

Inland Revenue (Amendment) (Aircraft Leasing Tax Concessions) Bill 2023 gazetted

The Government published in the Gazette today (November 17) the Inland Revenue (Amendment) (Aircraft Leasing Tax Concessions) Bill 2023 to enhance the aircraft leasing preferential tax regime (Regime) introduced in 2017, with a view to strengthening Hong Kong's competitiveness in the global aircraft leasing industry.

The Bill amends the Inland Revenue Ordinance (Cap. 112) with proposed legislative amendments covering the following aspects:

- (1) to provide qualifying aircraft lessors with tax deduction of the acquisition cost of aircraft;
- (2) to expand the scope of the Regime to include wet lease and funding lease and remove the one-year term of lease restriction;
- (3) to provide for a more general meaning of "aircraft leasing activity" so that the Regime will cover leasing activities other than leasing aircraft to aircraft operators;
- (4) to allow deduction of interest payable for acquisition of aircraft to a financier outside Hong Kong who is not a financial institution and may be an associate of the borrower; and
- (5) to prescribe threshold requirements for aircraft lessors and aircraft leasing managers qualifying for the Regime to comply with the requirements of Organisation for Economic Co-operation and Development (OECD).

A Government spokesman said, "Aircraft leasing is global and footloose in its operations, and tax incentive is a key, if not the most important, consideration for aircraft lessors to choose where to conduct their businesses. With the proposed enhancement measures, we strive to capitalise on our strengths in finance and professional services to boost the competitiveness of Hong Kong for this highly mobile and globalised industry, thereby diversifying the economic structure of Hong Kong and promoting Hong Kong's soft power as an international aviation and financial hub."

The Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area advocates leveraging Hong Kong's strengths in financial and logistics services to develop high-value added cargo, aircraft leasing and aviation financing services. The report to the 20th National Congress of the Communist Party of China supports Hong Kong to give full play to its strengths and distinctive features and to consolidate and elevate its international position in such fields as finance, trade, shipping and aviation. There have been noticeable market changes in the global aircraft leasing industry in recent years due to reasons including the pandemic. The upcoming implementation of international tax reform proposals drawn up by the OECD (commonly known as BEPS 2.0) will also diminish the competitiveness of the Regime. The Regime needs to keep pace with market changes and

international tax reforms to retain the existing aircraft leasing businesses and the associated tax revenue and economic benefits as well as capturing a larger global market share, the spokesman added.

Upon the passage of the Bill, the legislative amendments will take retrospective effect from the year of assessment beginning on April 1, 2023, to allow the early implementation of the enhancement measures.

The Bill will be introduced into the Legislative Council for first and second readings on November 29.