

HONG KONG TAX ALERT

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Tax concession introduced for captive insurance companies

Legislation was introduced into the Legislative Council on 8 January 2014 to provide a profits tax concession to captive insurance companies for profits from their business of insurance of offshore risks. Such profits are to be chargeable to profits tax at one-half of the normal rate, that is, 8.25 percent.

The *Inland Revenue (Amendment) (No. 3) Bill 2013* was gazetted on 27 December 2013. The Bill seeks to give effect to the proposal in the 2013-14 Budget that the profits tax on the offshore insurance business of captive insurance companies would be reduced in line with the tax concession currently applicable to reinsurance companies. The Financial Secretary considered that attracting a cluster of large-scale captive insurers in Hong Kong would promote the development of other related businesses, including reinsurance, making Hong Kong's risk management services more diversified.

The objective of the Bill is to reduce by half the profits tax on profits derived from the offshore risks insurance business of captive insurers (which are typically set up to underwrite the risks of companies within the same group to which the captive insurers belong).

Subject to the Bill being passed by the Legislative Council, the tax concession will have effect for years of assessment 2013-14 and subsequent.

Comment

Hong Kong, with its sound regulatory regime and well developed financial infrastructure, is well positioned to establish itself as a centre for captive insurance in Asia which will in turn reinforce Hong Kong's status as a regional insurance hub.

However, while this latest development is encouraging, it needs to be viewed against Hong Kong currently only having two captive insurers. Whether the proposed reduction in the profits tax rate will be sufficient to attract companies to locate in Hong Kong, rather than jurisdictions such as Bermuda and Singapore (which has the largest captive insurance market in Asia), remains to be seen.

However, Hong Kong with its close proximity to China should be an attractive location for Chinese companies with significant captive insurance needs to consider Hong Kong as a suitable location for their captive insurance operations.



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