

## LCQ22: Tax measures for aviation and maritime industries

Following is a question by the Hon Holden Chow and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (January 16):

Question:

Since July 2017, the Government has been providing tax concessions for qualifying aircraft lessors and aircraft leasing managers. Such tax concessions include setting the profits tax rate for such enterprises at 8.25 per cent, i.e. one-half of the prevailing normal profits tax rate. On the other hand, it was mentioned in last year's Policy Address that the Government would use tax measures to foster ship leasing business in Hong Kong, as well as to promote the development of business of marine insurance and the underwriting of specialty risks in Hong Kong. In this connection, will the Government inform this Council:

(1) of the respective numbers of qualifying (i) aircraft lessors and (ii) aircraft leasing managers that have benefited from the aforesaid tax concessionary measures for aircraft leasing business since the implementation of such measures; the respective numbers of these two types of enterprises which were registered in Hong Kong, and the rates of change of such numbers, in each of the past three years; and

(2) of the Government's initial thinking regarding the tax measures to be introduced for promoting the development of ship leasing and marine insurance businesses in Hong Kong; whether it will set the profits tax rate for enterprises engaging in such businesses at 8.25 per cent?

Reply:

President,

The HKSAR Government is committed to developing Hong Kong's aviation and maritime industries to entrench our position as an international aviation hub and an international maritime centre. On aviation side, civil aviation is a long-term growth business. The rapid development of the Asia Pacific region in recent years has in particular induced the demand for aircraft leasing in the region. According to analysis conducted by the industry, the proportion of new aircraft being financed by leasing has risen to more than 30 per cent in recent years. To enhance the competitiveness of Hong Kong in the aircraft leasing business, the Government put forward the Inland Revenue (Amendment) (No. 2) Bill 2017 in 2017 to provide dedicated tax concessions to qualifying aircraft lessors and qualifying aircraft leasing managers in Hong Kong, with a view to developing Hong Kong into an aircraft leasing and financing hub.

On maritime, Hong Kong possesses a long maritime tradition and a diversified maritime services cluster. Among various maritime services, ship finance is a high value-added and high growth business. Shipping loans and advances in Hong Kong has more than doubled in the past ten years, registering an average annual growth rate of over 10 per cent. Among the ship finance business, ship leasing is a new business model with growing prevalence in the global shipping industry, particularly in the Mainland, and has great development potentials. As an international financial centre, Hong Kong has solid foundation and strengths to further develop the related businesses, with a view to promoting Hong Kong as a ship leasing centre in the Asia-Pacific region.

Our reply to the question raised by the Hon Holden Chow is as follows:

(1) Since the commencement of the dedicated tax regime for aircraft leasing in July 2017, eight qualifying aircraft lessors and one qualifying aircraft leasing manager have received relevant tax benefits under the regime. Before the dedicated tax regime was in place, companies had few incentives to develop aircraft leasing business and the scale of aircraft leasing in Hong Kong was not substantial. As such, the Government did not keep record of the number of aircraft lessors and aircraft leasing managers specifically.

(2) The Government will introduce tax measures to foster the development of the ship leasing business in Hong Kong, including ship leasing and ship leasing management. In this regard, the Government has commissioned the Hong Kong Maritime and Port Board (HKMPB) to set up a dedicated task force to study the details of the tax measures, including the scope of application, rate of tax concession and other detailed arrangements. The task force which comprises members of the HKMPB and industry representatives has been formed last year, and the relevant study work is currently underway. It is expected that the study would be completed by the second half of this year and the proposed arrangement for the tax measures would be submitted to the HKMPB and the HKSAR Government.

Besides, to strengthen Hong Kong's status as a regional insurance hub, the Government will propose providing 50 per cent profit tax concessions for marine insurance and the underwriting of specialty risks (such as political risks and war risks), so as to promote the development of relevant businesses.