Hong Kong Tax Alert

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Hong Kong publishes legislative bill[1] to (i) enhance tax concessions for the maritime services industry and (ii) introduce a half-rate tax regime for physical commodity traders

- *The bill was published on 12 June 2026 and is expected to be passed into law in the second half of 2026. Once enacted, these measures will apply retrospectively to transactions as early as 2 April 2024, i.e., any transactions that fall within the year of assessment 2025/26. The key provisions of the bill are outlined below. Clients who would like to know more about the bill or explore how they can benefit from the proposed tax measures can contact their tax executive.*

[1] The bill can be accessed via the link below:
https://www.legco.gov.hk/yr2026/english/bills/b202606123.pdf

Maritime service industry

The proposed enhancements to the existing tax concessions for the maritime service industry include:

(i) relaxing the definition for ship leasing to cover short-term leases of not more than one year;

(ii) introducing an additional annual option of a 15% concessionary rate for enterprises that are subject to the tax reform package (commonly referred to as "BEPS 2.0") of the Organization for Economic Co-operation and Development. The economic substance requirements in terms of the number of qualified persons employed and annual operating expenditure incurred for this option will be lower. This option is aimed at enabling relevant enterprises to achieve an effective tax rate of 15% and thereby easing their compliance cost in completing part of the complex Global Anti-Base Erosion calculation regarding their operations in Hong Kong;

(iii) Introducing a tax deduction for acquisition costs of ships held under operating lease. As compared with the existing 20% notional tax base concession which is a permanent difference, granting tax deductions based on the actual costs incurred, being a temporary difference, would allow deferred taxes to be included as covered taxes. This would avoid the effective tax rate of the relevant enterprises being unduly dragged down for BEPS 2.0 purposes; and

(iv) relaxing the deduction rules for interest incurred for financing the acquisition of ships.

Physical commodity traders

The bill proposes introducing a half-rate profits tax concession (i.e. 8.25%) for assessable profits derived by a qualifying physical commodity trader from qualifying physical commodity trading activities. In-scope entities covered by BEPS 2.0 will also have an annual option to be taxed at the 15% concessionary tax rate.

In addition to the general conditions for preferential regimes, the eligibility for the new tax regime will be subject to specific terms including (i) a minimum annual business turnover of not less than HK$700 million; (ii) a minimum requirement for the use of Hong Kong maritime services; and (iii) economic substance requirements.

The above proposed measures, applying to years of assessments beginning on or after 1 April 2025 so as to be aligned with the implementation of BEPS 2.0, are expected to be passed into law in the second half of 2026.

Observations

Most of the provisions of the bill were already revealed in the briefing paper submitted by the Transport and Logistics Bureau to the Legislative Council Panel on Economic Development. Clients can refer to our previous alert dated 8 July 2025[2] for the details.

Minimum requirement on the use of Hong Kong's maritime services

Traders of physical commodities are important users of maritime services and are an integral part of the maritime ecosystem. Figures indicate that transportation of their goods generally accounts for more than half of the global shipping volume. Attracting them to Hong Kong to help propel further development of Hong Kong's maritime service industry is the primary purpose of the proposed half-rate tax concessionary regime.

As a means of achieving the objective, one of the conditions to qualify for the concession is that a certain percentage of a qualifying physical commodity trader's expenditure on specified maritime services (referred to as "specified expenditure") has to be incurred on services provided by Hong Kong-based service providers.

Under section 7 of the new Schedule 17FF, any service that is provided for or in connection with any of the following matters set out in subsection (1)(a) to (k) is a "specified maritime service". These matters are: (a) ocean freight booking or chartering; (b) marine cargo insurance; (c) ship agency activity; (d) ship broking activity; (e) ship leasing activity; (f) ship leasing management activity; (g) ship management activity; (h) ship repairing; (i) ship tug-and-tow; (j) specified arbitration related service; and (k) specified legal service.

[2] The tax alert can be accessed via the link below:
[Hong Kong to enhance existing tax concessions for maritime service industry and introduce a new half-rate tax concessionary regime for physical commodity traders | EY China]

The required percentage is as follows:

(a) if the specified expenditure is incurred on only one of the matters specified in section 7(1)(a) to (k) of the new Schedule 17FF – at least 30% of the specified expenditure must be incurred on services provided by Hong Kong-based service providers; or

(b) if the specified expenditure is incurred on more than one of the matters specified in section 7(1)(a) to (k) of the new Schedule 17FF –

(i) at least 30% of the aggregate specified expenditure must be incurred on services provided by Hong Kong-based service providers; or

(ii) at least 50% of the specified expenditure on one of the matters specified in section 7(1)(a) to (k) of the new Schedule 17FF must be incurred on services provided by Hong Kong-based service providers.

The above "30% or 50%" option would give some leeway to the qualifying traders to mix-and-match the specified maritime services. Such an option strikes a balance between the policy intent of promoting the use of Hong Kong's maritime services, and providing flexibility for qualifying traders, without undermining the attractiveness of the tax concession.

The option would be particularly helpful when certain types of maritime services may not be in ample supply in Hong Kong at the moment (e.g. ocean freight chartering and booking).

For example, in such a case, a qualifying physical commodity trader may choose to procure specified legal services under section 7(1)(k), which are in ample supply in Hong Kong, mostly from Hong Kong-based service providers. This is because under condition (b)(ii) above, so long as more than 50% of the specified expenditure on any one of the matters specified in section 7(1)(a) to (k) is incurred on services provided by Hong Kong-based service providers, the minimum requirement on the use of Hong Kong's maritime services will be met.

Usual transitional administrative measure

While the bill may not be passed into law in time for taxpayers to file their 2025/26 tax returns, as a usual transitional administrative measure, taxpayers who are eligible for the tax concessions proposed under the bill may submit their 2025/26 tax returns on that basis.

Many of the provisions of the bill are however complex. Clients who would like to know more about the bill or explore how they can benefit from these two tax initiatives can contact their tax executive.

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