals to further enhance the preferential tax regimes for funds, single FOs and carried interest**, including expanding the scope of "fund" under the tax exemption regime, increasing the types of qualifying transactions eligible for tax concessions for funds and single FOs, and enhancing the tax concession arrangement on the distribution of carried interest by private equity funds, with a view to attracting more promising funds and FOs to set up in Hong Kong. The Administration has completed the industry consultation on the enhancement measures on the preferential tax regimes. Based on the feedback received, it has also formulated the relevant enhancement measures with financial regulators.

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

7. The Bill received its First Reading at the Legislative Council ("LegCo") meeting of 24 June 2026. It seeks to amend the Inland Revenue Ordinance ("IRO") (Cap. 112) to:

(a) adjust the **profits tax exemption** for **funds and related entities**;

(b) adjust the **profits tax concessions** for **FIHVs** and related entities;

(c) adjust the **profits tax** and **salaries tax concessions** for **carried interest**; and

(d) provide for related matters.

8. Details of the main provisions of the Bill are set out in paragraphs 27 and 28 of the LegCo Brief issued on 10 June 2026 (File Ref: ASST/3/1/5C(2026)), and in paragraphs 4 to 11 of the Legal Service Division Report on the Bill (LC Paper No. LS35/2026). The Bill, if passed, would come into operation on the day on which it is published in the Gazette as an Ordinance.

Major views and concerns of Members

9. On 2 March 2026, the Administration briefed the Panel on the legislative proposal contained in the Bill. The Panel generally supported the introduction of the Bill into LegCo. The major views and concerns expressed by Members are summarized in the ensuing paragraphs.

Definitions of fund, qualifying investment and operating expenditure

10. Regarding the definition of “fund”, the Bill provided that for funds with only one investor, the investor should **not** have day-to-day control over the management of the property. Members were concerned about any difficulties in implementing this requirement in practice, including **how to verify that the investor was indeed not engaged in day-to-day control**.

11. The Administration responded that when assessing whether a fund met the requirements, the Inland Revenue Department (“IRD”) primarily relied on the **facts** and **documentation provided by the investor** to determine whether the investor took part in the operation (e.g. investment strategy) or decision-making process of the whole fund (e.g. whether there was an investment committee for the fund), so as to establish whether the investor was engaged in the day-to-day management or control of the fund.

12. Members enquired whether the Administration had any plan to impose restrictions based on borrowers’ **geographical locations** (in

Hong Kong or overseas) when including **loans** within the scope of qualifying investments. Given the broad scope of digital assets, Members asked whether a **list of qualifying digital assets** would be formulated and continuously updated in line with market developments. Members were concerned whether the precious metals covered by the expanded scope of qualifying investments would include physical gold, precious metal derivatives, and gold exchange-traded funds ("gold ETFs").

13. The Administration responded that for inclusion of loans, borrowers were not required to be physically present in Hong Kong. With respect to digital assets, guidelines would be published on IRO's website, setting out examples of the circumstances covered, so as to enable a clear understanding by the industry. As regards precious metals, paper gold, gold ETFs and gold futures fell within the scope of qualifying investments under the tax regime, subject to no geographical restrictions.

14. Members enquired about the extent of **beneficial interest held** by an investor **in a fund** for coverage by the anti-round-tripping provisions under the proposed tax exemption regime for funds and FOs, as well as about the **definition** of the term "**operating expenditure**" as referred to in the tax exemption conditions.

15. The Administration responded that, as provided in existing legislation, should a resident investor **hold not less than 30% of the beneficial interest in a fund, anti-round-tripping provisions would apply**. With regard to the definition of "**operating expenditure**", as operating expenditure might vary between companies or systems, it would not be specifically defined in the legislation. Generally speaking, operating expenditure referred to **the expenditure incurred by a company in the course of its day-to-day operations and for the purpose of generating profit**, excluding capital expenditure.

<u>Asset requirement and threshold for funds</u>

16. In light of the qualifying asset requirement of **no less than HK$240 million** for single investors, a threshold higher than that in Singapore, Members suggested that the Administration should consider lowering the asset threshold to attract more investors and enhance Hong Kong's competitiveness. Members were concerned that the proposed thresholds for funds in terms of local employment and spending were unfavourably too high for growth-oriented FOs. Members suggested considering **setting different thresholds based on the size of funds and FOs** and providing "simplified versions" of tax incentives and transitional arrangements to attract more small and medium funds and FOs to set up in Hong Kong.

17. The Administration responded that as at end-2025, **there were over 3 380 single FOs** in Hong Kong, of which more than 2 000 were set up by individuals with assets exceeding US$50 million, demonstrating Hong Kong's competitiveness as a leading WAM centre. A study conducted through a third party revealed that **tax concessions were the main factor driving FOs to invest in Hong Kong**. Having taken all matters into account, the Administration considered the proposed asset threshold sufficiently competitive. It also stressed that with regard to the thresholds for funds and FOs, substantial activities requirements would be stipulated, similar to those in the tax concession regime for FIHVs. When assessing a case, the Administration would examine **whether the size of the fund or FO concerned was commensurate with the number of staff it employed and the expenditure it incurred**, and appropriate thresholds would be set accordingly.

Expanding the benefits of tax concessions

18. As the proposed enhancement measures neither included any local investment requirements nor required the funds to use professional services in Hong Kong, Members considered that they might not necessarily be able to drive demand for local professional services. Members enquired whether the Government had assessed if expanding the tax concession regimes would affect tax revenue, and whether it could develop more comprehensive **key performance indicators** to evaluate the **actual economic benefits** arising from the enhancement of the tax regimes, including job creation and revenue generated for relevant professional services.

19. The Administration responded that it would set different policy objectives for different schemes or vehicles. For example, the New Capital Investment Entrant Scheme had local investment requirements because it was an immigration scheme, where the applicant's ties with Hong Kong were relatively important. As for the objectives of the **enhancement plan for funds and FIHVs**, they were to **expand Hong Kong's edge as a leading regional WAM centre**, thereby attracting more funds and FOs to set up and operate in Hong Kong. According to the findings of an independent third-party study, there were over 3 380 single FOs in Hong Kong, estimated to employ around 10 000 staff or relevant professionals and bring about **HK$12.6 billion in local economic benefits** for Hong Kong **annually**, thereby effectively promoting the development of the WAM industry.

Exclusion list updating mechanism

20. Members noted that to enhance tax certainty and avoid disputes, the Administration planned to introduce an **exclusion list** specifying which **incomes** would **not qualify for the tax exemption**, and the exclusion list might be updated from time to time by the Commissioner of Inland Revenue by notice published in the Gazette. Member enquired about **the criteria for drawing up this list**, and whether IRO would consult the industry before publishing or updating the list.

21. The Administration attached great importance to preventing abuse of the proposed tax exemption regime for funds and FOs. **The introduction of the exclusion list was intended to ensure that trading receipts otherwise taxable would not evade taxation as a result of that regime**. When updating the list, IRO would ensure that if any taxable trading receipts were to be included in the exclusion list, the industry would also be consulted.

Tax reporting mechanism and transitional arrangements

22. Members enquired how fund managers could report **certain accounting data of entities** under the proposed tax reporting mechanism while striking an appropriate balance between meeting the international requirements on tax transparency and alleviating the compliance burden on the local industry. Members suggested that **IRO should draw up the relevant Departmental Interpretation and Practice Notes for the industry**, so as to enhance tax certainty. Some Members asked whether transitional arrangements or a grace period regarding the reporting regime would be provided for existing funds or FOs that were already in operation or might need to have their structure adjusted to comply with the new requirements.

23. The Administration proposed to **introduce a dedicated reporting mechanism under the enhanced unified tax regime for funds**, so as to ensure compliance of funds and SPEs with the tax exemption conditions under IRO. The reporting mechanism would adopt **a more relaxed and simple approach** whereby fund administrators would **report on all their funds in a single submission on an aggregate basis**, rather than requiring every fund manager to report individually. Under the proposed mechanism, fund managers or authorized representatives would be required to provide certain accounting data of the funds and SFEs concerned, as well as information showing that the tax exemption conditions and substantial activities requirements were satisfied. The reporting would be carried out **by electronic means**. IRO's electronic platform would provide clear guidance to notify fund managers of the necessary information to report,

along with the relevant definitions or requirements. The Government would take the industry's views into account when drawing up the details of the tax reporting mechanism and would put in place transitional arrangements to **minimize the compliance burden** on funds and SPEs.

Removing the Hong Kong Monetary Authority's certification requirement for funds

24. In order to enhance the tax regime for carried interest, the Administration proposed **removing the certification requirement imposed by the Hong Kong Monetary Authority** (**"**HKMA") **on funds**, thereby streamlining the implementation process. Members enquired how the Administration and HKMA would properly perform their gatekeeping roles to **ensure that the tax concession regime would not be abused**.

25. In response, HKMA pointed out that the current fund certification process **primarily focused on whether the fund had made relevant private equity investments** and whether the eligible persons complied with the requirements on local employment and incursion of local expenditure. Under the new arrangements, such requirements remained unchanged, but **the approval process would be conducted in a unified manner by IRO instead of HKMA**, thereby enabling applications to be processed more efficiently.

Preventing abuse of the preferential tax regimes

26. Members noted recent reports that quite a number of "fake FOs" had emerged in the market, and some of them might even be involved in money laundering or illegal fund-raising activities. Members enquired whether the Administration would consider drawing up a clear official definition and establishing a regulatory regime for FOs, and stepping up regulation through legislation or administrative measures to **prevent money laundering and other financial crimes**. Members also asked what monitoring mechanisms or regulatory measures were in place to **prevent the** enhanced **preferential tax regimes** for FOs and funds **from being abused as tax avoidance tools**.

27. The Administration advised that the Government welcomed all lawful and rule-compliant FOs to set up in Hong Kong and respected the private financial arrangement of single FOs. Regarding the regulation of investment activities of FOs, the licensing regime under the Securities and Futures Ordinance (Cap. 571) was activity-based. Generally speaking, a single FO referred to an arrangement established by members of a single family to manage the family's assets, investments and long-term interests. A single FO was **required to apply for a licence** under the Securities and

Futures Ordinance if it carried on a business of regulated activity in Hong Kong, for example, **providing WAM services to clients other than members of the relevant family**, and to fulfil the relevant code of conduct and statutory requirements applicable to licensed corporations. The same requirements were also applicable to investment companies or multi-FOs. To facilitate the industry's understanding of the regulatory regime in Hong Kong, SFC had **issued a circular on the licensing obligations of FOs and a quick reference guide** to provide additional guidance.

28. The Administration supplemented that **professionals of various sectors** providing services concerned to FOs were required to **conduct necessary due diligence** in compliance with the statutory requirements and relevant guidelines. Among others, the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) provided that financial institutions (including banks, SFC-licensed corporations, insurance companies, and money services operators) and designated non-financial businesses and professions (including solicitors, accountants, estate agents, and trust or company service providers) shall conduct customer due diligence, including **identifying and verifying the identity of beneficial owners**, continuously **monitoring the business relationships with customers**, as well as maintaining records. Moreover, when service providers identified any suspicious transactions, they were also under the legal obligation to report to law enforcement agencies.

29. The Administration stressed that the Government's systems and measures for combating money laundering and terrorist financing had all along **adhered to international standards and best practices**. The Administration would closely monitor the risks related to money laundering and terrorist financing, as well as developments in international standards, and would keep its systems and measures under constant review so as to safeguard the integrity and stability of Hong Kong's financial system.

30. The Administration further advised that FIHVs managed by single FOs in Hong Kong and fulfilling the minimum asset threshold of HK$240 million and the substantial activities requirement could enjoy profits tax exemption for qualifying transactions. Currently, **a series of anti-avoidance measures had been put in place** for the preferential tax regimes for single FOs and funds. For example, a business undertaking for general commercial or industrial purpose was not eligible for tax concessions with a view to avoiding abuse. The tax regimes also contained the anti-round-tripping provisions to prevent abuse or round-tripping by resident persons to take advantage of the profits tax exemption via a fund or FIHV. Meanwhile, the general anti-avoidance provisions of IRO were **also applicable to the preferential tax regimes** for **single FOs** and **funds**.

Through these provisions, IRD could address any artificial or fictitious transaction, disposition that was not in fact given effect to, and transaction entered into for the sole or dominant purpose of enabling a person to obtain a tax benefit.

Multi-family offices

31. There was a suggestion that the Administration should consider **further expanding** the scope of the preferential tax regime for FOs **to cover multi-FOs**.

32. The Administration advised that the current preferential tax regime for FOs did not cover FIHVs managed by **multi-FOs** as they **were generally independent service providers which were not owned by the relevant families**. Multi-FOs might engage in the provision of investment management services or other financial services for third parties, which were essentially no different from the business of banks, private banks and WAM companies. Furthermore, if FIHVs of different families were managed by multi-FOs, there might be difficulties in ascertaining whether the minimum asset threshold and the substantial activities requirement of the FIHVs concerned were met. It was necessary for the Administration to critically examine the actual effectiveness and related fiscal implications of further extending the tax incentives to multi-FOs. The Administration supplemented that where an **FIHV met** the definition of "**fund**" under IRO and the **qualifying transactions** were carried out or arranged in Hong Kong by an SFC-licensed corporation (including multi-FOs), currently the relevant transactions were already **eligible for tax exemption under the unified tax regime for funds**.

Relevant papers

33. A list of relevant papers on the LegCo website is in the **Appendix**.

Council Business Divisions
Legislative Council Secretariat
6 July 2026

Appendix

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

List of relevant papers

Committee	Date of meeting	Paper
Panel on Financial Affairs	7 November 2022	Agenda Item III: Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's 2022 Policy Address Minutes of meeting
	6 November 2023	Agenda Item III: Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's 2023 Policy Address Minutes of meeting
	8 July 2024	Agenda Item III: Development of family office business and implementation of the New Capital Investment Entrant Scheme Minutes of meeting
	28 October 2024	Agenda Item I: Briefing by the Secretary for Financial Services and the Treasury on the Chief Executive's 2024 Policy Address Minutes of meeting

Committee	Date of meeting	Paper
	7 July 2025	Agenda Item IV: Implementation of the New Capital Investment Entrant Scheme and measures for developing the asset and wealth management industry Minutes of meeting
	2 March 2026	Agenda Item III: Enhancements to preferential tax regimes for funds, family-owned investment holding vehicles and carried interest Minutes of meeting
Bills Committee on Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Bill 2022	2 May 2023*	Report of the Bills Committee to the Council
Finance Committee	8 April 2025	Administration's written replies to Members' initial questions on the Estimates of Expenditure 2025-2026 (Reply serial numbers: FSTB(FS)002, FSTB(FS)008, FSTB(FS)027, FSTB(FS)028, FSTB(FS)050, FSTB(FS)054, FSTB(FS)067, FSTB(FS)071, FSTB(FS)072, FSTB(FS)103, FSTB(FS)132, FSTB(FS)139, FSTB(FS)164, FSTB(FS)174, FSTB(FS)175)

Committee	Date of meeting	Paper
Finance Committee	14 April 2026	Administration's written replies to Members' initial questions on the Estimates of Expenditure 2026-2027 (Reply serial numbers: FSTB(FS)007, FSTB(FS)072, FSTB(FS)099)

* Date of issue

Council meeting	Paper
22 February 2023	Question 6: Attracting private equity funds to be domiciled and to operate in Hong Kong
24 April 2024	Question 14: Family offices set up in Hong Kong
24 April 2024	Question 15: Exploring Middle East market
12 February 2025	Question 15: Promoting development of the fund industry
2 April 2025	Question 12: Promoting the setting up of family offices in Hong Kong
25 June 2025	Question 5: Family offices
30 July 2025	Question 9: Promoting the establishment of family offices in Hong Kong
22 April 2026	Question 18: Promoting the development of the family office industry in Hong Kong