



Hong Kong Tax Newsflash

Draft legislation on enhancement proposals for preferential tax regimes for asset and wealth management industry gazetted

Hong Kong | Tax & Business Advisory | 12 June 2026 | Issue 271

The Bill¹ to enhance the preferential tax regimes for funds, family-owned investment holding vehicles (FIHVs) managed by single family offices, and carried interest has been published in the Gazette today. The enhanced provisions will take retroactive effect from the year of assessment 2025/26. As a transitional administrative measure, the Inland Revenue Department (IRD) agrees that taxpayers who are eligible for the tax exemption or concession proposed under the Bill may submit their tax returns for the year of assessment 2025/26 on that basis, even before the enactment of the legislation.

The government initially announced its plan to enhance the preferential tax regimes for the asset and wealth management industry in the 2024-25 Budget. Following the consultation exercise and engagement sessions conducted in late-2024 to mid-2025, the proposed enhancements were refined². In the Bill, minor amendments were further introduced. The key enhancement measures are set out below.

Unified fund exemption (UFE)

The current regime provides profits tax exemptions on profits earned by funds or special purpose entities (SPEs) owned by a tax-exempt fund from qualifying transactions and incidental transactions (subject to a 5% threshold), subject to certain conditions. The specific enhancement measures are as follows:

Expanding the definition of fund

- Expanding the scope of funds under the UFE regime to cover:
 - Pension funds
 - endowment funds, including charitable entities that are exempt from tax under Section 88 of the Inland Revenue Ordinance
 - a fund with a governmental entity or a central bank or an international organisation as its sole investor
 - an arrangement with only one investor and with the value of qualifying investments (i.e. Schedule 16C assets) under management of at least HKD 240 million³, provided that the investor does not have day-to-day control over the management of the property

¹ [Inland Revenue \(Amendment\) \(Preferential Tax Regimes for Funds, Family-Owned Investment Holding Vehicles and Carried Interest\) Bill 2026](#)

² For details, please refer to our Tax Newsflash [Issue 229](#) and [Issue 260](#).

³ Loans from participating persons need not be deducted from the calculation of the value of the qualifying investments managed. However, loans from parties other than participating persons (e.g. bank loans) will still be deducted.

All the above newly scoped-in funds, as well as sovereign wealth funds (excepted funds) do not need to be managed by a specified person⁴.

- Explicitly stating that transacting in or deriving profits from Schedule 16C assets (and non-Schedule 16C assets for open-ended fund company) will not by itself render an entity to be regarded as a business undertaking for general commercial or industrial purposes⁵

Broadening the coverage of qualifying investments

- Broadening 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 entities⁶
 - Loans and private credit investments
 - Digital assets (excluding a cryptographically secured digital representation which provides an interest in any underlying asset other than Hong Kong dollar or in non-Schedule 16C assets)
 - Precious metals (limited to 20% of the total investment portfolio)
 - Specified commodities (i.e. those in connection with and incidental to the trading of over-the-counter derivative products or futures contracts) with a 15% trade volume cap⁷

The previous consultation included modifying the coverage of “private company” to include companies of which shares or debentures are not traded on any stock exchange at the time when an income eligible for the profits tax exemption is derived by the fund or SPE. However, such proposal is not reflected in the Bill.

Relaxing profits eligible for profits tax exemptions

- Removing the 5% threshold for incidental transactions, i.e. all profits derived from qualifying investments would be eligible for the tax exemption
- Introducing an exclusion list for tax exemption, e.g. income derived from shares or stocks of private companies that engage in trading or development of immovable properties in Hong Kong⁸

Enhancing treatment of SPEs

- Expanding the scope of SPEs’ activities⁹ to cover the acquisition, holding, administering and disposal of investee private companies and/or another SPE and activities incidental to the above activities

⁴ A corporation licensed under Part V of the Securities and Futures Ordinance 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.

⁵ A business undertaking for general commercial or industrial purposes is not a fund and ineligible for tax exemption. Under the current rule, 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.

⁶ E.g. business trusts, private trusts, partnerships, limited liability companies, Tokumei Kumiai and Tokutei Mokuteki Kaisha.

⁷ The trade volume must 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.

⁸ 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.

⁹ Limited to holding and administering Schedule 16C assets or investee private companies under the current regime.

- Granting full tax exemption to a fund's SPE regardless of the extent of the fund's ownership¹⁰, subject to anti-round tripping rules (see below)

Adjusting the tests applicable to transactions in private companies

- Adjusting the scope of the immovable property test (i.e. whether the relevant company holds immovable property in Hong Kong), holding period test (i.e. period of holding the relevant company), control test (i.e. whether the fund controls the relevant company) and short-term asset test (i.e. the level of short-term assets held by the relevant company) to **equity** investment/interest in private companies and non-corporate private entities¹¹

Relaxing anti-round tripping rule¹²

- Excluding the following persons from the application of the anti-round tripping provisions:
 - A resident person who is a natural person
 - A tax-exempt resident fund under the UFE regime (exempted fund)
 - A resident person who is not chargeable to profits tax or whose profits derived from qualifying investments would not have been included in the person's assessable profits if the assets had been held by the person, or the transaction in those assets had been undertaken directly by the person (exempted person), e.g. life insurance corporations
 - A resident entity which:
 - is not a business undertaking for general commercial or industrial purpose;
 - does not carry on any trade or business in Hong Kong; and
 - at least 95% of beneficial interest of which is owned by resident individuals, exempted funds, exempted persons or non-residents.
- Introducing specific anti-round tripping provisions against financial institutions, insurance companies, and persons carrying on a money lending business or an intragroup financing business in respect of profits derived from loans. If the relevant person:
 - has beneficial interest of 20% or more in a fund (or any percentage if the fund is the person's associate); or
 - has control or significant influence over a fund,
 the relevant person will be deemed to have derived assessable profits in respect of profits derived by the fund from loans.
- If the distribution or increase in value of the fund or SPE is included the person's assessable profits, the amount regarded as the person's assessable profits under the anti-round tripping provision would be reduced.

Implementing tax reporting mechanism

- Implementing a tax reporting mechanism for funds and SPEs benefiting from the UFE regime to report certain accounting data and information showing that the tax exemption conditions and substantial activities requirements are satisfied

¹⁰ Currently, the extent of tax exemption for a fund's SPE is equal to the percentage of the fund's ownership in the SPE.

¹¹ The current rule of investments in private companies include both equity and debt investments.

¹² Under the current UFE regime, a resident person who, either alone or jointly with his associates, has a beneficial interest of 30% or more in a tax-exempt fund (or any percentage if the fund is the resident person's associate) will be deemed to have derived assessable profits in respect of the profits earned by the fund from the qualifying transactions and incidental transactions that exempted from tax under the UFE regime.

- Aggregate reporting is used for key financial and economic substance requirements across funds and SPEs managed by the fund manager
- A transitional arrangement will be provided for the first year of implementation (i.e. 2025/26) to extend the filing deadline.

Introducing substantial activities requirement thresholds

- Average number of qualified employees is adequate and not less than 2; and
- Annual operating expenditure incurred in Hong Kong is adequate and not less than HKD 2 million.

FIHVs managed by single family offices

The current regime provides profits tax exemptions on profits of FIHVs and family-owned SPEs managed by single family offices arising from qualifying transactions and incidental transactions (subject to 5% threshold), subject to certain conditions.

The following enhancements under the UFE regime also apply to FIHVs:

- Broadening the coverage of qualifying investments
- Relaxing profits eligible for profits tax exemptions
- Enhancing treatment of SPEs
- Adjusting the tests applicable to transactions in private companies
- Introducing specific anti-round tripping provisions against financial institutions, insurance companies, persons carrying on a money lending business or an intragroup financing business in respect of profits derived from loans

In addition, the basis for determining assets under management (AUM) by a single family office¹³ has been changed from net asset value (NAV) to the asset value of Schedule 16C assets. Loans from holders of direct beneficial interest will not need to be deducted from the calculation of the value of qualifying investments managed¹⁴.

Carried interest

The current regime provides profits tax and salaries tax exemptions on eligible carried interests, subject to certain conditions. The specific enhancement measures are as follows:

- Removing the requirement for a fund to obtain Hong Kong Monetary Authority's certification before becoming a qualifying payer¹⁵
- Expanding the definition of "qualifying person"¹⁶ to cover unlicensed fund managers of excepted funds under the UFE regime

¹³ To qualify for tax concessions under the single family office regime, the value of Schedule 16C assets managed by an eligible single family office for FIHVs must be at least HKD 240 million.

¹⁴ per [Legislative Council brief](#) footnote 5

¹⁵ Carried interest eligible for profits tax concession should be received from a "qualifying payer", which includes fund and the associated corporation/associated partnership of the fund.

¹⁶ A "qualifying person" can receive and accrue eligible carried interest from a "qualifying payer".

- Broadening the coverage of “associate” under the definitions of “qualifying payers” / “qualifying employees”¹⁷ to cover entities within the same group of the fund / investment managers (regardless of their legal forms¹⁸)
- Removing the requirement to distribute carried interest through the qualifying person and specifying that carried interest received by a personal investment company on behalf of qualifying employees is eligible for tax exemption
- Revising the definition of eligible carried interest¹⁹:
 - Removing the reference to a hurdle rate
 - Specifying a qualifying person or qualifying employee to have a specified right in respect of a fund’s profits which is not attributable to capital contribution and is not discretionary
- Expanding the coverage of the sources of profits of a fund which may give rise to eligible carried interest²⁰, including:
 - A fund’s tax-exempt profits under the UFE regime
 - A fund’s other non-taxable income, e.g. offshore income
 - A fund’s other taxable income, e.g. income specified in the proposed exclusion list

Our observation

We welcome the publication of the Bill to enhance the preferential tax regimes for funds, FIHVs managed by single family offices, and carried interest. These reforms represent a significant step forward in reinforcing Hong Kong’s position as a leading global wealth management hub by improving accessibility and addressing longstanding industry concerns.

The government has taken into account the feedback from the stakeholders (including Deloitte) and reflected those in the Bill. In particular, the Bill has addressed financial institutions’ concern on potential double taxation under the operation of the anti-round tripping provisions. If the distribution or increase in value of the fund or SPE is included the person’s assessable profits, the amount regarded as the person’s assessable profits under the anti-round tripping provision would be reduced.

However, certain issues are not explicitly reflected in the Bill and further clarifications may be required in the form of the IRD’s guidance. For instance, the Bill did not define the point in time for valuation of the assets under management by a fund-of-one arrangement. It is uncertain whether a look-back period approach should be adopted, consistent with the treatment under the single family office regime. We also recommend that the IRD issue guidance on the acceptable basis of valuation, e.g. values reflected in audited financial statements or independent valuation reports.

¹⁷ “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.

¹⁸ Limited to corporation and partnership under the current regime.

¹⁹ Currently, eligible carried interest is defined as 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 fund. Generally, the sum is to be received or accrued after the payment of a return on investments in the fund subject to the fulfilment of the hurdle rate stipulated in the agreement governing the operation of the fund.

²⁰ Under the current regime, eligible carried interest must arise from transactions in the Schedule 16C assets of a private company, an SPE or an interposed SPE, an investee private company or transactions incidental to the carrying out of the transactions above.

The Bill did not adjust the definition of “infrastructure” that is carved out from the immovable property test for private company investments. Without this adjustment, some new infrastructure (e.g. data infrastructure and logistic centres) may be treated as immovable property, potentially disqualifying funds from tax benefits.

We look forward to seeing the forthcoming administrative guidance on the operational details of the new regimes, such as the substance requirements under the UFE, the interpretation of “significant influence” in the anti-round tripping rules, and the implementation of the new reporting mechanism. Clear, practical and timely guidance will be critical to ensure consistent application.

As the enhancements are set to apply from the year of assessment 2025/26, stakeholders are encouraged to review their current structures and investment arrangements promptly to assess eligibility for the expanded tax benefits. Early planning and proactive engagement with advisers will be key to maximizing the advantages of the enhanced regimes and ensuring compliance with any new obligations. The preparation of a detailed roadmap and the implementation of internal processes to ensure entitlement to the carried interest exemption throughout the lifecycle of a fund will also require careful consideration.

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