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Paper for the House Committee Meeting
on 26 June 2026

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

I. SUMMARY

1. **The Bill**	The Bill seeks to amend the Inland Revenue Ordinance (Cap. 112) 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. **Public Consultation**	The Administration conducted an industry consultation from November 2024 to January 2025 and further engagement sessions were conducted with the financial services industry in June 2025 on the legislative proposals. The financial services industry welcomed the proposals in general.
3. **Consultation with LegCo Panel**	The Panel on Financial Affairs was consulted on the legislative proposals at its meeting on 2 March 2026. Members in general supported the legislative proposals and discussed various issues with the Administration.
4. **Conclusion**	The Legal Service Division is scrutinizing the legal and drafting aspects of the Bill. Having regard to the scope of the proposed changes to the various tax concessionary regimes under Cap. 112, Members may wish to form a Bills Committee to study the Bill in detail.

II. REPORT

The date of First Reading of the Bill is 24 June 2026. Members may refer to the Legislative Council ("LegCo") Brief (File Ref.: ASST/3/1/5C(2026)) issued by the Financial Services and the Treasury Bureau on 10 June 2026 for further details.

Object of the Bill

2. The Bill seeks to amend the Inland Revenue Ordinance (Cap. 112) to (a) adjust the profits tax exemption for funds and related entities; (b) adjust the profits tax concessions for family-owned investment holding vehicles ("FIHVs") and related entities; (c) adjust the profits tax and salaries tax concessions for carried interest; and (d) provide for related matters.

Background

3. Since 2019, the Administration has introduced three sets of preferential tax regimes to provide (a) profits tax exemption in respect of profits earned by certain funds from certain transactions; (b) profits tax and salaries tax concessions for eligible carried interest distributed by eligible private equity funds in Hong Kong; and (c) profits tax concession for eligible FIHVs managed by eligible single family offices ("SFOs") in Hong Kong.[1] According to the 2025 Policy Address, the Administration would further enhance the preferential tax regimes for funds, SFOs and carried interest to attract more funds to establish a presence in Hong Kong through introducing relevant legislation.[2] The Bill is introduced to implement the enhancement measures for the relevant preferential tax regimes. Key provisions of the Bill are summarized in the ensuing paragraphs.

Provisions of the Bill

<u>Proposed changes to the profits tax concessionary regime for funds and related entities</u>

4. Under sections 20AN and 20AO of Cap. 112, funds and special purpose entities ("SPEs") of funds which are exempt from the payment of tax under section 20AN of Cap. 112 ("tax-exempted funds") are exempt from the payment of profits tax in relation to assessable profits earned from transactions in assets of a class specified in Schedule 16C to Cap. 112 ("qualifying investments") and incidental transactions (subject to a 5% limit). For the purpose of allowing more funds to benefit from preferential tax treatment, clause 3(5) of the Bill proposes to amend section 20AM(4) of Cap. 112 to expand the definition of "fund" to include e.g. pension fund and endowment fund. Clause 4 of the Bill seeks to add a new section 20AMA to Cap. 112 to require a fund to have at least two

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[1] The preferential tax regimes have been introduced upon the enactment of (a) the Inland Revenue (Profits Tax Exemption for Funds) (Amendment) Ordinance 2019 (Ord. No. 5 of 2019) which came into operation in April 2019, (b) the Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Ordinance 2021 (Ord. No. 9 of 2021) which came into operation in May 2021, and (c) the Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Ordinance 2023 (Ord. No. 8 of 2023) which came into operation in May 2023.

[2] See paragraph 101 (page 29) and item 18 of the Indicators for Specified Tasks (page 86) of the 2025 Policy Address.

qualified employees and HK$2 million operating expenditure incurred in Hong Kong as pre-conditions for profits tax exemption under section 20AN. Full tax exemption is proposed to be granted to SPE of a fund regardless of the fund's ownership in SPE (clause 6(2) and (11)).

5. To expand the scope of qualifying investments, clause 24 of the Bill seeks to amend Schedule 16C to Cap. 112 to add new classes of assets, such as loans and digital assets. Clauses 5(5), 5(11) and 6(9) of the Bill seek to provide that the 5% threshold requirement for incidental transactions would be removed to the effect that all profits derived by funds and SPEs from qualifying investments would be eligible for profits tax exemption. However, it is proposed under clauses 5(10) and 6(10) of the Bill that income[3] specified in the proposed new Schedule 16L[4] to Cap. 112 (see clause 30) would not qualify for profits tax exemption.

6. For the purpose of relaxing the "anti-round tripping" provisions[5] under Cap. 112 to facilitate investment in funds, clauses 13(7) and 14(9) of the Bill seek to add the proposed new sections 20AX(8A) and 20AY(7A) to Cap. 112 to expressly exclude investors such as a resident person[6] who is a natural person or a tax-exempted fund from the application of anti-round tripping provisions under Cap. 112. Separately, given loans are proposed to be included as qualifying investments, clauses 13(2) and 14(4) of the Bill seek to introduce specific anti-round tripping provisions (proposed new sections 20AX(4A) to (4D) and 20AY(3A) to (3D)) in relation to the treatment of profits derived by the fund or SPE from loans.

7. In order to meet the international standards for tax transparency, clause 15 of the Bill seeks to add the proposed new sections 20AZ to 20AZE to Cap. 112 to provide for a tax reporting and record-keeping mechanism for a specified fund[7] under which a person who is responsible for the management or administration of the specified fund would be required to file an initial notification and an annual notification with the Inland Revenue Department, and keep sufficient records for a period of not less than seven years after the end of the relevant assessment year.

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3 The income specified in the proposed new Schedule 16L to Cap. 112 is the income derived from shares or stocks of a private company attributable to property trading or development in respect of immovable property in Hong Kong.

4 According to the proposed amended section 20AN(5) of Cap. 112 (clause 5(12)), the proposed new Schedule 16L to Cap. 112 could be amended in future by the Commissioner of Inland Revenue by notice published in the Gazette which would be subsidiary legislation subject to the negative vetting procedure of LegCo.

5 "Anti-round tripping" rules are devised to prevent abuse of the profits tax exemption by local entities.

6 Under section 20AB(2) of Cap. 112, a person is to be regarded as a resident person if (a) the person is a natural person (that is not a trustee) who ordinarily resides in Hong Kong in the year of assessment or stays in Hong Kong for more than 180 days in the year, or more than 300 days in two consecutive years of assessment; or (b) where the person is a corporation (that is not a trustee), a partnership (that is not a trustee), or a trustee, the central management and control of the corporation/partnership/trust estate is exercised in Hong Kong in the year of assessment.

7 A specified fund refers to a tax-exempted fund or fund which has a beneficial interest in SPE that is exempt from the payment of tax under section 20AO of Cap. 112.

Proposed changes to the profits tax concessionary regime for family-owned investment holding vehicles and related entities

8. To align the tax concessionary regime for FIHVs (which is largely modelled on the regime for funds) with that for funds, clause 26 of the Bill seeks to amend various parts of Schedule 16E to Cap. 112 to adjust the profits tax concessions for FIHVs and family-owned SPEs ("FSPEs") (e.g. expanding the scope of qualifying investments, removing the 5% incidental transactions threshold and granting full profits tax exemption for FSPEs).

Proposed changes to the profits tax and salaries tax concessionary regime for eligible carried interest

9. Under Schedule 16D to Cap. 112, which provides for the tax concessionary regime for eligible carried interest,[8] tax concessions are provided to qualifying persons and qualifying employees in relation to eligible carried interest received by, or accrued to, the qualifying persons or qualifying employees from a qualifying payer (including a certified investment fund[9]), which is derived from the provision of investment management services in Hong Kong for a certified investment fund or a specified entity. Clause 25 of the Bill seeks to amend Schedule 16D to Cap. 112 to enhance the regime mainly by:

(a) removing the Monetary Authority ("MA")'s certification requirement by repealing "certified investment fund" in sections 1 and 2 of Schedule 16D to Cap. 112 to the effect that a fund would no longer be required to be certified by MA in order for the fund to become a qualifying payer (clause 25(6), (9) and (10)); and broadening the meaning of "associate" in the context of the meaning of "qualifying payer" by amending its definition in section 2 of Schedule 16D to Cap. 112 to include "a closely related entity[10] of a fund" (clause 25(9));

(b) removing the reference to "hurdle rate" (i.e. a preferred rate of return on investments stipulated in the fund's governing agreement) from the meaning of "eligible carried interest", to the effect that a sum could qualify as eligible carried interest even if the agreement does not specify a hurdle rate (clause 25(16) and (31)); and

(c) expanding the scope of source of profits giving rise to eligible carried interest beyond specific transactions (e.g. in shares, stocks issued by a private company) to cover other source of profits, including other taxable profits under Part 4 of Cap. 112 (see the proposed amended section 4(2)(c)[11] of Schedule 16D to Cap. 112 in clause 25(32)).

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[8] "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 The Innovation and Technology Venture Fund Corporation (see section 3 of Schedule 16D to Cap. 112).

[9] "Certified investment fund" refers to a fund within the meaning of section 20AM of Cap. 112 that is certified by the Monetary Authority ("MA") to be in compliance with the criteria for certification published by MA (see section 2 of Schedule 16D to Cap. 112).

[10] Under the proposed new section 2A of Schedule 16D to Cap. 112, an entity is a closely related entity of another entity if e.g. one of them has control over the other (clause 25(12)).

[11] The proposed amended section 4(2)(c) of Schedule 16D to Cap. 112 could be amended in future by the Secretary for Financial Services and the Treasury by notice published in the Gazette which would be subsidiary legislation subject to the negative vetting procedure of LegCo (see the proposed amended section 40AD(1) of Cap. 112 in clause 16).

Related amendments

10. The Bill also seeks to provide for related matters, which include providing that the amendments introduced by the Bill would apply to years of assessment beginning on or after 1 April 2025 (see the proposed new section 89(35) of and the proposed new Schedule 68 to Cap. 112 in clauses 21 and 31).

Commencement

11. The Bill, if passed, would come into operation on the day on which it is published in the Gazette as an Ordinance.

Public Consultation

12. According to paragraph 31 of the LegCo Brief, the Administration conducted an industry consultation from November 2024 to January 2025 and further engagement sessions were conducted with the financial services industry in June 2025 on the legislative proposals. The financial services industry welcomed the proposals in general and it also commented that the proposed tax reporting requirements should minimize compliance burden. The Administration has considered the industry's feedback when preparing the proposals.

Consultation with LegCo Panel

13. As advised by the Clerk to the Panel on Financial Affairs, the Administration briefed the Panel on the legislative proposals at its meeting on 2 March 2026. Whilst members were generally supportive of the proposals, they discussed various issues, including the scope and value of qualifying investments, formulation of the list of income which would not qualify for tax exemption (i.e. the proposed new Schedule 16L to Cap. 112 as mentioned in paragraph 5 above), tax-reporting mechanism and anti-round tripping provisions.

Conclusion

14. The Legal Service Division is scrutinizing the legal and drafting aspects of the Bill. Having regard to the scope of the proposed changes to the various tax concessionary regimes under Cap. 112, Members may wish to form a Bills Committee to study the Bill in detail.

Prepared by

CHENG Kiu-fung, Vanessa
Assistant Legal Adviser
Legislative Council Secretariat
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