

Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021 gazetted

The Government published the Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021 (the Bill) in the Gazette today (January 29).

The Bill aims to amend the Inland Revenue Ordinance (Cap. 112) to provide tax concessions for carried interest distributed by eligible private equity (PE) funds operating in Hong Kong.

"In recent years, PE funds have become a key impetus to the growth of asset and wealth management business. PE funds play a pivotal role in channelling capital, talents and expertise into corporations, in particular start-ups in the innovation and technology sector. The proposed tax concessions for carried interest shall attract more PE funds to operate and be managed in Hong Kong, boost more investment management and related activities which will create business opportunities in related professional services and bring economic benefits to Hong Kong," a spokesman for the Financial Services and the Treasury Bureau said.

"Qualifying carried interest recipients have to provide investment management services in Hong Kong and fulfil substantial activities requirements. For tax concessions to apply, carried interest must arise from eligible transactions in private companies and be distributed by a fund certified by the Hong Kong Monetary Authority or the Innovation and Technology Venture Fund Corporation set up by the Government," the spokesperson added.

The Government proposes that eligible carried interest would be charged at profits tax rate of 0 per cent, while 100 per cent of eligible carried interest would be excluded from employment income for the calculation of salaries tax.

In addition, the Government also proposes to expand the classes of assets that may be held and administered by a special purpose entity on behalf of a fund for the purpose of a profits tax exemption regime for funds, with a view to facilitating the operation of funds in Hong Kong.

Broadly speaking, carried interest refers to a return linked to the performance of an investment of a PE fund, typically upon the disposal of the investment after it has been held for a period of time.

The Bill will be introduced into the Legislative Council for first reading on February 3.