HK FINANCIAL SERVICES DEVELOPMENT COUNCIL 香港金融發展局

Asset and Wealth Management in Hong Kong - Tax Recommendations towards Further Development

25 May 2022

Objective

- **Promoting asset classes that are currently underdeveloped in Hong Kong by providing incentives, clarity and operational efficiency**

- Attracting institutional investors by providing a level playing field in terms of tax to each type of asset owners

- Addressing the room for improvement in the unified profits tax exemption for funds (UTE) and the open-ended fund company (OFC) regime

Promoting asset classes that are currently underdeveloped in Hong Kong

Debt capital market

- Hong Kong's thriving and strong equity capital market has long been recognised globally as one of its fortes. Comparatively, Hong Kong's debt capital market has developed at a much slower pace. This trend is also true when compared to other leading global (and regional) financial centre counterparts.
- The stunted growth of Hong Kong's debt market can be attributed to various factors. Some of them relate to features of the public debt markets in Asia that have been well documented. Others could be attributed to the fact that the development of tax policies in Hong Kong in this space are falling behind compared to that of its fiscal policy.
- In his 2022-23 Budget Speech, the Financial Secretary expressed that "developing the bond market in Hong Kong has been one of our key objectives in recent years."

Raising awareness of current tax concessions and facilitating international debt capital flow

FSDC's Recommendations

In order to raise the awareness of current tax incentives relating to QDIs, HK' tax concessions on QDIs should be more widely publicised.

The Hong Kong Government should explore ways to facilitate the flow of international debt capital by attracting appropriate candidates, and encouraging a variety of investors with a view to diversifying the market.

Promoting asset classes that are currently underdeveloped in Hong Kong

Reviewing the tax regime for the debt capital market

FSDC's Recommendations

Fixed income	Private credit, distressed debts and NPLs	Infrastructure Funds
Legislation should be amended to clarify that interest income on bonds and debt investments constitutes a qualifying transaction. Therefore, fixed income instruments can also completely embrace the UTE exemption. Issuers which are not financial institutions would need similar certainty and/or flexibility in this respect to increase the number of bond issuances in HK.	**Extending the UTE tax exemption to privately offered funds investing in distressed debts, NPLs and credit strategies**	**Amending the relevant section of the law to expand the scope of infrastructure assets qualifying for UTE tax exemption**

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Attracting institutional investors by providing a level playing field in terms of tax to each type of asset owners

Endowment funds

Extending the tax exemption to include endowment funds

A specific provision should be included to treat endowment funds as a fund or a "qualifying institutional investor" under the UTE

Pension funds

Extending the tax exemption to include pension funds

And recommending changes to the tax law to encourage pension funds to set up offices in Hong Kong for their in-house fund management arm

Family offices investment vehicles

Extending the tax exemption to include family office investment vehicles

Extension of the current UTE to cover family-owned investment vehicles managed by genuine family offices

Offering a level playing field to each class of asset owners

Attracting institutional investors by providing a level playing field in terms of tax to each type of asset owners

Employee investment vehicles

Extending the UTE tax exemption to include employee investment vehicles

Tax policy and legislative changes should be made. HK should consider measures to attract MNCs to come to HK to manage their employee investment vehicles

Insurance companies

Revisiting the applicability of the UTE tax exemption to insurance companies

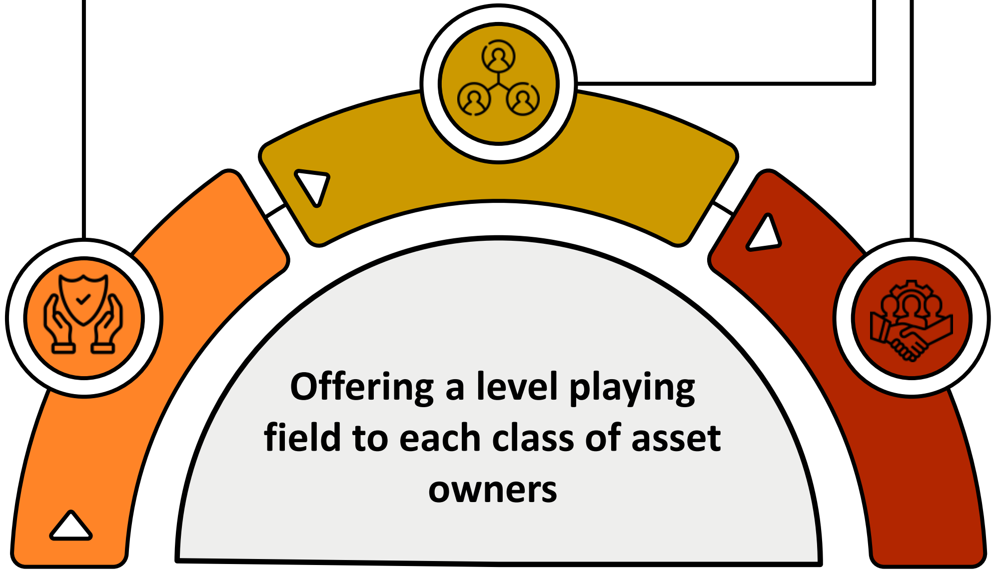
(a) A tax exemption on the investment income of HK insurers if their insurance funds' assets are managed in HK

(b) To address issues faced by insurance groups with HK parent companies/ regional holding companies if they manage the assets of their overseas insurance group entities HK

Co-investment vehicles

Extending the UTE tax exemption to include co-investment vehicles

If the main fund is tax exempt under the UTE, the co-investment vehicle should likewise be tax exempt



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Addressing the room for improvement in the UTE and the OFC regime

Creating streamlined and friendly UTE and OFC regimes

- The scope of Hong Kong’s exemption for privately offered funds regime has worked well since it was first introduced in 2006.
- However, the UTE enacted in 2019 does have some deficiencies. The way in which the UTE provisions have been drafted, and their interpretation by the IRD, has resulted in uncertainty at the fund and SPE level as well as for the industry as to their application to specific investor groups, such as pension funds, family offices and other investment vehicles.

FSDC’s recommendations:

Expanding the scope of funds able to fall within the exemption	**Expanding the scope of permitted asset classes (particularly private investments) that can fall within the exemption**	**Removing or refining the restriction on ‘short-term assets’**
Removing the existing deeming provisions	**Streamlining procedure for the issuance of certificate of resident status**	**Providing an exemption of Hong Kong stamp duty on the transfer of stocks in OFC**

Thank you

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