# Hong Kong Tax Newsflash
# Proposed new tax concession for commodity trading business

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Following the 2024 Policy Address and the 2025-26 Budget Speech[1], the government recently released an administration paper to introduce a half-rate tax concessionary regime for commodity trading business and to enhance the existing tax concessions for the maritime service industry. The government plans to introduce the amendment bill into the Legislative Council within the first half of 2026 and apply the tax concessions for the years of assessment beginning on or after 1 April 2025.

The proposed tax concessions for commodity trading business aim to attract physical commodity traders to establish or expand their businesses in Hong Kong, thereby driving the development of the maritime service industry. This article sets out the key features of the proposed tax concessions for commodity trading business. The key features of the proposed enhancements to the tax concessions for the maritime service industry will be covered in a separate Tax Newsflash.

## Key features of the proposed tax concession regime

### Concessionary tax rate

The proposed profits tax concession for commodity trading business applies to assessable profits derived by qualifying physical commodity traders from qualifying physical commodity trading activities. The applicable tax rate is reduced by half i.e., 8.25%. An additional option of 15% tax rate is available for Pillar Two in-scope enterprises[2] to make an annual election.

Income incidental to qualifying trading activities, such as interest income, foreign exchange gains, or hedging gains, of a qualifying physical commodity trader would also be included as qualifying profits.

Eligible enterprises must fulfil the minimum annual business turnover requirement, minimum requirements on the use of Hong Kong maritime services, and economic substance requirements below.

### Qualifying physical commodity traders

- Central management and control in Hong Kong;

[1] For details, please refer to our Hong Kong Tax Analysis H119/2025
[2] A multinational enterprise group with an annual consolidated revenue of not less than EUR 750 million

- Only carry out qualifying physical commodity trading activities, otherwise satisfy the safe harbour rule (i.e. not less than 75% of all its profits and assets being physical commodity trading profits and physical commodity trading assets); and
- Carry out qualifying physical commodity trading activities by itself or arrange these activities to be carried out in Hong Kong, rather than through a permanent establishment outside Hong Kong.

### Qualifying physical commodity trading activities

- Physical commodity trading activity refers to buying and / or selling of a qualifying physical commodity item that results in the physical delivery of that item.
- The activities include soliciting qualifying physical commodity item, soliciting buyer and / or seller, setting and agreeing the buying and / or selling terms, obtaining finance, making arrangements for the transportation, arranging insurance for the transportation etc.
- Such activities must be carried out in the ordinary course of business in Hong Kong with contracts effected in Hong Kong.
- Solicitation for self-consumption is not qualified.

### Qualifying physical commodity items

A list of specified items (total 55) categorized into:
- Energy and industrial commodities[3];
- Agricultural commodities[4]; and
- Metal mine commodities[5].

### Minimum annual business turnover requirement

The total annual income derived from qualifying physical commodity trading activities must not be less than HKD 700 million.

### Minimum requirements on the use of Hong Kong maritime services

At least part of the expenditure on specified maritime services[6] should be incurred on services provided by Hong Kong-based service providers[7], either:
- 30% of the expenditure on any of the specified maritime services in aggregate, or
- 50% of the expenditure on one of the specified maritime services.

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[3] Energy and industrial commodities include crude oil, natural gas, gasoline, heating oil, liquefied petroleum gas, coal, bitumen, diesel, fuel oil, naphtha, rubber, urea, woodpulp, metallurgical coke, petroleum coke, hydrogen, green methanol, biofuel and ammonia.
[4] Agricultural commodities include wheat, corn, soybeans, coffee, sugar, cotton, soybean oil, lumber, oats, palm olein, rough rice, cocoa and canola.
[5] Metal Mine Commodities include copper, aluminium, zinc, nickel, iron ore, lithium carbonate, lithium hydroxide, cobalt hydroxide, cobalt metal, bauxite, aluminium metal, aluminium oxide, gold ore and concentrates, hot-rolled coils, lead, molybdenum, stainless steel, steel, tin, titanium, magnesium, antimony and silicon.
[6] "Specified maritime service" means any service provided for, or in connection with the following: ship leasing activity, ship leasing management activity, ship agency activity, ship management activity, ship broking activity, freight booking, ship repairing, ship tug-and-tow, maritime legal services (provided that Hong Kong is specified as the place of arbitration of maritime-related disputes) and marine insurance.
[7] Hong Kong-based service provider refers to a person whose business is registered in accordance with the Business Registration Ordinance.

## Economic substance requirements

The proposed minimum requirements of employees and operating expenditure are as follows:

| Tax rate | Number of full-time employees in Hong Kong | Annual operating expenditure in Hong Kong |
|---|---|---|
| **8.25%** | Not less than 3 | Not less than HKD 3 million |
| **15%** | Not less than 1 | Not less than HKD 1 million |

## Legislative timeline

The government plans to introduce the amendment bill into the Legislative Council within the first half of 2026 and apply the tax concessions from the year of assessment 2025/26.

## Our observations

We welcome the introduction of the tax concessions for commodity trading business as it is expected to attract physical commodity traders to establish or expand their businesses in Hong Kong. The development of the commodity trading ecosystem and the maritime services sector is closely intertwined. Physical commodity trading accounts for more than half of the global shipping trade volume, and commodity traders are significant users of maritime services.

The main purpose of the new tax concession is to drive the development of the maritime services sector in Hong Kong. To ensure this objective can be achieved, the government proposes a minimum requirement for the use of Hong Kong-based maritime services. This requirement encourages the growth of local maritime service providers and enhances the overall maritime ecosystem in Hong Kong. Therefore, it is a positive step towards strengthening Hong Kong's position as an international maritime centre.

This proposal is flexible and comprehensive, and in particular it addresses the impact of the OECD Pillar Two rules by providing an option for enterprises subject to these rules to adopt a 15% tax rate i.e., the global minimum tax rate. Even though Pillar Two in-scope enterprises may not be able to fully enjoy the benefits from the new tax concessions, such an option provides flexibility to the multinational enterprise group in complying with international tax standards.



## Authors

**Doris Chik**
Tax Partner
+852 2852 6608
dchik@deloitte.com.hk

**Carmen Cheung**
Senior Tax Manager
+852 2740 8660
carmcheung@deloitte.com.hk

**Kiwi Fung**
Tax Manager
+852 2258 6162
kifung@deloitte.com.hk

For more information, please contact:


Business Tax Services
National Leader
**Jessie Wang**
Tax Partner
+86 10 8512 4077
jeswang@deloittecn.com.cn

Southern Region Leader
**Winnie Shek**
Tax Partner
+852 2852 1258
winniewmshek@deloitte.com.hk

Tax & Business Advisory
Southern Region Leader
**Jennifer Zhang**
Tax Partner
+86 20 2885 8608
jenzhang@deloittecn.com.cn

Hong Kong Leader
**Anthony Lau**
Tax Partner
+852 2852 1082
antlau@deloitte.com.hk

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