Hong Kong Institute of
Certified Public Accountants
香港會計師公會

By email (ctc-consult@fstb.gov.hk)

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Division 5, Financial Services Branch
Financial Services and the Treasury Bureau
24/F, Central Government Offices
Tim Mei Avenue, Tamar Central
Hong Kong

Attn: Mr. Timothy Wong

Dear Sirs,

Public consultation on proposed enhancements to tax concession regime for corporate treasury centres in Hong Kong

The Hong Kong Institute of Certified Public Accountants ("the Institute") appreciates the opportunity to provide feedback on the proposals regarding the proposed enhancements to tax concession regime for corporate treasury centres ("CTCs") in Hong Kong. The Institute's Taxation Faculty Executive Committee has reviewed the proposals in the consultation paper ("CP") and broadly supports the Hong Kong SAR Government ("the Government")'s initiative to introduce a new two-tier framework designed to attract more multinational groups to establish treasury operations in Hong Kong and enable existing CTCs to expand their activities. Our general and more specific comments are set out below for your consideration.

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1. General comments on the proposals

The CP shows the Government's determination to strengthen the role of Hong Kong as a key base for the establishment of CTCs and boost the city's appeal as a platform for "bringing in and going global", as highlighted in the 2025 Policy Address and the 2026–27 Budget. The CP is a timely and strategic move that aligns closely with Hong Kong's position as a leading international financial centre, and facilitates the better integration Hong Kong's role into, and support for, the Chinese Mainland's overall national development.

We welcome the Government's consultation on enhancing the existing tax concession regime for CTCs. We believe the enhancements will allow corporations to fully leverage Hong Kong's comprehensive financial ecosystem, and enhance the city's appeal as an international treasury hub. The proposed measures have addressed a number of long-standing concerns under the existing regime, including the restrictive qualifying conditions, the "subject to tax condition" hurdle, and anti-tax arbitrage rule. In particular, the introduction of the pre-approval mechanism will provide greater tax certainty and enhanced benefits to groups that establish substantial treasury activities in Hong Kong. The proposed enhancements overall represent a positive step towards enhancing Hong Kong's competitiveness in an increasingly complex and evolving international tax landscape.

However, the CP does not specify the effective date of the tiered regimes. We suggest that the Government specify that the regimes will take effect from the year of assessment 2026/27 and allow taxpayers to apply for the Tier 2 pre-approval regime upon gazettal of the relevant amendment bill. This would allow taxpayers who already satisfy the Tier 2 qualifying requirements to submit their applications and enjoy the additional benefits and flexibilities under the regime as soon as possible, increasing certainty and avoiding unnecessary delays in implementation.

Multinational enterprise ("MNE") groups within the scope of the OECD Pillar Two global minimum tax rules may also wish to assess the interaction between the proposed enhancements and their Pillar Two profiles. While the CP focuses primarily on the domestic tax treatment of treasury activities, the effective benefit of the proposed tax concessions may differ depending on the group's overall effective tax rate in Hong Kong. Therefore, the Government should consider the possible impact of the Global Anti-Base Erosion ("GloBE") Rules, under Pillar Two of Base Erosion Profit Shifting 2.0 initiative. Specifically, the Government should consider turning the CTC tax incentive into a "Qualified Tax Incentive" under the Substance-Based Tax Incentive safe harbour under Pillar Two to make the incentive more attractive for in-scope MNE groups; for example, tax incentives could be granted based on expenditures incurred rather than income derived.

According to the "4T" framework adopted under the CTC Action Plan published by the Government in June 2026, the Government will introduce different measures to support the development of CTC activities in Hong Kong, including targeted market promotion, strengthening the training of professional talent, building a high-quality talent pool, through continuous market education and professional development, and closer engagement with the industry. Given the changing tax landscape, particularly for large MNEs, we suggest that more non-tax support measures should be explored to help create an environment conducive to qualifying CTCs, e.g., subsidies to hire or relocate high-quality talent.

We hope the Government will adopt a similar approach in reviewing the effectiveness of Hong Kong's existing tax concession regimes for other industries, e.g., maritime services and aircraft leasing, and introduce comparable enhancements where appropriate. In view of the potential Pillar Two impact on their effectiveness, in due course, it would be beneficial for the Government to conduct a more holistic review of the existing tax incentives in Hong Kong that take the form of an income exemption or a reduced tax rate, and consider possible reform options.

2. Comments on the specific questions in the CP

<u>Question 1</u>

Do you agree that the pain points set out in paragraph 1.6 above may not be conducive to CTC development? Do you have other observations about the existing tax concession regime for CTCs that would be worthy of the Government's attention when formulating the enhancement proposals?

We welcome the Government's initiative to revamp the existing tax concession regime for CTCs. The proposed enhancements address most of the key concerns raised by the industry and represent a significant step forward in removing various impediments under the existing regime. We believe that the proposed enhancements would attract more CTC operations to be domiciled in Hong Kong. In particular, we welcome the introduction of the pre-approval mechanism, under Tier 2, which would remove a number of challenges facing CTCs.

In addition to the pain points identified in the CP, foreign interest withholding tax remains a common burden for CTCs. Currently, CTCs can claim a tax deduction only, rather than a tax credit, for foreign interest withholding tax paid in jurisdictions with which Hong Kong does not have an avoidance of double taxation agreement ("non-DTA jurisdictions"). However, a tax deduction is far less effective than a tax credit, as it does not fully eliminate double taxation.

Also, taxpayers may have concerns about the extent to which the IRD may go back over any historical financial information, resulting in additional queries and an increased administrative burden.

When formulating the enhancement proposals, the Government should provide clear and detailed guidance in both the legislation and the Inland Revenue Department ("IRD") published materials, including Departmental Interpretation Practice Notes ("DIPN") and the IRD website. The guidance should explain how the qualifying requirements, such as the (average) number of transactions per month, the number of professional employees, local expenditure thresholds, definition of qualifying activities, etc., can be satisfied. In particular, further guidance should be provided on whether outsourced personnel may be taken into account when assessing compliance with the requirement to maintain two or more qualified professional staff. These measures would provide greater certainty and help ensure that the regime can be utilised effectively by CTCs.

As mentioned above, consideration should also be given to how the CTC rules interact with the Pillar Two GloBE Rules. If benefits from the 8.25% tax rate are ultimately lost in the top-up tax calculation, existing and potential in-scope MNE groups may have little incentive to apply for the CTC regime.

<u>Question 2</u>
Do you agree with the proposed introduction of a tiered regime for CTC tax concessions, comprising refinements to the existing regime (Tier 1) and a pre-approval mechanism for enhanced benefits (Tier 2)? If not, please provide other suggestions with details.

We welcome the proposed refinements to the existing regime and the introduction of a pre-approval mechanism for enhanced benefits. The pre-approval mechanism would be the first of its kind for tax incentives in Hong Kong and it will provide flexibility by offering corporations an option to seek pre-approval, based on their operational scale and strategic objectives. Since opting for Tier 2 is not compulsory, it allows businesses to assess the cost and benefit of meeting the higher thresholds under Tier 2 in exchange for additional tax benefits and choose to opt for the tier that best aligns with their commercial and operational needs.

In relation to the Pillar Two issue as noted above, the Government may wish to consider the merits of offering an additional tier with a 15% tax rate that could be subject to lower substance requirements.

Question 3

Do you agree with the proposed refinements to the existing regime under Tier 1 as set out in paragraph 2.2? If not, please provide other suggestions with details.

We generally support the Government's proposed enhancements to the existing tax concession regime under Tier 1.

In addition to the proposed refinements, we recommend that the Government further review the practical application of the "dedicated CTC condition" and the "safe harbour rule", as these may not adequately reflect the operating models of large corporate groups, whose treasury functions are often undertaken within investment holding entities or integrated funding platforms that also perform other functions. In such circumstances, satisfying the 75% threshold under the safe harbour rule may be difficult, and the requirement to establish a separate standalone entity in order to access the concession may impose additional compliance and operational costs and may not be practicable for certain groups, including state-owned enterprises and centrally administered enterprises.

We are also concerned that the proposal to allow deferral of interest deductions may still impose a significant administrative burden on CTCs, as they would still need visibility over the overseas tax positions of their lenders and to keep track of those positions over time. In practice, this could be challenging, particularly where multiple lenders across multiple jurisdictions are involved, and may reduce the practical benefit of the proposed relaxation. In contrast, it is worth noting that Singapore does not impose any "subject to tax" condition for interest expense deductions and interest expenses are generally deductible, if they are wholly and exclusively incurred in the production of income. Uncertainty or unnecessary complexity in this area may deter potential applicants and undermine the competitiveness of Hong Kong's CTC regime.

In addition, there are practical issues and complexity in determining the "applicable rate" mentioned in footnote 6 of the CP for computing the deductible amount of interest expenses. Specifically, it is unclear whether the "applicable rate" should be based on the statutory headline tax rate or the effective tax rate taking into account the corporate income tax and any Qualified Domestic Minimum Top-up Tax actually paid. To enhance certainty and reduce the administrative burden, the Government should provide explicit guidance on the methodology for determining the "applicable rate", such as adopting a statutory "headline tax rate" approach, similar to the case of the Foreign-sourced Income Exemption regime.

Regarding the "all facts and circumstances" test mentioned in paragraph 2.2(c)(ii) of the CP, in relation to the benchmark of intra-group financing business set out in DIPN 52, we suggest including the year of partial operation (e.g., in the year of commencement) as an example of circumstances that would be considered. This would provide greater clarity to taxpayers, particularly for new CTCs that may not immediately meet full-year operational benchmarks due to legitimate ramp-up periods.

In relation to the proposed clarification of the definitions of "corporate treasury transaction" under paragraph 2.2(c)(iii), we suggest adding a general catch-all provision covering "any other transactions that the Commissioner is satisfied constitute a corporate treasury transaction", in Schedule 17B of the Inland Revenue Ordinance. This would provide flexibility to accommodate new or evolving treasury activities without requiring legislative amendments. The same applies to the definition of "corporate treasury services" as well.

One of the key proposed enhancements under Tier 2 is the replacement of the existing "central management and control" requirement with a "normal management or control" requirement, which is more commercially practical. This is expected to provide greater operational flexibility and align more closely with commercial treasury models adopted by MNE groups. Given that many of the practical issues associated with central management and control are equally relevant to taxpayers operating under the existing CTC regime, the Government may consider extending this proposed relaxation to Tier 1 taxpayers. This will facilitate corporations with scale and growth potential to establish a treasury platform in Hong Kong first and expand their cross-border functions over time, which could further enhance Hong Kong's attractiveness as a treasury hub, while preserving the underlying substance requirements.

Question 4
As regards the proposed clarifications of "monthly threshold of borrowing or lending transactions" mentioned in paragraph 2.2(c)(ii) under Tier 1, would you consider Option (1) or (2) better?

We consider Option (1) to be preferable, as it would provide CTCs with an objective benchmark for assessing whether their activities are likely to be regarded as carrying on an intra-group financing business. It would also be easier for both the IRD and taxpayers to implement and administer, thereby promoting greater certainty, consistency, and administrative efficiency.

Option (2) may be welcomed by some taxpayers, as it may assist taxpayers who do not have the scale to meet the monthly threshold to benefit from the regime. However, this option may result in uncertainty, and the IRD should provide clear guidance on the facts and circumstances that need to be taken into account, if Option (2) is adopted.

Question 5
Do you agree with the additional tax benefits or flexibilities to be provided to pre-approved QCTCs and their associated corporations as set out in paragraph 2.5 above? If not, please provide other suggestions with details.

While we support the proposed additional tax benefits and flexibilities set out in paragraph 2.5 of the CP, please refer to our specific comments below:

- While the relaxation of the anti-tax arbitrage rule is welcome, further details regarding the proposed 30% of earnings before interest, taxes, depreciation and amortisation ("EBITDA") cap are needed. For example, the Government should clarify whether the interest expenses exceeding the cap can be carried forward indefinitely, and whether any unused interest capacity (below the cap) can be carried forward for a limited period, taking reference to the approach taken under the European Union's Anti-Tax Avoidance Directive. The Government should also consider computing the cap by reference to a three-year average EBITDA, rather than a single (current) year's EBITDA, to

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accommodate fluctuations in earnings from one year to another.

The above clarifications are particularly important for research and development-intensive corporations that may incur losses in their initial years and yet have a greater need for funding from CTCs. Without appropriate flexibility, the proposed restriction could undermine the policy objective of encouraging the use of qualifying CTCs ("QCTCs") by creating a tax environment that is less favourable than comparable third-party financing arrangements.

- The Government may also wish to consider introducing a "group-ratio fallback" for pre-approved Hong Kong associated corporations of Tier 2 QCTCs. Under this mechanism, where an MNE group is genuinely more highly leveraged at the group level, the Hong Kong associated corporations would be allowed to claim an interest deduction by reference to the group's leverage profile. In other words, these corporations could claim the interest deduction up to a cap based on the MNE group's overall leverage or interest capacity, subject to certain conditions, such as the financing type, purpose or timing, subject to applicable anti-avoidance requirements. This would provide an alternative to applying the standalone 30% EBITDA cap, proposed in the CP and better reflect the commercial financing structures of some MNE groups, while ensuring that the financing arrangements remain commercially justifiable.

- Regarding the pain point identified in Question 1 above, we recommend allowing a unilateral tax credit for foreign interest withholding tax paid by pre-approved QCTCs in non-DTA jurisdictions under Tier 2. By way of comparison, Singapore's domestic tax law grants a unilateral tax credit on all foreign-sourced income received in Singapore by Singapore tax residents from jurisdictions that do not have DTAs with the country.

While Tier 2 offers additional tax benefits and flexibilities, certain aspects remain more restrictive than the Finance and Treasury Centre ("FTC") incentive in Singapore. The latter does not impose anti-tax arbitrage limitations and permits unilateral tax credits for foreign taxes paid in non-DTA jurisdictions, even though Singapore has significantly more DTAs than Hong Kong. In contrast, Hong Kong provides deductions rather than unilateral credits for foreign taxes paid in non-DTA jurisdictions and proposes to relax its anti-arbitrage rules, subject to an EBITDA cap. Therefore, we would suggest that, in the future, the Government should continue to explore further relaxation of these conditions to ensure that Hong Kong's CTC regime remains competitive, practical, and attractive to multinational groups.

<u>Question 6</u>

Do you agree with the proposed objective conditions for pre-approval under Tier 2? If not, please provide other suggestions with details.

We support the Government's proposal to introduce a pre-approval mechanism under Tier 2, under which corporations would no longer be subject to the "dedicated CTC condition" and may benefit from a more relaxed business substance requirement and increased flexibility. However, we consider that the proposed thresholds under Tier 2 remain relatively high for newly-established or developing treasury platforms. In particular, the requirement to conduct corporate treasury activities for at least six associated corporations throughout the incentive period, with at least one associated corporation located outside Hong Kong, may not fully reflect the practical development path of many business groups, which often commence by centralising funds and establishing a domestic treasury platform in Hong Kong, before progressively extending treasury activities to overseas group entities. In addition, the threshold of at least HK$100 million annual turnover may also be too high for medium-sized business groups. Therefore, we recommend that the Government consider adopting a phased approach, under which lower thresholds may apply at the initial stage, and the requirement for at least one associated corporation to be located outside Hong Kong may be relaxed, with the thresholds increasing progressively as the business expands.

More broadly, as mentioned earlier, while retaining the Tier 2 pre-approval mechanism, the Government may consider extending certain reasonable relaxation measures to Tier 1, in particular the normal management or control requirement, so as to better support corporations in establishing treasury platforms in Hong Kong and subsequently developing their cross-border treasury functions.

While the additional requirement to conduct a separate audit or prepare separate certified financial statements is intended to address concerns over the allocation of income and expenses between the CTC and non-CTC businesses, where the QCTC is not a dedicated CTC, it may impose a substantial administrative burden on CTCs. Given the proposed stringent pre-approval mechanism, together with the IRD's ability to issue enquiries requiring taxpayers to justify the allocation, this requirement may not be necessary, particularly as the burden of proof already rests with taxpayers.

In addition to the above, we hope that the Government will provide more detailed guidance on the criteria and factors to consider when granting approval to pre-approved Hong Kong and non-Hong Kong associated corporations.

To enhance the accessibility and efficiency, we recommend that the pre-approval mechanism be designed as a simplified and user-friendly process, distinct from the existing advance ruling framework. For example, a standardised form with tick-box declarations, would significantly reduce the administrative burden for both taxpayers and the IRD. It would also make the regime more attractive and predictable for MNE groups considering establishing or expanding their treasury operations in Hong Kong.

Question 7
Do you agree with providing a flexibility to grant a pre-approval on an exceptional basis set out in paragraph 2.7? Do you agree with the proposed factors of consideration? If not, please provide other suggestions with details.

We welcome the proposed flexibility to grant pre-approval on an exceptional basis. This is a positive feature that could accommodate high-growth businesses and groups that are still scaling up their treasury operations in Hong Kong. It may also attract entities that do not initially meet all the specified thresholds, but which have strong commercial reasons for establishing a financial hub in Hong Kong. At the same time, we hope that there will be transparency around the way in which this is implemented in practice.

To provide greater certainty, we suggest that the Government clarify that this flexibility may also apply to CTCs seeking renewal of their tax concessions. The Government could further consider introducing a review mechanism, under which an applicant that does not initially satisfy all the prescribed criteria may be granted CTC status provided that it meets specified criteria within a specific timeframe. Such a mechanism would enable the Government to safeguard the integrity of the regime, while allowing genuine businesses a reasonable period to establish and expand their treasury operations in Hong Kong. This would be consistent with the proposed five-year validity period and renewal framework for pre-approval.

Question 8

Do you agree with the proposed pre-approval period of five years, and the proposed renewal thresholds? If not, please provide other suggestions with details.

We understand that the proposed five-year pre-approval period is comparable to the validity period under FTC incentive. We suggest requiring the taxpayer to certify or declare annually that it continues to satisfy the applicable qualifying requirements throughout the pre-approval period. This annual declaration could be submitted together with the taxpayer's profits tax return and be supported by relevant records retained for review by the IRD. An annual certification mechanism would provide the Government with ongoing assurance that the conditions for pre-approval continue to be met.

In conclusion, we welcome the proposed enhancements to the CTC regime, which will provide considerably greater certainty. They demonstrate the Government's commitment to developing the CTC economy in Hong Kong, while targeting the enhanced concessions primarily at groups carrying out substantial treasury activities in Hong Kong. We encourage the Government to consider the broader economic benefits generated by CTC operations, including increased employment opportunities, business expenditure, tax revenue, and the development of related professional services. With this in mind, we suggest that further refinements to, and, potentially, relaxations of, the regime continue to be explored in the future. We also advocate consideration of non-tax measures, such as subsidies or other incentives to support the recruitment or relocation of high-quality talent to Hong Kong, so as to create an environment conducive to the establishment and expansion of QCTCs.

Should you have any questions on this submission, please do not hesitate to contact me at peter@hkicpa.org.hk or on 2287 7084.

Yours faithfully,

Peter Tisman

Peter Tisman
Director
Advocacy & Practice Development

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