Hong Kong Tax Newsflash

Public consultation launched on enhancements to tax concession regime for corporate treasury centres

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The government has launched a public consultation on proposed enhancements to the tax concession regime for corporate treasury centres (CTCs), which aims to attract more multinational corporations to establish CTCs in Hong Kong and enable existing CTCs operating in Hong Kong to scale up their operations, reinforcing Hong Kong's position as a premier international hub for corporate treasury operations.

This initiative was first announced in the 2025 Policy Address[1] and further detailed in the 2026-27 Budget Speech[2] and Action Plan to promote the development of CTCs[3].

Proposed enhancements

The government proposes a two-tiered tax concession regime, with details as follows:

Tier 1 – Refine and broaden existing regime

Under the current regime, qualifying CTCs (QCTCs) enjoy a concessionary profits tax rate of 8.25% on profits derived from specified corporate treasury activities. Additionally, corporations conducting intra-group financing business in Hong Kong may deduct interest expenses on borrowings from non-Hong Kong associated corporations, subject to certain conditions.

The following enhancements are proposed to be applied to all existing QCTCs and corporations conducting intra-group financing business in Hong Kong:

- **Relax the "subject to tax" condition[4]**

  A CTC will be allowed to defer its tax deduction of interest expenses paid or payable to a non-Hong Kong associated corporation if the lender is not currently subject to tax (e.g., due to losses). The deduction may be claimed in a future period when the lender becomes taxable.

- **Expand the scope of deductible interest expenses**

[1] Please refer to our Hong Kong Tax Newsflash Issue 250 for details.
[2] Please refer to our Hong Kong Tax Analysis Issue H122/2026 for details.
[3] Please refer to our Hong Kong Tax Newsflash Issue 269 for details.
[4] This refers to the requirement that the lender be subject to a similar tax in a territory outside Hong Kong at a rate that is not lower than the reference rate in Hong Kong, i.e. the applicable tax rate in general. Under the existing rule, no tax deduction would be allowed if this requirement is not satisfied.

The tax deduction for interest expenses paid or payable by CTCs to non-Hong Kong associated corporations will be extended to cover corporate treasury activities and transactions, including cash forecasting and pooling, and investing group funds in financial instruments, in addition to intra-group financing.

- **Specify thresholds for substantial activity requirements**

  To qualify for tax concession, a QCTC must employ at least 2 professional staff and incur annual operating expenditure of at least HKD2 million in Hong Kong on corporate treasury activities.

- **Clarify key definitions**

  - **Intra-group financing business**: The benchmark outlined in the Departmental Interpretation and Practice Note (DIPN) No. 52[5] will serve as guidance only, rather than a strict rule. The Inland Revenue Department (IRD) will provide further elaboration and illustrative examples, and potentially revising the benchmark to an average basis or removing it entirely in favour of a facts-and-circumstances approach.

  - **Corporate treasury transactions**: These must relate to the CTC and its associated corporations. Transactions not related to the group's business will not qualify. In-house factoring will be within the scope, and the IRD will issue additional guidance.

Tier 2 – Introduce a pre-approval mechanism

A proposed new pre-approval regime will offer additional tax benefits to pre-approved QCTCs and their pre-approved associated corporations, subject to higher thresholds and additional requirements.

- **Additional tax benefits**

  - Exemption from the "dedicated CTC condition[6]" and the "safe harbour rule[7]", with relaxed business substance requirements (e.g., replacing central management and control with normal management or control in Hong Kong)

  - 50% exemption on interest income derived by pre-approved Hong Kong associated corporations from a pre-approved QCTC, which is currently fully taxable

  - Exemption from the "subject to tax" condition for claiming interest expense deductions on payments to non-Hong Kong associated corporations

  - Exemption from the "anti-tax arbitrage rule[8]", allowing full tax deduction for expenses paid or payable to the pre-approved QCTC, subject to a cap of 30% of its earnings before interest, taxes, depreciation and amortisation (i.e., EBITDA) for interest expense deductions.

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[5] The benchmark set out in paragraph 10 of DIPN No. 52 is as follows:
(a) the corporation has not less than four borrowing or lending transactions each month;
(b) each borrowing or lending transaction exceeds $250,000; and
(c) borrowing or lending transactions are with not less than four associated corporations in the relevant basis period.

[6] The "dedicated CTC condition" requires that only a standalone corporate entity carrying on the business as a CTC and engaging solely in corporate treasury activities can be qualified as a QCTC.

[7] The "safe harbour rule" requires that the percentages of corporate treasury profits and corporate treasury assets of a corporation, as compared to its aggregate amount of profits and aggregate value of assets respectively, shall be 75% or above in order to be qualified as a QCTC.

[8] The "anti-tax arbitrage rule" limits the tax deduction available to a Hong Kong associated corporation for expenses (e.g., interest) paid or payable to a QCTC benefiting from the concessionary profits tax rate. The allowable deduction is reduced by reference to the amount of reduction in profits tax payable by the QCTC, thereby nullifying the tax benefits.

- **Eligibility conditions**

  To qualify for pre-approval, a CTC under the current proposal must meet the following conditions:

  - The group's annual turnover must be at least HKD100 million;
  - The CTC must conduct corporate treasury activities for at least 6 associated corporations annually, with at least one outside Hong Kong;
  - The CTC must incur annual operating expenditure of at least HKD4 million (excluding interest expenses) and employ at least 2 professional staff in Hong Kong for conducting corporate treasury activities (thresholds will be increased upon renewal);
  - The CTC must maintain separate bank accounts and financial statements for CTC and non-CTC businesses, supported by separate audits or certified financial statements; and
  - The CTC must hold its primary bank account with a Hong Kong authorized institution under the Banking Ordinance.

  In exceptional cases, pre-approval may be granted to CTCs or groups that do not meet the above conditions, based on considerations such as the group's growth potential, commitment to Hong Kong's banking and other services, and expected economic contribution etc.

- **Applicable period and processing time**

  - Pre-approval will be valid for 5 years, subject to renewal.
  - The expected processing time for application is approximately 6 weeks.

Legislative timeline

This public consultation is expected to end on 4 September 2026. The government aims to issue administrative clarifications for enhancing the existing tax concession regime for CTCs within this year and introduce the legislative amendments to the Legislative Council in the first half of 2027.

Our observations

We welcome the government's initiative to enhance the tax concession regime for CTCs, which addresses several key pain points under the current framework, particularly the difficulties in meeting the "dedicated CTC condition", complying with the benchmark in DIPN No. 52, and satisfying the "subject to tax" condition. These changes represent a proactive step toward strengthening Hong Kong's competitiveness as a global treasury hub.

The introduction of a two-tiered regime provides flexibility, offering corporations an option to seek pre-approval based on their operational scale and strategic objectives. Importantly, pre-approval is not compulsory, allowing businesses to assess the cost and benefit of meeting the higher thresholds under Tier 2 in exchange for additional tax benefits.

To enhance the accessibility and efficiency, we recommend that the pre-approval mechanism be designed as a simplified, user-friendly process, distinct from the current advance ruling framework. A streamlined application, such as a standardised form with tick-box declarations, would significantly reduce administrative burden for both taxpayers and the IRD, and make the regime more attractive and predictable for multinational groups.

On the “subject to tax” condition, we welcome the relaxation through deferred deductions. However, the need to monitor and track the tax status of offshore lenders over time may increase compliance complexity. A simpler and more practical approach, such as assessing the lender’s jurisdiction based on its statutory tax rate (a “headline tax rate” approach) similar to the Foreign-sourced Income Exemption regime, would reduce administrative burden.

The consultation is set to close on 4 September 2026. Stakeholders are encouraged to actively engage in the process to help shape final rules that are practical, efficient, and aligned with real-world treasury operations, while balancing the promotion of CTC development with the prevention of tax abuse. In the meantime, businesses with internal treasury functions should closely monitor forthcoming administrative guidance and legislative development, and consider seeking professional advice to evaluate their eligibility and strategic positioning under the enhanced regime.

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