



Hong Kong Tax Newsflash

Preferential Policy Package with proposed concessionary tax regime

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The government recently released an [administration paper](#) outlining the proposed concessionary tax regime under the Preferential Policy Package (Policy Package Tax Regime).

In the 2025 Policy Address, the government announced its plan to formulate Preferential Policy Package, including land grants, land premiums, financial subsidies, and tax incentives, to attract high value-added industries and high-potential enterprises to set up in Hong Kong. The 2026-27 Budget¹ and the 2026 Policy Address² reaffirmed this plan, providing further details.

The Policy Package Tax Regime is highly selective, operating under a pre-approval mechanism, and highly flexible, allowing it to respond swiftly to evolving market and policy needs. The government will reach out to targeted enterprises from overseas and the Chinese Mainland, offering tailor-made packages to facilitate their establishment or expansion in Hong Kong. Enterprises that meet minimum substantial activity requirements and demonstrate significant economic contribution may be granted access to concessionary tax rates of 5% or half-rate (i.e. 8.25% for corporations). Upon completion of legislative procedures, it is expected to take effect from the year of assessment 2027/28.

The key features of the Preferential Policy Package are summarized below.

Target sectors

The proposed regime will apply to enterprises operating in certain key sectors and carrying out the following specified activities:

- **Advanced manufacturing:** Manufacturing of products using innovative technology, digital equipment, or advanced materials. Examples include manufacturing of green and smart construction materials or other products using autonomous production lines.
- **Research and development (R&D) in innovation and technology (I&T):** Activities in the fields of natural or applied science aimed at extending knowledge, conducting investigations for new scientific or technical knowledge, and applying research findings and knowledge to develop new or substantially improved products before commercial use. Examples include R&D in Chinese medicine, pharmaceuticals, advanced medical devices, semi-conductors, or smart devices.

¹ For details, please refer to our [Hong Kong Tax Analysis Issue H122/2026](#).

² For details, please refer to our [Hong Kong Tax Newsflash Issue 278](#).

- **Headquarters activities:** Establishment or operation of global or regional headquarters in Hong Kong for managing, coordinating, and controlling cross-border operations, such as sourcing, procurement, supply chain management, and treasury activities, for group companies.
- **Logistics and supply chain management:** Storage, sorting, packaging, transportation, or customs clearance of goods or materials on behalf of another person without taking title. Examples include inventory and supply chain management, cargo handling, product labelling and packaging, and freight forwarding.
- **Finance:** Provision of investment management services for quantitative funds³, and activities related to derivative markets, commodities, and financial technology (fintech). Examples include managing quantitative funds, trading in derivatives, and establishing a fintech hub.

Eligible enterprises

Both newly established enterprises and existing enterprises in Hong Kong may qualify. For existing businesses, the concessionary tax rates will apply only to qualifying incremental profits, defined as assessable profits derived from the qualifying activity during the qualifying period, minus the average assessable profits from the same activity over the three preceding years.

Concessionary tax rates and qualifying period

The proposed concessionary tax rates are 5% or half-rate (i.e., 8.25% for corporations), with a qualifying period of up to five years. Enterprises seeking to extend the qualifying period must submit a new application with a new investment or development plan for re-evaluation.

Application and assessment

The government will proactively identify and reach out to target enterprises, formulating tailored arrangements to facilitate their establishment in Hong Kong. Enterprises may also initiate requests for tax concessions by submitting their business plans.

Applications will be assessed based on the scale, nature and investment plan of the enterprises, as well as their potential contribution to the economy and industry's development of Hong Kong. In addition, to qualify for the tax concession, enterprises must meet minimum thresholds for operating expenditure and the number of full-time qualified employees to be set out in the legislation.

If approved, a certificate of approval will be issued, specifying the qualifying activity, concessionary tax rate, qualifying period, expenditure and staffing requirements, and any additional conditions (e.g., introduction of new technology or a minimum investment threshold).

Following approval, the government will monitor compliance with the terms and conditions set out in the certificate of approval. Enterprises will be required to submit reports and supporting documents. Failure to meet the conditions may result in the revision, revocation or cancellation of the approval.

Legislative timeline

The proposal has been submitted to the Legislative Council for consideration. An amendment bill is expected to be introduced in December 2026, with implementation targeted from the year of assessment 2027/28.

³ Quantitative funds refer to the funds where the use of computer-based quantitative methods is material to the formulation or implementation of investment strategy or investment decision.

Our observation

The Preferential Policy Package is intended as a comprehensive tool encompassing land grants, subsidies, and tax incentives. The proposed Policy Package Tax Regime represents a strategic shift in Hong Kong's tax policy, moving towards a more tailored approach to attract high value-added enterprises. Unlike the existing broad-based tax incentives for specific business sectors, this regime introduces a case-by-case approval mechanism. We welcome this initiative, which appears to offer greater flexibility.

The proposed regime is highly selective and not designed for the mass market. It targets only enterprises operating in specified key sectors with potential to contribute to the Hong Kong economy. Of the targeted sectors, headquarters activities and logistic services are the new sectors which are not covered by any existing industry-oriented tax concessionary regimes. For other sectors, the Policy Package Tax Regime and the existing tax concessionary regimes will complement each other. Those enterprises may continue to enjoy the existing industry-oriented tax concessionary regimes without pre-approval.

To enhance the attractiveness of the regime and provide greater tax certainty, clarification on certain details would be beneficial. For example, for enterprises that incur losses during their initial years, it would be helpful to clarify whether such years count toward the five-year qualifying period.

Considering the scale of investment, certain targeted enterprises may be large multinational enterprises that are subject to global minimum tax. The benefit of preferential tax rate may be neutralized under Pillar Two. It is recommended that the government consider including alternative forms of tax incentives, such as enhanced deductions for qualifying expenditures, in the Policy Package Tax Regime to enhance its attractiveness for Pillar Two in-scope enterprises.

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