For discussion
on 8 July 2025

Legislative Council Panel on Economic Development

Enhancement of Existing Tax Concessions for Maritime Service Industry and Introduction of a Half-rate Tax Concessionary Regime for Commodity Trading Business

PURPOSE

As stated in the 2024 Policy Address, the Government will enhance the preferential tax regime for maritime service industry and explore the introduction of tax concession to attract commodity trading enterprises to set up business in Hong Kong to promote the development of high value-added maritime services. Subsequently, it is announced in the 2025-26 Budget that apart from enhancing the existing tax concessions for the maritime service industry, the Government will introduce a half-rate tax concessionary regime for commodity trading business. This paper aims to brief Members on the relevant proposals.

JUSTIFICATION

Importance of reinforcing the competitiveness of the maritime service industry

2. Hong Kong has been a leading international maritime centre supported by our Country. The city ranks fourth in the 2024 Xinhua-Baltic International Shipping Centre Development Index, reflecting our comprehensive strengths in port, maritime service and overall business environment.

3. With regard to the maritime service industry, Hong Kong has become an ideal base for shipping companies from around the world to establish businesses by virtue of our “One country, Two Systems”, bilingual common law, free economy, as well as simple and low tax system. These companies have been providing high-quality maritime services in the fields of ship leasing, ship management, ship finance, marine insurance, maritime law

and arbitration etc. to the international maritime companies. Hong Kong currently has over 1,200 port and maritime companies, representing an increase of about 10% over five years earlier, and many of which are indeed internationally prominent enterprises[1]. Hong Kong is also the sole Asian base for many of the world's leading shipping organisations, including the International Union of Marine Insurance of Germany and the International Chamber of Shipping of the United Kingdom.

4. As the maritime service industry is highly internationalised and their mode of operation is inherently globalised with high mobility, Hong Kong must continue to reinforce and enhance the competitiveness and businesses edges of the maritime service industry in face of the keen competition from other parts of the world, so as to maintain our attractiveness and leading position as the international maritime centre. In addition, the recent abusive imposition of tariffs and port fees against Chinese- (including Hong Kong- and Macau-) owned or operated vessels by the U.S. and other geopolitical incidents would inevitably pose uncertainties on the maritime service industry. The Government will capitalise on our strengths via a systematic and proactive approach to reinforce the local maritime industry chain internally as well as to expand market opportunities in our Country and the world externally, with a view to fully supporting our industry's resilience under the complex external circumstances.

Existing tax concessionary measures for maritime service industry

5. A favourable tax regime is one of the major factors in attracting the presence of maritime service enterprises to Hong Kong. In recent years, the Government has launched a series of tax concessionary measures to encourage more maritime service enterprises to choose Hong Kong as their business base. These include:

(a) providing full profits tax exemption to qualifying ship lessors (including lessors under operating lease and finance lease) whereby the applicable tax rate is reduced to 0% from the year of assessment 2020/21;

[1] For example, five out of the world's top 10 ship management companies have business presence in Hong Kong, three of which are headquartered in Hong Kong (i.e. as the place with most top 10 companies' headquarters) ; 11 out of the 12 membersof the International Group of Protection and Indemnity (IGP&I) Clubs provide services in Hong Kong (i.e. second to London as the place with most IGP&I Club Members' service points); eight of the world's top ten bookrunners of ship finance set up offices in Hong Kong (i.e. as the place with most top ten bookrunners' offices, same as London); and the Baltic International Maritime Council designated Hong Kong as one of the four arbitration venues in 2020 (with the remaining three being London, New York and Singapore).

(b) providing half-rate profits tax concession to qualifying ship leasing managers whereby the applicable tax rate is reduced to 8.25% from the year of assessment 2020/21; and

(c) providing half-rate profits tax concession to qualifying shipping commercial principals (i.e. ship agents, ship managers and ship brokers) whereby the applicable tax rate is reduced to 8.25% from the year of assessment 2022/23.

6. The Government has been actively promoting the tax concessionary measures to overseas and Mainland enterprises. For the years of assessment 2020/21 to 2022/23, the number of qualifying ship lessors benefiting from the regime has risen from 11 to 46. The number of beneficiaries under other tax concessionary measures will be assessed after the finalisation of the statistics for the relevant years of assessment.

The needs and directions for enhancing the tax concessionary regime

Enhancement of existing tax concessions for the maritime service industry

7. After the introduction of the aforementioned tax concessions, there have been new changes in the international tax landscape. In response to the base erosion and profit shifting risks arising from the digitalisation of the economy, the Organisation for Economic Co-operation and Development ("OECD") has formulated a new tax reform package (commonly referred as "BEPS 2.0"). According to this tax reform package, a multinational enterprise ("MNE") group with an annual consolidated revenue of not less than EUR 750 million ("in-scope MNE group") will be subject to a global minimum tax at the effective tax rate ("ETR") of 15% in each tax jurisdiction in which they operate. To implement this package, Hong Kong has introduced Hong Kong Minimum Top-up-Tax ("HKMTT") to require an in-scope MNE group to pay top-up tax as from 2025 if the ETR of the tax paid by its constituent entities in Hong Kong is less than 15% (for example due to tax concessionary measures).

8. In view of the changes in the international tax rules, we have reviewed the existing tax concessionary regimes for the maritime service industry and considered that there is room for enhancement in compliance with the international tax rules, including the introduction of tax deduction arrangements in line with the international standards (such as providing tax

deduction on ship acquisition costs for ship lessors under an operating lease), and at the same time ensuring that Hong Kong's tax concessionary regimes could maintain their competitiveness after the implementation of BEPS 2.0, with a view to sustaining the industry momentum.

Introduction of a half-rate tax concessionary regime for physical commodity trading business

9. Trading of commodities, which account for more than half of the global shipping trade volume, generally involves three main categories of commodities, namely: (a) energy and industrial commodities, (b) agricultural commodities, and (c) metal mine commodities. Physical commodity traders are users of maritime services and an important element of the maritime service ecosystem. Attracting their presence to Hong Kong will propel the maritime service sector towards a more vibrant trajectory.

10. At present, Hong Kong is not yet a major foothold of physical commodity trading enterprises. It is roughly estimated that there are around 40 physical commodity trading enterprises in Hong Kong, which is not a large number yet as compared to other regions (such as Singapore and the Mainland). Hence, the Government proposes to provide half-rate tax concession for physical commodity traders in order to attract their presence to Hong Kong, thereby injecting demand and impetus into the maritime service industry.

LEGISLATIVE AMENDMENT PROPOSALS

11. The Transport and Logistics Bureau (TLB) proposes to amend the Inland Revenue Ordinance (Cap. 112) to enhance the tax concessionary regimes conducive to the development of the maritime service industry in accordance with the aforementioned directions. The major recommendations for enhancing the existing tax concessions for the maritime service industry are set out at Annex I whilst the major recommendations for introducing a half-rate tax concessionary regime for physical commodity trading are set out at Annex II. The recommendations are drawn up based on the findings of the research conducted by the Task Force under the Hong Kong Maritime and Port Board[2] from March 2024 to February 2025, fully taking the industry needs and professional advice into account. Among others, the recommendations for enhancing the existing tax concessions for the maritime

[2] The Task Force is comprised of Government representatives and industry stakeholders.

service industry have also taken the enhancements made to the aircraft leasing tax regime implemented since the year of assessment 2023/24 into consideration, whilst the recommendation for the half-rate tax concessionary regime for physical commodity trading has taken reference from the views of both local and non-local physical commodity traders.

EXPECTED BENEFITS

12. We anticipate that the enhancements of the existing tax concessionary measures for the maritime service industry would be effective in maintaining the international competitiveness of the relevant concessionary measures after the implementation of the BEPS 2.0 package, reinforcing the strengths and attractiveness of the Hong Kong's business environment.

13. In respect of the tax concession for physical commodity trading, the consultancy study showed that the proposed half-rate tax concessionary measure is very attractive for physical commodity traders to expand or establish business in Hong Kong. It is roughly estimated that the proposed concession could bring about HK$4.6 billion of economic benefits to Hong Kong, which will help drive the demand for maritime services and the development of the industry and facilitate the building of a more vibrant local maritime service cluster in Hong Kong, conducive to the reinforcement and enhancement of Hong Kong's position as an international maritime centre.

FINANCIAL IMPLICATIONS

14. As there are not many physical commodity trading businesses in Hong Kong at present, we estimate that, for the existing physical commodity trading enterprises in Hong Kong, the relevant tax concession will entail not more than HK$100 million tax revenue loss to the Government per year.

IMPLEMENTATION PLAN

15. We plan to introduce a legislative amendment bill into the Legislative Council within the first half of 2026 to implement the proposals set out in this paper.

16. To align with the implementation timetable for the HKMTT under

the Inland Revenue (Amendment) (Minimum Tax for Multinational Enterprise Groups) Ordinance 2025 (i.e. the financial year beginning on or after 1 January 2025), we recommend that the proposals set out in this paper (including the enhancements of the existing tax concessions for the maritime service industry and the introduction of a half-rate tax concessionary regime for physical commodity trading) will be applicable to the qualifying profits for the years of assessment beginning on or after 1 April 2025.

ADVICE SOUGHT

17. Members are invited to note the content of this paper and provide comments.

Transport and Logistics Bureau
June 2025

Annex I

Major Recommendations on Enhancements of Existing Tax Concessions for Maritime Service Industry

1st Recommendation: Relaxing the definition for ship leasing

At present, the Inland Revenue Ordinance (Cap 112) prescribes that the qualifying term of "operating lease" and "finance lease" in respect of a qualifying ship leasing activity shall be over one year[3], and that the lessee of the qualifying ship leasing activity and ship leasing management activity shall be "a ship lessor, ship leasing manager or ship operator" [4].

2. To accommodate for greater flexibility for business operation and having regard to the enhancements made to the aircraft leasing tax regime since the year of assessment 2023/24, we recommend (a) removing the one-year term restriction on "operating lease" and "finance lease", as well as (b) extending the scope of lessees to be "any other persons."

2nd Recommendation: On the premise of maintaining the original concessionary tax rate, to introduce an additional option of a 15% concessionary tax rate for qualified ship lessors, qualified ship leasing managers and qualified shipping commercial principals

3. According to the existing tax concessions, a qualifying ship lessor can enjoy having its profits tax to be assessed at 0% tax rate[5] whilst a qualifying ship leasing manager and a qualifying shipping commercial principal (i.e. ship agent, ship manager and ship broker) can enjoy having its profits tax to be assessed at 8.25% tax rate[6].

4. Upon the implementation of BEPS 2.0 in Hong Kong, an in-scope MNE group will be subject to a global minimum tax at the ETR of 15% in each tax jurisdiction, and enterprises of which the tax payment does not meet such minimum tax requirement will be subject to the top-up tax. To facilitate the compliance of in-scope MNE groups with the BEPS 2.0 requirements, we recommend introducing a 15% concessionary tax rate as an additional option for the relevant enterprises on the premise of maintaining the original concessionary tax rate, with a view to reducing the compliance costs for the

[3] Section 14O(1).
[4] Schedule 17FA.
[5] Section 14P.
[6] Sections 14T, 14ZD, 14ZM, and 14ZV.

relevant enterprises. Given that the business circumstances and the scale of the enterprises may vary from time to time, we recommend allowing the enterprises to elect their preferred tax rate every year and prescribing the arrangements for handling the unabsorbed tax loss under the switch of different tax rates for different years of assessment, so as to avoid abuses of the loss set-off mechanism across different tax rates for different years of assessment. In addition, for enterprises who opt for having their profits tax to be assessed at 15%, we recommend setting lower threshold requirements, i.e. to be roughly half of the existing requirements[7].

3rd Recommendation: Introducing tax deduction on ship acquisition costs for ship lessors under operating lease

5. For ship lessors under operating lease, ship acquisition costs are heavy front-loaded capital investments. At present, the Inland Revenue Ordinance does not provide any tax deduction arrangement on the ship acquisition costs but specifies that qualifying ship lessors under operating lease are only required to calculate their assessable profits based on 20% of their lease income (hereafter referred as "20% tax base concession.")[8] As the current tax rate applicable to qualifying ship lessors is 0% and the relevant enterprises are not required to pay any tax, the 20% tax base concession does not have any actual effect.

6. With the implementation of BEPS 2.0 in Hong Kong, the calculation of assessable profits will make a difference as ship lessors under in-scope MNE groups will be subject to the global minimum tax at 15% tax rate. In this regard, OECD is of the view that the 20% tax base concession under the current regime does not have a reasonable basis for reduction, and therefore the 20% tax base concession is not allowed in the calculation of the effective tax rate under BEPS 2.0.

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[7] The existing requirements and the proposed lower threshold requirements for the 15% tax rate are as follows:

	Current Requirements (See Schedules 17FA &17FB)	Lower Requirements for the 15% tax rate
Ship lessors	- Employing at least 2 employees - Incurring annual operating expenditure ≥ HKD 7.8 million	- Employing at least 1 employee - Incurring annual operating expenditure ≥ HKD 3.9 million
Ship leasing managers	- Employing at least 1 employee - Incurring annual operating expenditure ≥ HKD 1 million	- Employing at least 1 employee - Incurring annual operating expenditure ≥ HKD 0.5 million
Shipping commercial principals	- Employing at least 1 employee - Incurring annual operating expenditure ≥ HKD 1 million	- Employing at least 1 employee - Incurring annual operating expenditure ≥ HKD 0.5 million

[8] Section 14R.

7. Upon our review, including making reference to the enhancements to the aircraft leasing tax regime and the tax practices in other jurisdictions, we propose introducing a tax deduction of ship acquisition costs for qualifying ship lessors under operating lease in lieu of the 20% tax base concession. The new deduction arrangement reasonably reflects the operating costs of ship lessors under operating lease and is acceptable by the OECD, ensuring the competitiveness of the tax concessionary regime for ship lessors whilst aligning with the international standards under BEPS 2.0. As the ship acquisition costs are generally far higher than the annual leasing income, and subject to the circumstances of each case, it is anticipated that the profits from the leasing income of the initial five years may be offset by the deduction. In other words, the enterprise will only need to pay tax for the following 20 years if the useful life of the ship is approximately 25 years.

8. The deduction arrangement will be applicable to all ships – whether purchased before or after the effective date of the legislative amendments – except that depreciation will have to be suitably adjusted in calculating the tax deduction for acquisition costs in respect of the ships which have been purchased and used before the effective date of the relevant legislative amendments. When an enterprise sells a ship for which a tax deduction has been granted in the future, the proceeds from the sale of the ship (up to the total amount of deductions allowed) will be deemed as trading receipts for the purpose of calculating the assessable profits for that year.

4th Recommendation: Expanding the scope for tax deduction on interest expenses for ship lessors

9. Under the existing legislation, interest paid by ship lessors is tax deductible[9] only if (a) the money is not borrowed from a financial institution or an overseas financial institution and the financier is subject to tax in Hong Kong under the Inland Revenue Ordinance in respect of the interest income; or (b) the money is borrowed from a financial institution or an overseas financial institution.

10. To accommodate the diverse financing means for ship acquisition, we recommend expanding the scope for tax deduction on interest expenses to cover: interest expenses incurred by any qualifying ship lessor for the purpose of acquiring a ship by borrowing from a non-associated financier (e.g. an overseas non-financial institution) and by borrowing from an associated

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[9] Section 16.

financier who is required to pay a similar tax on that interest income outside Hong Kong.

<u>Annex II</u>

Major Recommendations on Introduction of a Half-rate Tax Concessionary Regime for Physical Commodity Trading

We recommend providing **half-rate profits tax concession** for assessable profits derived by **qualifying physical commodity traders** from **qualifying physical commodity trading activity** whereby the applicable tax rate is reduced to **8.25% (plus an option for choosing a 15% tax rate** for enterprises to make an annual election subject to whether they are covered by BEPS 2.0). Eligible enterprises must fulfil the **minimum annual business turnover requirement, minimum requirements on the use of Hong Kong maritime services, and economic substance requirements**. The details are as follows.

<u>Definition</u>

2. The following terms will be defined in the legislation to clearly define the scope of applicability of the tax concessionary regime:

(a) **physical commodity trading activity**: refers to an activity of buying and/or selling of a qualifying physical commodity item (see paragraph (b)) that results in the physical delivery of that item, comprising one or more of the following actions –

(i) solicitation of the qualifying physical commodity item to be bought/sold;

(ii) solicitation of the buyer and/or seller of the qualifying physical commodity item;

(iii) setting and agreeing on the buying and/or selling terms of that qualifying physical commodity item;

(iv) obtaining finance for the transaction of that qualifying physical commodity item;

(v) executing the transaction of that qualifying physical commodity item;

(vi) making arrangements for the transportation of that qualifying physical commodity item; or

(vii) arranging insurance for the transportation of that qualifying physical commodity item.

As our policy intent is to attract physical commodity traders to establish businesses in Hong Kong and hence drive the development of the maritime service industry, solicitation of commodity items for the purpose of self-consumption (such as local power companies purchasing natural gas and coal for electricity generation) is not regarded as “physical commodity trading activity”.

(b) **qualifying physical commodity item**: as set out via a schedule to the Ordinance, commodities – as commonly understood in the market – cover three broad categories of commodities, namely: energy and industrial commodities; agricultural commodities; and metal mine commodities. The full list of the proposed “qualifying physical commodity items” is set out at Appendix. This list has taken reference from commodity items of which the financial products are commonly listed on recognized stock exchanges (because the existence of financial products on a stock exchange is a strong indication that the commodity item is actively traded physically) and has only included commodities that are commonly transported by sea to align with the policy intent of driving the maritime service industry development via the proposed tax concession. Moreover, the list has also included items which are potential green maritime fuel to promote trading of green maritime fuel in Hong Kong according to the Action Plan on Green Maritime Fuel Bunkering promulgated by TLB in November 2024 (e.g. biofuel, green methanol).

(c) **qualifying physical commodity trading activity**: refers to an activity in paragraph (a) that fulfilas the following –

(i) the activity is carried out in the ordinary course of the corporation’s business carried on in Hong Kong (similar to the definition of qualifying activity under the existing concessionary tax regimes for shipping-related activities); and

(ii) the contract for buying and/or selling of a qualifying physical commodity item is effected in Hong Kong.

(d) **qualifying physical commodity trader**: refers to an enterprise fulfilling the following criteria so as to ensure that it carries out qualifying physical commodity trading activities as its primary business in Hong Kong (the existing concessionary tax regimes for the maritime service industry also have similar requirements) –

(i) it has carried out in Hong Kong one or more qualifying physical commodity trading activities and has not carried out in Hong Kong any activity other than a qualifying physical commodity trading activity;

(ii) it satisfies the safe harbour rule (i.e. the corporation should have not less than 75% of all its profits and assets being physical commodity trading profits and physical commodity trading assets); or

(iii) it has obtained the Commissioner of Inland Revenue ("the Commissioner")'s determination that the corporation is a qualifying physical commodity trader if the Commissioner is of the opinion that the relevant conditions specified in (i) & (ii) above would, in the ordinary course of business of the corporation, have been satisfied.

Tax concessionary measure

3. As mentioned in paragraph 1 of this Annex, the half-rate profits tax concession is applicable to assessable profits derived by qualifying physical commodity traders from qualifying physical commodity trading activity (hereafter referred as "qualifying profits") whereby the applicable tax rate is reduced to 8.25%. In addition, a 15% tax rate option is also put in place for enterprises to make an annual election subject to whether they are covered by BEPS 2.0. Income incidental to profits derived from a qualifying physical commodity trading activity (such as interest income, exchange gains or hedging gains) of a qualifying physical commodity trader should also be included in the qualifying profits.

4. Having regard to the requirements of the existing tax concessionary regimes for the maritime service industry, the proposed tax concession will only be applicable to qualifying physical commodity traders satisfying the following conditions:

(a) its central management and control is exercised in Hong Kong;

(b) the activities that produce the qualifying profits are carried out in Hong Kong by the qualifying physical commodity trader or arranged by it to be carried out in Hong Kong; and

(c) the activities are not carried out by a permanent establishment of the qualifying physical commodity trader outside Hong Kong.

Minimum annual business turnover requirement

5. To ensure that the tax concessionary regime achieves the policy intent – attracting the presence of physical commodity traders engaged in physical commodity trading activities at a significant scale to Hong Kong, we recommend specifying a minimum annual business turnover for the qualifying physical commodity traders, i.e. the total income derived from the qualifying physical commodity trading activity is not less than HK$700 million. This proposed threshold has taken reference from overseas practices and is considered reasonable in general by the local and non-local physical commodity traders interviewed.

Minimum requirements on the use of Hong Kong maritime services

6. As the main purpose of the tax concessionary regime is to drive the development of the maritime service industry, we recommend, where the qualifying physical commodity trader has incurred expenditure on one or more "specified maritime services" (see paragraph 7), at least part of its expenditure shall be incurred on services provided by "Hong Kong-based service providers"[10] as follows:

(a) 30% of the expenditure on any of the specified maritime services in aggregate, or

(b) 50% of the expenditure on one of the specified maritime services.

7. "Specified maritime service" means any service provided for, or in connection with the following: ship leasing activity, ship leasing management activity, ship agency activity, ship management activity, ship broking activity,

[10] Hong Kong-based service provider refers to a person whose business is registered in accordance with the Business Registration Ordinance (Cap. 310).

freight booking, ship repairing, ship tug-and-tow, maritime legal services (provided that Hong Kong is specified as the place of arbitration of maritime-related disputes) and marine insurance.

8. The "30% or 50%" option would give some leeway for enterprises to consider mix-and-match of the specified maritime services to be engaged for meeting the criterion, which helps strike a balance between the need for encouraging the use of Hong Kong's maritime services (for achieving our policy objectives to drive the development of the sector) and allowing operational flexibility for qualifying physical commodity traders to avoid undermining the attractiveness of the concessionary tax regime, particularly when certain types of services may not be in ample supply in Hong Kong at the moment (e.g. freight booking).

Economic substance requirements

9. Having regard to the practices of other tax concessionary regimes, we recommend setting the following economic substance requirements for the qualifying physical commodity traders:

(a) for those electing for the profits tax rate of 8.25%: having not less than three full-time employees and incurring not less than HK$3 million annual operating expenditure; or

(b) for those electing for the profits tax rate of 15%: having not less than one full-time employee and incurring not less than HK$1 million annual operating expenditure.

Appendix

Proposed List of "Qualifying Physical Commodity Items"

Energy and Industrial Commodities	Agricultural Commodities	Metal Mine Commodities
- Crude oil - Natural gas - Gasoline - Heating oil - Liquefied petroleum gas - Coal@ - Bitumen - Diesel - Fuel oil - Naphtha - Rubber - Urea - Woodpulp - Metallurgical coke - Petroleum coke - Hydrogen# - Green methanol# - Biofuel#* - Ammonia#	- Wheat - Corn - Soybeans - Coffee - Sugar - Cotton - Soybean oil - Lumber - Oats - Palm olein - Rough rice - Cocoa - Canola	- Copper - Aluminium - Zinc - Nickel - Iron Ore - Lithium carbonate - Lithium hydroxide - Cobalt hydroxide - Cobalt metal - Bauxite - Aluminium metal - Aluminium oxide - Gold ore and concentrates - Hot-rolled coils - Lead - Molybdenum - Stainless steel - Steel - Tin - Titanium^ - Magnesium^ - Antimony^ - Silicon^

\# These items are added due to their potential to become green maritime fuel.

^ To support the Country's development on tinted metals, these items are added on top of the items on the product list of major commodities exchanges around the globe (which may include tinted metals).

* This item includes sustainable aviation fuel (SAF) in general taking into account the policy initiatives stated in the 2024 Policy Address to further promote SAF uptake at Hong Kong International Airport.

@ Coal encompasses, inter alia, thermal coal and metallurgical coal.