

Hong Kong Tax Incentive for Ship Leasing Activities

0% Tax Rate - qualifying ship lessors and ship leasing managers can enjoy concessionary tax rate of **0%** on profits derived from qualifying ship leasing activities (include operating lease (head lease and sub-lease) and funding lease exceeding 1 year) / qualifying ship leasing management activities to associated qualifying ship lessors, subject to certain conditions.

Half Tax Rate - qualifying ship 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 ship leasing management activities to non-associated qualifying ship lessors, subject to certain conditions.

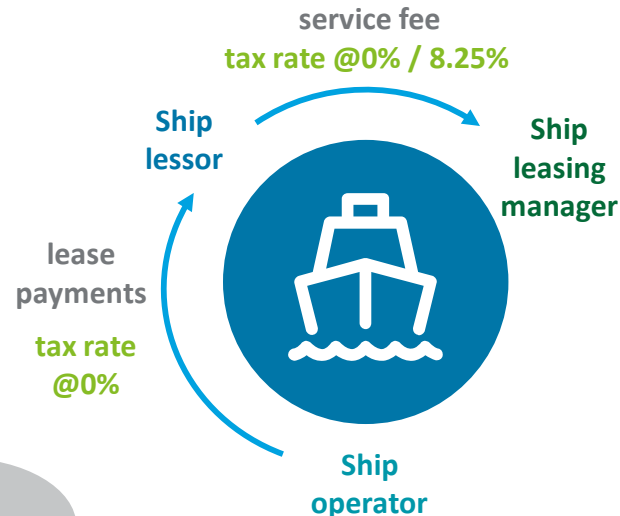
20% Tax Base - only 20% of the net lease payments are assessed to the qualifying ship lessors to compensate for non-entitlement of depreciation allowances of the ship.

Qualifying ship lessor / ship leasing manager

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

Not a ship operator

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



Key conditions for tax concession

Central management and control in Hong Kong

Qualifying activities carried out in Hong Kong

Not carried out by a permanent establishment outside Hong Kong

The ship is of over 500 gross tonnage and navigating solely or mainly outside the waters of Hong Kong

Other considerations

Anti-avoidance provisions

Anti-tax arbitrage rule

Entitlement of tax concession by election, irrevocable once elected

Arm's length principle

Substantial activities requirement



Average no. of full-time qualifying employees in Hong Kong

Not less than **2** (ship leasing) / **1** (ship leasing management)

Annual operating expenditure incurred in Hong Kong

Not less than **HK\$7.8 million** (ship leasing) /

Not less than **HK\$1 million** (ship leasing management)

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 a ship leasing business in Hong Kong



Under PRC-HK DTA (4th protocol)

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Service offerings



Business Model Planning

- recommend a tax efficient 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 ship leasing arrangements for eligibility to tax concession
- advise on the election for tax concession



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