

Hong Kong

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

As from April 2020, the Technology Voucher Program was extended to promote the wider use of technological services and solutions among local enterprises to increase their productivity, or upgrade and transform business processes. The government funding ratio was increased to three-fourths (from two-thirds), and the funding ceiling to HKD 600,000 (from HKD 400,000). The maximum number of approved projects now is six (previously four).

The government subsidizes local R&D work through the Innovation and Technology Fund (ITF), to foster technology transfer as well as the application and commercialization of R&D results.

The government is promoting reindustrialization and the development of innovation and technology infrastructure in Hong Kong through infrastructure investments, e.g., funding of HKD 2 billion to convert an old factory into a microelectronics center, and HKD 3 billion for phase 2 of the Science Park Expansion Program.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Super deduction for R&D expenditure	Super deduction for qualifying expenditure	200% or 300% of qualifying expenditure	<ul style="list-style-type: none"> Expenditure relating to staff engaged directly and actively in R&D activities Consumables used in R&D activities Payments to a designated local research institution (DLRI) 	R&D activities conducted outside Hong Kong
Capital expenditure on purchase of IP rights	Patent rights, know-how, registered designs, registered trademarks, copyrights, layout-design of an integrated circuit, plant variety rights, and performer's economic rights	Deductible 20% over five years or 100% in one year	Expenditure in relation to the purchase of IP rights	IP rights purchased from an associate, or used by another person outside Hong Kong

Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
● Consumer Products	Real Estate
Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	● Health Care
Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	● Health & Social Care
Mining & Metals	Defense, Security & Justice
● Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	Transport

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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)	●	●	● ●	National: Not applicable Local: Arrears	Enterprises conducting R&D activities inside or outside Hong Kong are eligible for a normal tax deduction; but the super deduction is limited to expenditure for qualifying activities conducted only within Hong Kong. There are two types of qualifying R&D expenditures, Type A and Type B expenditure.	Type A expenditure is eligible for a 100% tax deduction while Type B expenditure is eligible for an enhanced deduction (300% for the first HKD 2million and 200% for the remaining amount)	
R&D grant: state/province	●	●	Subsidies available at government discretion	Subsidies available at government discretion	Subsidies available at government discretion to foster technology transfer as well as the application and commercialization of R&D results.	Subsidies available at government discretion	Subsidies available at government discretion
Patent rights	●	●	● ●	National: Not applicable Local: Arrears	Tax deduction for purchase of intellectual property rights	Full deduction in the year of assessment	
Know-how	●	●	● ●	National: Not applicable Local: Arrears	Tax deduction for purchase of intellectual property rights	Full deduction in the year of assessment	
Registered designs	●	●	● ●	National: Not applicable Local: Arrears	Tax deduction for purchase of intellectual property rights	Full deduction in the year of assessment	
Registered trademarks	●	●	● ●	National: Not applicable Local: Arrears	Tax deduction for purchase of intellectual property rights	Deduction over five consecutive years on a straight-line basis starting from the year of purchase	

Key: ● = PERMANENT INCENTIVE || = TEMPORARY INCENTIVE || = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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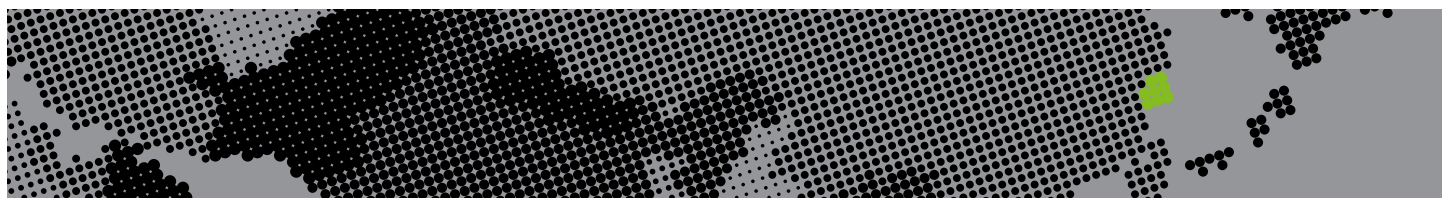
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Innovation (continued)							
Copyrights	●	●	● ●	National: Not applicable Local: Arrears	Tax deduction for purchase of intellectual property rights	Deduction over five consecutive years on a straight-line basis starting from the year of purchase	
Layout-design of an integrated circuit	●	●	● ●	National: Not applicable Local: Arrears	Tax deduction for purchase of intellectual property rights	Deduction over five consecutive years on a straight-line basis starting from the year of purchase	
Plant variety rights	●	●	● ●	National: Not applicable Local: Arrears	Tax deduction for purchase of intellectual property rights	Deduction over five consecutive years on a straight-line basis starting from the year of purchase	
Performer's economic rights	●	●	● ●	National: Not applicable Local: Arrears	Tax deduction for purchase of intellectual property rights	Deduction over five consecutive years on a straight-line basis starting from the year of purchase	
Investment							
Capex	●	●	● ●	National: Not applicable Local: Not applicable	The government is promoting reindustrialization and the development of innovation and technology infrastructure.	Negotiable (the government is currently funding 6 projects)	Negotiable (the government is currently funding 6 projects)
Grants/subsidies for reindustrialization and industry development	●	●	● ●	National: Not applicable Local: Varies	Miscellaneous programs to promote development		

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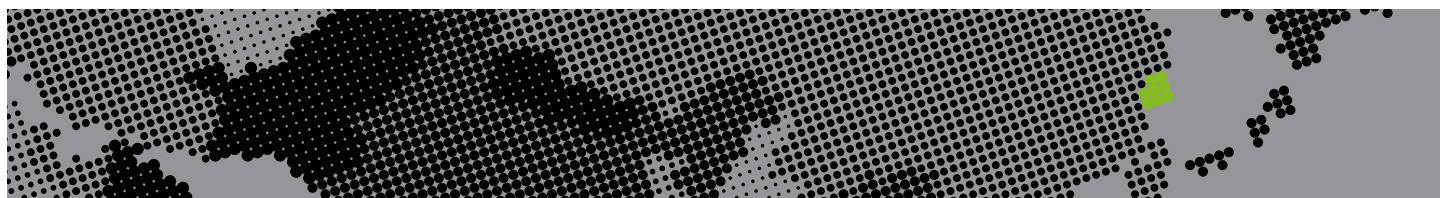
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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Environmental sustainability							
Environmentally friendly vehicles	●	●	●	Arrears	Tax deduction for purchase of environmentally friendly vehicles	Full deduction in the year of assessment	
Environmental protection machinery	●	●	●	Arrears	Tax deduction for purchase of environmental protection machinery	Full deduction in the year of assessment	
Environmental protection installation	●	●	●	Arrears	Tax deduction for installation of environmental protection facilities	Full deduction in the year of assessment	

Key: ● = PERMANENT INCENTIVE (■) = TEMPORARY INCENTIVE (■) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE



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Country background

Hong Kong adopts a territorial basis of taxation that includes a two-tiered profits tax rate regime:

- 8.25% for corporations (7.5% for unincorporated businesses) on the first HKD 2 million of assessable profits; and
- 16.5% for corporations (15% for unincorporated businesses) on the remainder of assessable profits.

Where a corporation is a partner of a partnership, the concessionary tax rate of 8.25% will apply only to the first HKD 2 million prorated by its share in the partnership.

To avoid abuse of the regime, each group of connected entities can nominate only one entity to benefit from the two-tiered tax rates.

Innovation Incentives

Research & development (R&D)

Nature of incentives

Enhanced deduction for R&D expenditure

In order to encourage R&D activities in Hong Kong an enhanced R&D

tax deduction regime was adopted for qualifying R&D expenditure incurred on or after 1 April 2018. Under the regime, there are two types of qualifying R&D expenditure; namely Type A and Type B.

Type A expenditure is eligible for a 100% tax deduction, while Type B expenditure is eligible for a deduction of 300% for the first HKD 2 million and 200% for the remaining qualifying expenditure. There is no cap on the amount of the enhanced deduction.

Type A expenditure generally refers to expenditure on an R&D activity that does not qualify for the Type B super deduction; including, for example, payments made to an R&D institution that is not a designated local research institution (DLRI).¹ Type B expenditure is limited to payments to a DLRI to conduct qualifying R&D activities, salaries for employees who conduct qualifying R&D activities, and the cost of supplies consumed in in-house qualifying R&D activities.

The following table summarizes the rules for the deduction for qualifying R&D expenditure:

	Type A	Type B
Deduction	100%	300% for the first HKD 2million; 200% for the remaining amount
R&D activities	Activities related to R&D that do not qualify as a Type B expenditure. ²	<ul style="list-style-type: none"> • An activity in the fields of natural or applied science to extend knowledge; • Investigation for gaining new scientific or technical knowledge; • Application of research findings for new products, processes or services, etc.
Location of R&D activities	In or outside Hong Kong	Wholly in Hong Kong
In-house expenditure	Expenditure on an R&D activity; including capital expenditure (other than Type B).	<ul style="list-style-type: none"> • Expenditure in relation to an employee³ who is engaged directly and actively⁴ in an R&D activity; and • Expenditure on consumables used directly⁵ in an R&D activity.
Outsource payments	A DLRI or a university or college (other than a DLRI). The Inland Revenue Department by concession allows a deduction for payments to other subcontractors provided that they do not exceed either 20% of the total costs of the R&D project or HKD 2 million	Only an expenditure to a DLRI for qualified R&D.
Nonqualifying expenditure	Nonqualifying expenditures are specified in footnote 6.	Nonqualifying expenditures are specified in footnote 6.
Instances where deduction would be apportioned	See footnote 7.	

1. A Designated Local Research Institution means any local institution (including colleges, universities, etc.) which performs qualifying R&D activities in Hong Kong and is designated as such by the Commissioner for Innovation and Technology (CIT)

2. Examples of R&D activities excluded from Type B expenditure include:

- Feasibility studies, market research, and sales promotion;
- Application of publicly available research findings;
- Activities that do not contribute to achieving an advance in science or technology; and
- Development of a non-scientific or nontechnological aspect of a new product, process, or service etc.

3. Excludes any remuneration of a director (as defined in section 2(1) of the Companies Ordinance). Where an individual occupies a dual role both as a director and as an employee directly and actively engaged in a qualifying R&D activity, an apportionment of the director's remuneration may be allowed.

4. An employee who provides services in support of the R&D activity is not regarded as engaged directly and actively in that activity. Examples of support services include accounting, administration, and secretarial services.

5. Consumables used in providing services in support of the R&D activity are not regarded as used directly and actively in that activity.

6. The following types of expenditure are not eligible for a deduction:

- Acquisition of the rights generated from an R&D activity;
- Expenditure on land or buildings;
- Expenditure related to R&D activity undertaken on behalf of another person or where the rights generated are not fully vested;
- Expenditure paid or reimbursed by the government or another person; or
- Where the main purpose, or one of the main purposes of the expenditure is to obtain a tax deduction

7. In the following instances the deductible expenditure would be allocated to the activities occurring within and outside of Hong Kong:

- R&D activity is conducted outside HK and relates to a business partly operated outside Hong Kong;
- The employee is only partly engaged directly in the R&D activity; or
- The consumable item is only partly used directly in the R&D activity.

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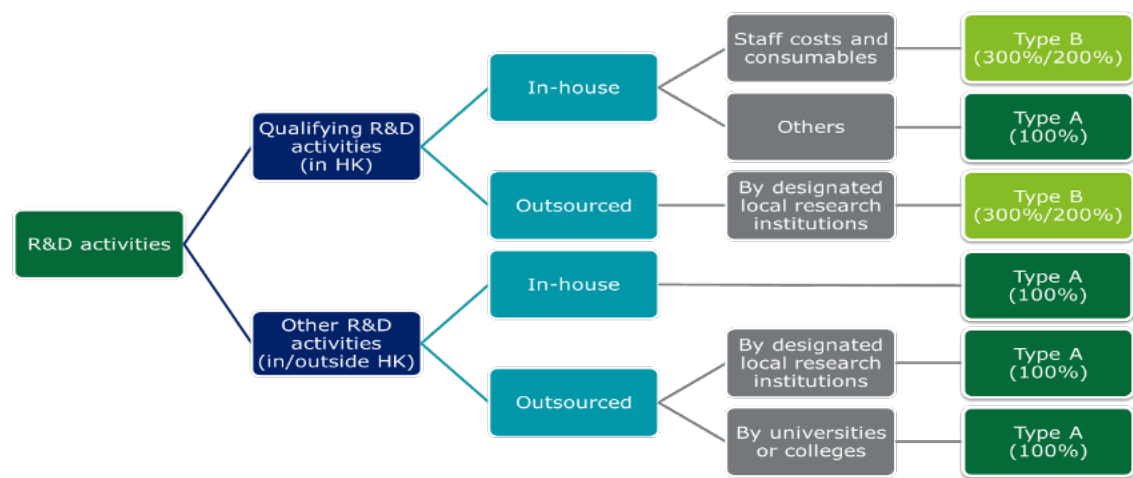
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The following diagram illustrates the applicability of the Type A and Type B deductions for qualifying R&D expenditure:



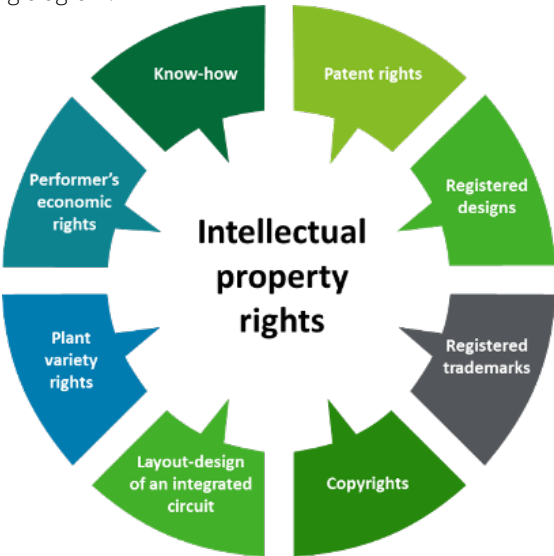
Subsidies for local R&D work

The government also is subsidizing local R&D work through the Innovation and Technology Fund (ITF) to foster technology transfer as well as the application and commercialization of R&D results.

Deduction of capital expenditure for the purchase of intellectual property (IP) rights

Nature of incentives

In general, expenditure incurred for the purchase of IP rights is capital in nature and nondeductible. To encourage the development of Hong Kong as an IP hub, Hong Kong offers specific tax deductions for the purchase of eight types of IP rights, as illustrated in the following diagram.



The full amount of capital expenditure on the purchase of patents and know-how is eligible for a one-time deduction from assessable profits, provided that the patent rights or know-how were not purchased wholly or partly from an associate. For other IP rights (i.e., registered designs, registered trademarks, copyrights, layout-design of an integrated circuit, plant variety rights, and performer's economic rights), the capital expenditure on the purchase is deductible over five consecutive years on a straight-line basis starting from the year of purchase. Where the IP is a copyright or a registered design with an expiry period of less than five years, the cost of acquisition is deducted equally over the remainder of the period.

Where IP rights are purchased partly for use in Hong Kong, and partly for use outside Hong Kong, a deduction is allowed only for that part of the expenditure which is reasonable and appropriate according to the extent of the IP rights in Hong Kong.

No deduction is available where the IP rights are purchased from an associate or used by another person outside Hong Kong.

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Investment incentives

CAPEX: Developing innovation and technology infrastructure

The government is promoting reindustrialization and the development of innovation and technology infrastructure in Hong Kong by funding infrastructure investments, e.g., funding of HKD 2 billion to convert an old factory into a microelectronics center, and HKD 3 billion for phase 2 of the Science Park Expansion Program.

Grants/subsidies for reindustrialization and industry development

As from April 2020, the Technology Voucher Program was extended to promote the wider use of technological services and solutions among local enterprises to increase their productivity, or upgrade and transform business processes. The government funding ratio was increased to three-fourths (from two-thirds), and the funding ceiling to HKD 600,000 (from HKD 400,000). The maximum number of approved projects now is six (previously four).

Environmental sustainability incentives

Deduction of capital expenditure for environmental protection facilities

In order to promote a “green economy” and to improve the environment, capital expenditure for the provision of any environmental protection machinery, environmentally friendly vehicles, and environmental protection installations is allowable in full in the basis period for the year of assessment in which it was incurred.

