

Inland Revenue (Amendment) (Tax Concessions for Intellectual Property Income) Ordinance 2024 gazetted

The Government today (July 5) gazetted the Inland Revenue (Amendment) (Tax Concessions for Intellectual Property Income) Ordinance 2024. The Amendment Ordinance, which amends the Inland Revenue Ordinance (Cap. 112) to implement the "patent box" tax incentive to provide tax concessions for qualifying profits sourced in Hong Kong and derived from eligible intellectual properties (IP) created through research and development (R&D) activities, comes into operation today.

"We are grateful to the Legislative Council for promptly scrutinising and passing the relevant bill, enabling the successful implementation of a major policy measure to promote the development of IP trading under the 2023 Policy Address and 2023-24 Budget. The 'patent box' tax incentive encourages enterprises to forge ahead with more R&D activities and promotes IP trading, thereby consolidating Hong Kong's competitiveness as a regional IP trading centre," a spokesman for the Commerce and Economic Development Bureau said.

The Amendment Ordinance mainly covers the following five key areas:

- (1) eligible IPs covered are patents, copyrighted software and new plant variety rights;
- (2) eligible IPs can be registered in different places around the world and their related profits sourced in Hong Kong can benefit from the "patent box" tax incentive;
- (3) the concessionary tax rate is set at 5 per cent, which is substantially lower than the existing normal profits tax rate in Hong Kong (i.e. 16.5 per cent);
- (4) eligible IPs must be developed by taxpayers themselves. If the R&D process involves acquisition of other IPs, or outsourcing part of the R&D activities, the amount of profits eligible for the concessionary tax rate may be reduced proportionally; and
- (5) enterprises need to obtain local registration for their inventions or new plant varieties in order to enjoy the "patent box" tax incentive. This requirement will only start to implement two years after the "patent box" tax incentive comes into operation.

As the Amendment Ordinance takes effect, taxpayers can apply for the "patent box" tax incentive starting from the year of assessment 2023/24. The Inland Revenue Department will provide further administrative guidance on its website (www.ird.gov.hk) for taxpayers' reference.

The Government has spared no effort in protecting IP rights and promoting IP trading to tie in with the national strategy to develop IP, and has been implementing a series of short, medium and long-term measures from various aspects, including enhancing the IP regulatory regime, to promote the development of Hong Kong into a regional IP trading centre. In this regard, in view of the copyright issues arising from the rapid development of artificial intelligence technology, the Government will conduct a consultation soon to explore further enhancement of the relevant protection provided by the Copyright Ordinance, so as to ensure that Hong Kong's copyright regime remains robust and competitive.