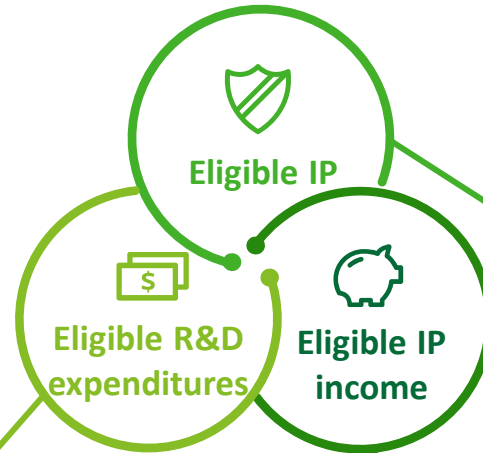


Hong Kong Patent Box Tax Incentive

Concessionary tax rate of 5% for **qualifying profits sourced in Hong Kong** from **eligible intellectual property (IP)** created through **research and development (R&D) activities** (follows the OECD's nexus approach)

Expenditures on R&D activities:

- ✓ Undertaken by the taxpayer inside or outside Hong Kong
- ✓ Outsourced to non-associated person to take place inside or outside Hong Kong
- ✓ Outsourced to resident associated person to take place inside Hong Kong
- ✗ *IP acquisition costs, interest payments and payments for land or building*



- Patent*
- Plant variety right*
- Copyrighted software

* granted, registered or under applications in or outside Hong Kong

- Income derived from an eligible IP in respect of the exhibition or use of, or a right to exhibit or use (whether in or outside Hong Kong) the IP
- Income arising from the sale of an eligible IP
- Price of a product or service attributable to an eligible IP (embedded IP income)
- Insurance, damages or compensation derived in relation to an eligible IP

Calculation of the concessionary portion

$$\begin{array}{c} \text{Concessionary portion} \\ \uparrow \\ \text{Subject to 5\% concessionary tax rate} \end{array} = \begin{array}{c} \text{Assessable profits} \\ \text{from eligible IP income} \end{array} \times \begin{array}{c} \text{R\&D fraction\#} \\ \frac{\text{Eligible R\&D expenditure} \times 130\%}{\text{Eligible R\&D expenditure} + \text{Non-eligible expenditure}} \end{array}$$

Cumulative ratio; limited to 100%

Other considerations

Written election
(irrecoverable once made)

Effective date

Apply retrospectively from the year of assessment beginning on or after **1 April 2023**

How can we help?

Business process review

- Review and conduct feasibility studies to assess the current business process for eligibility to the tax incentives

IP business model optimization

- Recommend a tax efficient operating model that aligns with business needs and enhancing the use of the tax incentives
- In-house support and education on obtaining and utilizing benefits from the tax incentives

Patent filing

- Support the drafting and filing of patents from a legal and tax advisory perspective

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Documentation

- Draft and review legal contracts and documentation to support eligibility for the tax incentives

Implementation

- Assist to obtain an advance ruling from the Inland Revenue Department on the application of the tax incentive
- Conduct a transfer pricing study to identify the embedded IP income
- Assist to establish and maintain a cost sharing arrangement
- Provide tax compliance services



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