



## Hong Kong Tax Newsflash

# Draft legislation on tax concessions for physical commodity trading and shipping-related activities gazetted

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The Bill<sup>1</sup>, which seeks to (i) introduce a new half-rate tax concession regime for qualifying physical commodity traders and (ii) enhance the existing tax concessions for shipping-related activities, was gazetted on 12 June 2026. The new half-rate tax concession aims to attract commodity traders to establish or expand their businesses in Hong Kong, thereby stimulating demand and driving momentum in the maritime services sector. The enhancement of the existing shipping-related tax concessions aims to maintain Hong Kong's competitiveness as an international maritime centre amid evolving international tax rules.

The initiative to strengthen Hong Kong's tax regime in support of the maritime industry was first announced in the 2024 Policy Address and has since been reaffirmed in subsequent Policy Addresses and Budget Speeches. In July 2025, the government released an administration paper<sup>2</sup> outlining the legislative proposals. Upon enactment of the Bill, the proposed new tax concession and enhancement measures would apply to years of assessment beginning on or after 1 April 2025.

Key features of the proposed new tax concession and enhancement are summarised below.

### New tax concession for physical commodity trading

Commodity trading involves the buying and selling of physical commodities that result in the actual transport and delivery of the commodities. Such activities include soliciting physical commodity, soliciting purchaser and seller, setting and agreeing the purchase and sale terms, obtaining finance, executing contracts, arranging transportation and insurance for the transportation. However, any activity of wholesaling or retailing is excluded.

#### Concessionary tax rate 8.25%

The proposed profits tax concession for commodity trading business will apply to assessable profits derived by **qualifying traders** from **qualifying physical commodity trading activities**. The applicable tax rate will be reduced by half to 8.25% upon annual election. Enterprises within the scope of Pillar Two<sup>3</sup> will have the option to elect an alternative 15% tax rate.

Income incidental to qualifying trading activities, such as foreign exchange gains, hedging gains, etc. of a qualifying trader will also be regarded as qualifying profits.

<sup>1</sup> [Inland Revenue \(Amendment\) \(Tax Concessions for Shipping-related Activities and Physical Commodity Trading\) Bill 2026](#)

<sup>2</sup> For details, please refer to our Hong Kong Tax Newsflash [Issue 245](#) and [Issue 246](#).

<sup>3</sup> A multinational enterprise group with an annual consolidated revenue of not less than EUR 750 million in at least two of the four fiscal years immediately preceding the current fiscal year.

## Qualifying traders

A qualifying trader is a corporation that satisfies all of the following conditions:

- Central management and control exercised in Hong Kong;
- Total revenue from qualifying trading activities of not less than HKD 700 million;
- Either (a) carries out only qualifying trading activities, or (b) satisfies the safe harbour rule (i.e. not less than 75% of its profits and assets are derived from and used for qualifying trading activities); and
- Carries out qualifying trading activities by itself or arranges for them to be carried out in Hong Kong, rather than through a permanent establishment outside Hong Kong. An activity will not be considered as carried out in Hong Kong unless both the **specified maritime services expenditure requirement** and the **economic substance requirements** are met (as detailed below).

## Qualifying trading activities

- The commodity trading activity must be carried out in the ordinary course of a trader's business in Hong Kong.
- The purchase and sale contracts of the physical commodity must be effected in Hong Kong.

## Qualifying physical commodities

The list of qualifying physical commodities comprises 55 specified items, categorized into the following groups:

- Energy or industrial commodities<sup>4</sup>;
- Agricultural commodities<sup>5</sup>; and
- Metal mine commodities<sup>6</sup>.

## Specified maritime services expenditure requirement

A qualifying trader must incur expenditure on specified maritime services<sup>7</sup> (specified expenditure) as follows:

- If the specified expenditure relates to one specified matter, at least 30% must be incurred on services provided by Hong Kong-based service providers<sup>8</sup>.
- If the specified expenditure relates to more than one specified matter:
  - at least 30% of the aggregate specified expenditure is incurred on services provided by Hong Kong-based providers; or
  - at least 50% of the specified expenditure for one of the specified matters is incurred on services provided by Hong Kong-based providers.

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<sup>4</sup> Energy or industrial commodities include ammonia, biofuel, bitumen, coal, crude oil, diesel, fuel oil, gasoline, green methanol, heating oil, hydrogen, liquefied petroleum gas, metallurgical coke, naphtha, natural gas, petroleum coke, rubber, urea and wood pulp.

<sup>5</sup> Agricultural commodities include canola, cocoa, coffee, corn, cotton, lumber, oats, palm olein, rough rice, soybean oil, soybeans, sugar and wheat.

<sup>6</sup> Metal mine commodities include aluminium metal, aluminium oxide, antimony, bauxite, chrome ore, cobalt hydroxide, cobalt metal, copper, ferro chrome, gold ore and concentrates, hot-rolled coils, iron ore, lead, lithium carbonate, lithium hydroxide, magnesium, molybdenum, nickel, silicon, steel, tin, titanium and zinc.

<sup>7</sup> Specified maritime services include (a) ocean freight booking or chartering; (b) marine cargo insurance; (c) ship agency activity; (d) ship broking activity; (e) ship leasing activity; (f) ship leasing management activity; (g) ship management activity; (h) ship repairing; (i) ship tug-and-tow; (j) specified arbitration related service; and (k) specified legal service.

<sup>8</sup> A person is a Hong Kong-based service provider if the person carries on a business in Hong Kong to provide specified maritime services and is registered in accordance with the Business Registration Ordinance.

For example, if a commodity trader incurs expenditure on only one specified matter, such as ship leasing, at least 30% of that expenditure must be incurred on services provided by Hong Kong-based service providers. If the trader incurs expenditure on more than one specified matter, such as both ship leasing and cargo insurance, then either (1) at least 30% of the total expenditure must be spent with Hong Kong-based providers; or (2) at least 50% of the expenditure on one of those matters (e.g., ship leasing or cargo insurance) must be spent with Hong Kong-based providers.

### **Economic substance requirements**

The proposed minimum thresholds for employees and operating expenditure in Hong Kong are as follows:

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

### **Enhancements to the existing tax concessions for shipping-related activities**

In recent years, the government has introduced a series of tax concessionary measures to enhance the competitiveness of the maritime service sector in Hong Kong. These include:

- **Ship lessors:** A full profits tax exemption for qualifying ship lessors since the year of assessment 2020/21 – qualifying ship lessors can enjoy a concessionary tax rate of 0% on profits derived from qualifying ship leasing activities, subject to certain conditions and threshold requirements.
- **Ship leasing managers:** A profits tax concession for qualifying ship leasing managers since the year of assessment 2020/21 – qualifying ship leasing managers can enjoy a concessionary tax rate of 0% / 8.25% on profits derived from qualifying ship leasing management activities to associated / non-associated qualifying ship lessors, subject to certain conditions and threshold requirements.
- **Shipping commercial principals:** A profits tax concession for qualifying shipping commercial principals (i.e., ship agents, ship managers and ship brokers) since the year of assessment 2022/23 – qualifying shipping commercial principals can enjoy a concessionary tax rate of 8.25% on profits derived from qualifying activities, subject to certain conditions and threshold requirements. The concessionary tax rate is 0% for profits from qualifying activities carried out for an associated qualifying ship lessor / leasing manager.

Given that the implementation of the OECD Pillar Two rules<sup>9</sup> may neutralize the effectiveness of the current tax concessions, the government has proposed the following enhancements to maintain Hong Kong's attractiveness and leading position as an international maritime centre.

### **Introducing an additional option of a 15% concessionary tax rate**

- An additional 15% tax rate option for qualified ship lessors, ship leasing managers, ship agents, ship managers and ship brokers is introduced, while maintaining the original concessionary tax rate. Qualifying enterprises can elect their preferred profits tax rate every year, subject to certain safeguards.

<sup>9</sup> A multinational enterprise group with an annual consolidated revenue of not less than EUR 750 million in at least two of the four fiscal years immediately preceding the current fiscal year will be subject to a global minimum effective tax rate of 15% in each jurisdiction in which they operate.

- Lowering the threshold requirements<sup>10</sup> for enterprises subject to the 15% tax rate.
- Introducing anti-abuse measures regarding loss set-off mechanism.

### *Relaxing the definitions for ship leasing*

- Removing the one-year term restriction on operating lease and funding lease.
- Extending the scope of lessees to any person. The current regime limited the leasing of a ship only to a ship lessor, ship leasing manager or ship operator.

### *Introducing a new tax deduction on ship acquisition costs for ship lessors*

- New tax deduction on ship acquisition costs for qualifying ship lessors under operating leases is introduced, replacing the 20% tax base concession.
- The deduction will apply to all ships purchased before and after the effective date of the legislative amendments, with adjustments for pre-existing ships.
- Proceeds from the sale of a ship for which a tax deduction has been granted will be deemed as trading receipts, up to the amount of deductions allowed.
- Anti-abuse measures regarding intra-group transfer of ships are introduced.

### *Expanding the scope for tax deduction on interest expenses for ship lessors*

- Expanding the tax deduction to include interest expenses incurred by qualifying ship lessors for acquiring ships by borrowing from overseas non-associated and associated financiers who pay similar taxes<sup>11</sup> outside Hong Kong.

## Legislative timeline

The Bill is scheduled for its first reading in the Legislative Council on 24 June 2026. Upon enactment, the proposed new tax concession and enhancement measures would apply to years of assessment beginning on or after 1 April 2025.

## Our observation

We welcome the government's proactive approach in enhancing the competitiveness of Hong Kong's maritime and physical commodity trading sectors through targeted tax incentives. The development of these two sectors

<sup>10</sup> The existing requirements and the proposed lower threshold requirements for the 15% tax rate are as follows:

	Current requirements for the 0% / 8.25% tax rate	Lower requirements for the 15% tax rate
Ship lessors	<ul style="list-style-type: none"> <li>• Employ at least 2 employees</li> <li>• Incur annual operating expenditure ≥ HKD 7.8 million</li> </ul>	<ul style="list-style-type: none"> <li>• Employ at least 1 employee</li> <li>• Incur annual operating expenditure ≥ HKD 3.9 million</li> </ul>
Ship leasing managers	<ul style="list-style-type: none"> <li>• Employ at least 1 employee</li> <li>• Incur annual operating expenditure ≥ HKD 1 million</li> </ul>	<ul style="list-style-type: none"> <li>• Employ at least 1 employee</li> <li>• Incur annual operating expenditure ≥ HKD 0.5 million</li> </ul>
Shipping commercial principals	<ul style="list-style-type: none"> <li>• Employ at least 1 employee</li> <li>• Incur annual operating expenditure ≥ HKD 1 million</li> </ul>	<ul style="list-style-type: none"> <li>• Employ at least 1 employee</li> <li>• Incur annual operating expenditure ≥ HKD 0.5 million</li> </ul>

<sup>11</sup> at a tax rate not lower than 15%

is inherently interconnected, and we believe the proposed tax concessions will create a synergistic effect, reinforcing Hong Kong's position as a leading international maritime and commodity trading hub.

The new regime for physical commodity trading introduces a well-balanced framework that aligns policy objectives with commercial practicality. The proposed "30% or 50%" expenditure rule provides qualifying traders with flexibility in sourcing specified maritime services, particularly in cases where certain services (e.g. ocean freight chartering or booking) may not be readily available in Hong Kong. This allows businesses to meet the requirement in a way that aligns with their operational structure. At the same time, the requirement to use Hong Kong-based maritime services providers will support the development of Hong Kong as a premier international maritime centre.

We also note positively that the government has consulted the OECD Forum on Harmful Tax Practices Secretariat on the near-final draft provisions relating to physical commodity trading, and that the Secretariat has confirmed it has no objection to the proposed measures. This ensures the concessions are aligned with international tax standards, enhancing their credibility and long-term sustainability.

As regards the enhancements to shipping-related concessions, the proposed measures are comprehensive and forward-looking, responding to both market developments and international tax standards.

Importantly, both proposals include an additional 15% concessionary tax rate option for enterprises of multinational enterprise (MNE) groups that are subject to the OECD Pillar Two rules. This option reduces the complexity of calculations and associated reporting obligations under Pillar Two. Whether this option is beneficial, however, depends on the MNE group's specific tax position in Hong Kong.

Certain operational details for the physical commodity trading tax concession would require further clarification and guidance. For example, it remains unclear whether the safe harbour rule would accommodate cases in which a commodity trader also acts as a holding company for the group, similar to the approach under the ship leasing manager tax concession. It would also be helpful to clarify whether employees employed by group companies would be taken into account when determining whether the economic substance requirements are met, as is the case under the shipping-related tax concessions.

In addition, the exclusion of "wholesaling" from the definition of commodity trading activity creates conceptual confusion. Since physical commodity trading typically involves large-scale purchase, sale, and physical delivery of goods, these activities closely resemble wholesale trade. Clearer guidance is needed to distinguish between commodity trading and excluded wholesale activities.

Businesses in the maritime and commodity trading sectors should closely monitor these developments and seek professional advice to assess their eligibility under the new and enhanced regimes.

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