

## Hong Kong Tax Incentive for Aircraft Leasing Activities

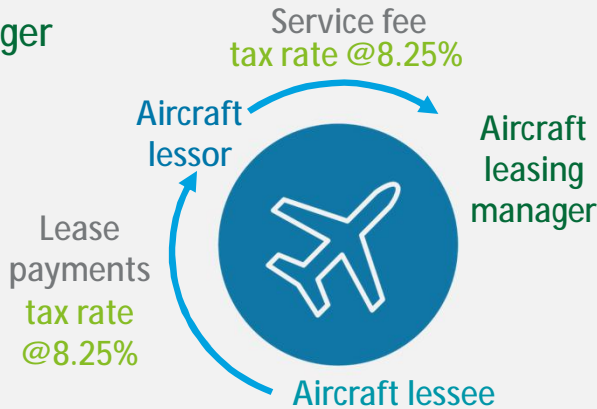
**Half Tax Rate** qualifying aircraft lessors / qualifying aircraft leasing managers can enjoy concessionary tax rate of **8.25%** (i.e. half of the prevailing profits tax rate of 16.5%) on profits derived from qualifying aircraft leasing activities (including dry lease, wet lease and funding lease) / qualifying aircraft leasing management activities, subject to certain conditions.

### Qualifying aircraft lessor / aircraft leasing manager

A corporation carrying out qualifying aircraft leasing / aircraft leasing management activities

Not an aircraft operator

Not carry out in Hong Kong any activities other than qualifying aircraft leasing (management) activities, subject to safe harbor rule for aircraft leasing manager



### Key conditions for tax concession

Central management and control in Hong Kong

Qualifying activities carried out or arranged to be carried out in Hong Kong

Not carried out by a permanent establishment outside Hong Kong

Aircraft owned by the qualifying aircraft lessor

### Deduction for acquisition cost of aircraft

No deduction / depreciation allowance (compensated by a 20% tax base concession)

Year of assessment 2023/24

Full tax deduction

### Deduction for interest expenses

Allow deduction of interest payable on money borrowed wholly and exclusively for acquisition of an aircraft by a qualifying aircraft lessor for producing qualifying profits

### Other considerations

Anti-avoidance provisions

Entitlement of tax concession by election, irrevocable once elected

Substantial activities requirement

Anti-tax arbitrage rule

Arm's length principle



**No. of full-time qualified employees in Hong Kong**

Not less than **1** (aircraft lessor) / **2** (aircraft leasing manager)




**Annual operating expenditure in Hong Kong**

Not less than **HKD2 million** (aircraft lessor) /  
Not less than **HKD1 million** (aircraft leasing manager)

## Tax treaty benefit


### Reduced withholding tax rate (WHT) for Mainland

 Reduced WHT rate from 7% to 5%


 Apply to lease rentals paid from Mainland to an aircraft leasing business in Hong Kong

 Under PRC-HK DTA (4th protocol)


## Service offerings

 **Business Model Planning**


- recommend a tax efficient business model

 **Implementation**

- review lease / management agreements
- perform transfer pricing analysis
- provide tax compliance services
- assist to apply for Certificate of Resident to enjoy beneficial WHT under PRC-HK DTA

 **Review**

- review current aircraft leasing arrangements for eligibility of tax concession
- advise on election for tax concession

 **Advance ruling**

- assist to obtain a ruling from the Inland Revenue Department on the application of the tax incentive

## Key contacts

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