



## **Hong Kong Tax Newsflash:** Passage of expanded deduction for purchase of intellectual property rights

The Inland Revenue (Amendment) (No.5) Ordinance 2018, which expands the scope of profits tax deduction for capital expenditures incurred for the purchase of intellectual property rights (IPRs), has been enacted.

On top of the existing five types of IPRs (i.e. patents, know-how, copyright, registered designs and registered trademarks), the capital expenditures for purchasing three types of IPRs (i.e. rights in layout design (topography) of integrated circuits, plant varieties and performances) are qualified for deduction under Section 16EA of the Inland Revenue Ordinance (IRO). Such capital expenditures are generally allowable for deduction over five consecutive years on a straight-line basis starting from the year of purchase. The mechanism and restrictions are similar to the existing rules for copyright, registered design and registered trademark under Section 16EC of the IRO. The registration expenses for the three newly added IPRs are also deductible under Section 16(1)(g) of the IRO. These provisions apply to expenditures incurred in the year of assessment 2018/19 and onwards.

As a symmetry, royalties received for the use of the three newly added IPRs are taxable, following the mechanism of the existing Section 15(1)(b) and (ba) of the IRO. In addition, sums received by a performer or an organizer for the assignment of a performer's right in relation to a performance in Hong Kong is taxable under Section 15(1)(bb) of the IRO. These provisions apply to sums accrued on or after 29 June 2018. Please note that the Hong Kong payer is obliged to withhold the relevant tax amount.

For more details, please refer to our [Tax Analysis](#) issued on 18 April 2018.

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