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ASSET MANAGEMENT TAX UPDATE

February 2022

The 2022-23 Budget: Key Takeaways for Asset and Wealth Management

In the backdrop of an ongoing surge in COVID-19 Omicron variant cases as Hong Kong enters into its fifth wave, this year's Budget focused primarily on continued efforts to weather the COVID-19 pandemic, stabilise the economy and provide support to citizens. However, several initiatives announced may have a significant impact on the Wealth and Asset Management sector, which we have summarised in this update.

A new tax concession for single family offices in Hong Kong is an exciting development, and one that we have been supporting during the soft consultation in order to get the right framework for Hong Kong. This is a welcomed initiative that could enhance Hong Kong's position as the leading Wealth and Asset Management hub in the region.

Going forward, Hong Kong needs to continue to introduce market-enhancing initiatives to maintain competitiveness with other regional hubs and maintain its market-leading position.

For example, extending the Unified Funds Exemption to address the inclusion of debt investments made by funds would be an important step that would be beneficial for managers with private credit and debt strategies. Further consultation between the Government and asset managers is recommended to clarify this issue, in order to reduce the likelihood of funds making use of more favorable rules in other jurisdictions.

Summary

The 2022-2023 Budget includes new and ongoing initiatives to continue to support the Asset and Wealth Management sector and promote Hong Kong's attractiveness as a financial services hub. Highlights in this year's Budget include:

- The HKSAR Government has proposed tax concessions for family investment management entities managed by single-family offices. A consultation is currently underway;
- Multinational corporations may face a new global minimum tax rate of 15% as per BEPS 2.0 rules. In line with these rules, the HKSAR Government will also introduce a domestic minimum top-up tax on corporations from 2024-25. The Government is also continuing to negotiate Double Taxation agreements with 14 additional jurisdictions;
- HKD5 billion Greater Bay Area fund aims to boost investment in the region;
- Pilot scheme for infrastructure securitisation will help to further establish Hong Kong as an infrastructure finance hub

The 2022-23 Hong Kong Budget announced on 23 February 2022 detailed a number of initiatives to support the Asset and Wealth Management industry:

New tax concessions for single family offices

Hong Kong has announced that it will introduce a new tax concession designed to promote Hong Kong as leading hub for family offices in the region.

Consultation on the new concession will take place shortly and aims to submit legislative amendments to the Legislative Council within the current legislative year.

The framework of the concession is likely to follow that of the Unified Funds Exemption, with some key refinements to cater to family offices with members based in Hong Kong. It is expected that those family offices that qualify for the concession will be able to manage their investments from Hong Kong without exposing the investment gains to Hong Kong tax.

The HKSAR Government expects the tax concessions will come into effect in the 2022/23 year of assessment. This is an exciting development for the Asset and Wealth management sector in Hong Kong, as it should help to attract high net-worth Asian families to establish family offices in the city, and also help to attract related talent to support these offices.

Minimum top-up tax to align with BEPS 2.0 rules; continued Double Taxation Agreement negotiations

Multinational corporations will face a new global minimum tax rate of 15% to protect Hong Kong's taxing rights under the Organisation for Economic Cooperation and Development's Base Erosion and Profit Sharing (BEPS) 2.0 reforms. In line with these rules, the HKSAR Government will also introduce a domestic minimum top-up tax on relevant corporations from 2024-25 which is expected to bring in HKD15 billion in revenue a year. The Government has said it will actively implement the BEPS 2.0 proposals according to international consensus. Although specific rules and exemptions for the Asset and Wealth Management sector are still to be clarified, multinational asset managers and funds operating in Hong Kong will need to pay close attention to how the rules will affect their direct and indirect tax exposures.

The HKSAR Government also announced it is in negotiations for Double Taxation Agreements with an additional 14 tax jurisdictions, which will further help to improve the city's competitiveness from a tax perspective. Hong Kong has already signed 45 such agreements with jurisdictions across Asia and globally.

Additional incentives for asset managers to invest in the Greater Bay Area

To further support investment in the Guangdong-Hong Kong-Macau Greater Bay Area (GBA), the HKSAR Government will boost funding to the Hong Kong Growth Portfolio under the Future Fund to set up a HKD5 billion GBA Investment Fund to incentivise investment in growth companies located across the region. This is a positive step not only with respect to the government earmarking more capital directed at the Asset Management sector, but also in promoting innovation, economic growth and jobs throughout the GBA.

Pilot Scheme on Infrastructure Securitisation

The Hong Kong Mortgage Corporation (HKMC) will launch a study on the implementation of a pilot scheme on infrastructure financing securitisation this year. Under the scheme the HKMC is estimated to offer infrastructure financing securitisation products with a total value of US450 million to investors. This development aligns with the current trend of large asset managers continuing to set up infrastructure funds throughout Asia; and is a welcome development for Hong Kong's competitiveness as an infrastructure finance hub.

The uptake

The 2022-2023 Budget includes welcome developments for certain segments of the Asset Management and Wealth sector, particularly family offices and companies looking to develop new infrastructure financing vehicles. Going forward, to maximise Hong Kong's long-term competitiveness, attention is needed to ensure that fund rules are on par with other leading financial services hubs. In addition, as more capital is allocated to digital assets such as cryptocurrency and non-fungible tokens (NFTs), regulations should also keep pace in order to protect investors and also ensure their confidence from a tax perspective. KPMG is continuing to monitor these developments to provide up-to-date insights for our clients.

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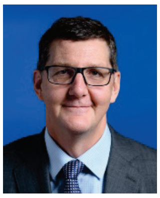

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