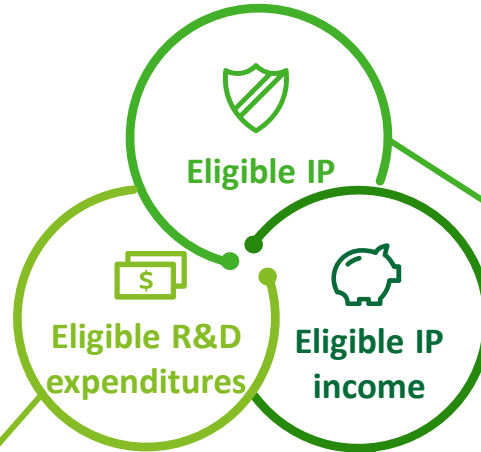


## Hong Kong Patent Box Tax Incentive (proposed)

**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; and
- ✓ Outsourced to resident associated person to take place inside Hong Kong.
- ✗ *IP acquisition costs, interest payments and payments for land or building*



- Patents\*
- Plant variety rights\*
- 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 that includes an amount 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?



### Review

- Review the current arrangements for eligibility to the tax incentive



### IP business model optimization

- Recommend a tax efficient model by making use of the tax incentive



### Implementation

- Conduct a transfer pricing study to identify the embedded IP income
- Provide tax compliance services



### Advance Ruling

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

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