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# *Corporate Treasury Centre Legislation*

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# *Section 1*

## Overview of proposals

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## ***Inland Revenue (Amendment) (No. 4) Bill 2015***

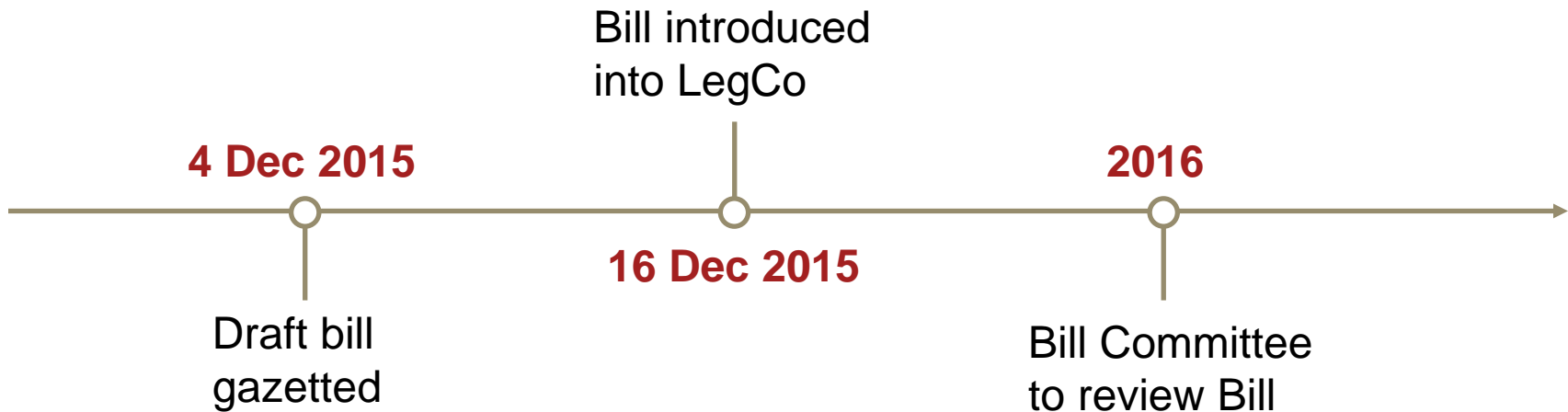
- To attract businesses to establish Corporate Treasury Centres in Hong Kong
- Gazetted on 4 Dec 2015, introduced to the LegCo on 16 Dec 2015

Concessionary profits tax rate (8.25%) for qualifying profits derived by a qualifying Corporate Treasury Centre

New taxation & deduction rules for interest income and expenses of an intra-group financing business

Clarified profits tax & stamp duty treatment of Regulatory Capital Security (RCS) issued by financial institutions in compliance with Basel III capital adequacy requirements

# *Timetable*



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## *Section 2*

# Corporate Treasury Centre (CTC) proposal

## ***Key proposals in the Amendment Bill***

### **Proposal 1: Concession for qualifying CTCs**

- Corporations with **central management and control in Hong Kong** taxed at **half profits tax rate (8.25%)** in respect of the profits from the following activities that are **carried out in Hong Kong**:
  - lending of money to non-Hong Kong associated corporations;
  - qualifying corporate treasury services provided to non-Hong Kong associated corporations; and
  - qualifying corporate treasury transactions entered into with non-Hong Kong corporations.
- By election, irrevocable once made
- If not eligible for one year, concession not available for that year and a subsequent year

## *What is a “qualifying CTC”?*

Wholly carries out “**corporate treasury activity**” in Hong Kong

**OR**

Satisfies “**safe harbour rule**”

**OR**

Commissioner’s determination

## ***Safe harbor rule***

**1-year safe harbor**  
CTP percentage  $\geq 75\%$   
and  
CTA percentage  $\geq 75\%$

OR

**Multiple-year safe harbor**  
AVG CTP percentage  $\geq 75\%$   
and  
AVG CTA percentage  $\geq 75\%$

Safe  
harbour  
rule

\* Average CTP & CTA percentages for the current YOA and the preceding 2 YOAs will be considered (1 YOA if newly commenced)

Corporate treasury profit percentage (CTP percentage)  
= Total corporate treasury profits / Total profits accruing to the corporation

Corporate treasury assets percentage (CTA percentage)  
= Total value of the corporate treasury assets / Total value of all assets of the corporation at the end of the basis period



## *Section 3*

# Interest in respect of borrowing and lending

## *Interest in respect of borrowing and lending*

### **Proposal 2: Taxation of interest income and deduction allowed for interest expense**

- Two elements:
  - i. Allow deduction on interest expenses where:
    - Borrowing (s) is from overseas associated corporations;
    - in the course of the business of borrowing from and lending of money to associated corporates in or outside Hong Kong;
    - lender (i.e. overseas associated corporations) is subject to similar tax on the interest income outside Hong Kong at a rate that is not lower than the applicable Hong Kong rate (16.5% or 8.25%)
    - Other anti-avoidance provisions apply
  - ii. Deemed assessment of **interest income** or **gains** from disposal of CoDs or bills of exchange derived as a result of intra-group financing in Hong Kong

## ***New condition for interest deduction***

Interest expenses on money borrowed from a ***non-HK associated corporation*** in an intra-group financing business are deductible if **all** the conditions are met:

- (1) Incurred in the production of chargeable profits
- (2) The lender is subject to tax overseas (a) of substantially the same nature as HK profits tax and (b) at a rate not lower than 16.5% or 8.25%
- (3) The lender is the beneficial owner of the interest income, in other words, the lender
  - Has the right to use and enjoy the interest income without being constrained by a contractual/legal obligation to pass that interest to any other person,
  - Unless the obligation arises as a result of a arm's length transaction between the lender and a person other than the borrower

## ***Deeming provisions on interest income & other profits***

Interest income

Profits from sale, disposal or upon redemption/maturity, etc. of a certificate of deposit, bill of exchange or RCS

- Derived by a corporation (non-FI)
- Arising through or derived from an intra-group financing business in HK

**TAXABLE**

Even if...  
the moneys in respect of which the interest is derived are made available outside HK

- Even if...
- i. the moneys for the acquisition of the certificate, bill or security were made available outside HK or
  - ii. the sale, disposal or redemption is effected outside HK

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# *Thank you*

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The materials contained in this presentation were assembled in February 2016 and were based on information available at that time.