

# Hong Kong (SAR) Tax Alert

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## 2023 Policy Address – Summary of key tax and business measures



### Summary

The Chief Executive delivered the 2023 Policy Address on 25 October 2023. The Policy Address contained various policies and measures to consolidate the development of the "eight centres" in the Hong Kong SAR as outlined in the 14th Five-Year Plan, enhance competitiveness, foster economic growth, and attract businesses and talents.

The Chief Executive, Hon John Lee, delivered his second Policy Address speech<sup>1</sup> in the Legislative Council on 25 October 2023. We summarise below the key tax and business-related measures covered in the 2023 Policy Address.

### Summary of the tax measures

#### Stamp duty

The measure	Effective date	Relevant bill/order
1. Reducing the rate of <b>stamp duty on Hong Kong stock transfer</b> from 0.13% to <b>0.1%</b> of the consideration or the market value (whichever is the higher) of the stock transferred, to be payable by each of the buyer and seller	The day immediately after the day on which the corresponding Amendment Ordinance is gazetted.  It is expected that the legislative procedures will be completed by the end of November 2023.	<a href="#">Stamp Duty (Amendment) (Stock Transfers) Bill 2023</a>
2. Shortening the applicable period of the <b>Special Stamp Duty</b> from 36 months to <b>24 months</b>		<a href="#">Public Revenue Protection (Stamp Duty) (No. 2) Order 2023</a>
3. Reducing the rate of each of the <b>Buyer's Stamp Duty (BSD)</b> and the <b>New Residential Stamp Duty</b> from 15% to <b>7.5%</b>	The adjusted criteria, rates and suspension arrangement are deemed to be applicable from	<a href="#">Stamp Duty (Amendment) (Residential Properties) Bill 2023</a>
4. Introducing a <b>stamp duty suspension arrangement</b> <sup>2</sup> for certain <b>overseas talents' acquisition of residential properties in Hong Kong</b> to replace the existing stamp duty "refund arrangement" <sup>3</sup>	<b>11am on 25 October 2023.</b>	

<sup>1</sup> The 2023 Policy Address speech and the related materials can be accessed via this [link](#).

<sup>2</sup> For more details of the stamp duty suspension arrangement, please refer to the Inland Revenue Department's FAQ webpage via this [link](#).

<sup>3</sup> Effective from 19 October 2022, for certain overseas talents admitted into Hong Kong under a specified talent admission scheme and acquired a residential property in Hong Kong as a non-Hong Kong permanent resident (non-HKPR), (i) the BSD and (ii) the difference between the 15% ad valorem stamp duty (AVSD) paid under Scale 1 and the amount of AVSD chargeable under Scale 2 on acquisition of residential property in Hong Kong would be refunded when they subsequently become a HKPR, subject to certain conditions.

## Profits tax

1. Implementing the “**patent box**” **tax incentive**<sup>4</sup> to reduce the profits tax rate for qualifying profits derived from patents and similar intellectual properties from 16.5% to **5%** (legislative proposals to be introduced in the first half of 2024).
2. Introducing a further tax deduction in the year of assessment 2024/25 to encourage employers to make **more MPF voluntary contributions** for their employees aged 65 or above (legislative proposals to be introduced in the first quarter of 2024).

## Salaries tax

Starting from the year of assessment 2024/25:

1. Raising the **deduction ceiling for home loan interest or domestic rents** from HK\$100,000 to **HK\$120,000** per year for taxpayers who **live with his/her first child born** on 25 October 2023 or after, until the child reaches the age of 18.
2. Introducing the tax deduction for assisted reproductive services, subject to a ceiling of HK\$100,000 per year.

## Other key business-related measures

### Measures to attract strategic enterprises and quality talents

- Developing “**headquarters economy**” to attract enterprises from outside Hong Kong to set up headquarters and/or corporate divisions in Hong Kong and exploring feasible measures (e.g. arrangements conducive to capital investment) to facilitate Chinese Mainland enterprises to establish in Hong Kong.
- Introducing a **company re-domiciliation regime**<sup>5</sup> and proactively reaching out to major Hong Kong listed companies registered overseas to encourage relocation to Hong Kong (legislative proposals to be introduced in the first half of 2024).
- Expanding the coverage of universities under the **Top Talent Pass Scheme** by adding eight top-notch institutions from the Chinese Mainland and overseas to the list of eligible universities.
- Launching the **Capital Investment Entrant Scheme** to allow eligible investors who make investments of HK\$30 million or more in assets (excluding real estate) to apply for entry into Hong Kong (details to be announced by the end of 2023).
- Establishing a physical office for Hong Kong Enlarge to formulate talent recruitment strategies and provide support for incoming talents.

### Measures to foster the economic growth and development of specific industries / sectors

#### International financial centre

- Reforming the GEM market to (i) streamline the transfer mechanism to the Main Board and (ii) add a new listing route for research and development-focused companies, with a plan to implement the revised Listing Rules in the first quarter of 2024.
- Deepening mutual access with the Chinese Mainland financial market via measures such as (i) including RMB counters under the Southbound Trading of Stock Connect to facilitate the trading of Hong Kong stocks in RMB, (ii) further enhancing the Bond Connect programme and (iii) facilitating Hong Kong's limited partnership funds to be qualified under the Qianhai Qualified Foreign Limited Partnerships to participate in private equity investment in the Chinese Mainland.
- Launching a dedicated proof-of-concept subsidy scheme for green Fintech in the first half of 2024 to promote the development of technological solutions and provide early-stage funding support for pre-commercialised green Fintech.
- Establishing a new integrated fund platform in Hong Kong within the next year to expand Hong Kong's fund distribution network, enhance market efficiency and lower transaction costs.
- Implementing a risk-based capital (RBC) regime<sup>6</sup> for the insurance industry in Hong Kong within 2024.

<sup>4</sup> For a more detailed discussion on the proposed patent box tax regime in Hong Kong, please refer to our Hong Kong (SAR) Tax Alert via this [link](#).

<sup>5</sup> For more details of the proposed company re-domiciliation regime, please refer to our Hong Kong (SAR) Tax Alert via this [link](#).

<sup>6</sup> Regarding the taxation arrangement under the RBC regime, please refer our Hong Kong (SAR) Tax Alert via this [link](#).

### International innovation and technology (I&T) centre

- Setting up the New Industrialisation Development Office to promote new industrialisation in Hong Kong.
- Setting up a HK\$10 billion “New Industrialisation Acceleration Scheme” to provide financial assistance for enterprises in the fields of life and health technologies, AI and data science, advanced manufacturing, and new energy technologies.
- Expediting the establishment of a supercomputing centre to foster AI development.

### Others

- International trade centre – seeking early accession to the Regional Comprehensive Economic Partnership and consolidate business co-operation with the ASEAN and Middle East markets.
- International shipping centre – to publish an action plan later this year to enhance high-end maritime services, facilitate transformation towards zero emissions, promote smart initiatives and digitalisation in the maritime industry, and promote exchanges and collaboration among maritime industries in the GBA and around the world.
- International aviation hub – continuing to enhance the competitiveness of the Hong Kong International Airport with the completion of the Three-Runway System and various enhancement projects (e.g. the premium logistics centre at the South Cargo Precinct and the smart airport).
- Centre for International Legal and Dispute Resolution Services – striving for the extension of the measures of “allowing Hong Kong-invested enterprises to adopt Hong Kong law” and “allowing Hong Kong-invested enterprises to choose for arbitration to be seated in Hong Kong” from Qianhai, Shenzhen and Pilot Free Trade Zones in the Chinese Mainland to the whole Greater Bay Area.

## **KPMG observations**

We welcome the various tax and business policies and initiatives put forward in the 2023 Policy Address. The government has already started work or launched consultation on some of these measures (e.g. the company re-domiciliation regime, the patent box tax incentive and the RBC regime for the insurance business).

We look forward to the release of more details about the proposed measures (e.g. the Capital Investment Entrant Scheme) and their timely and effective implementation to enhance Hong Kong’s status as an international business and financial centre.

As for the proposed “headquarters economy”, we recommend that the government considers introducing a tax incentive for global / regional headquarters set up and operating in Hong Kong that fulfil certain specified criteria (e.g. number of employees and amount of annual operating expenditure in Hong Kong) at the same time to make Hong Kong a more attractive location as a global / regional headquarters hub.

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