

HONG KONG TAX ALERT

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Concession for captive insurers passed

On the 19 March 2014 the Inland Revenue (Amendment) Bill 2013 was passed by the Legislative Council. Captive insurers will enjoy a 50 percent reduction in the profits tax on their insurance business of offshore risks.

This concession, which was proposed in the 2013-14 Budget, has effect from the year of assessment 2013/14 onwards.

Captive insurance is widely used as a risk management tool in developed economies but its current utilization in Asia is low. Attracting enterprises to set up captive insurers in Hong Kong is seen as helping the development of related businesses, such as reinsurance, legal and actuarial services; make Hong Kong's risk management services more diversified; and reinforce Hong Kong's status as a regional insurance hub. With a sound regulatory regime and availability of a wide range of professionals, Hong Kong is well positioned to establish herself as a domicile for captive insurers.

Currently there are over 6,000 captive insurers established worldwide, with the majority domiciled in Bermuda and the Cayman Islands. The tax concession aims to attract more enterprises to establish their captive insurers in Hong Kong. As Mainland enterprises become more international and sophisticated, there is an expectation that they will increasingly use captive insurance for reducing insurance cost and better risk management. With its proximity to the Mainland, Hong Kong will benefit from the anticipated growth in the use of captive insurance by Mainland enterprises. To date, at least three Mainland enterprises have set up captive insurers to underwrite their own risks. This tax incentive, coupled with the Central People's Government policy announcement in June 2012 to encourage Mainland enterprises to form captive insurers in Hong Kong, should provide the impetus for Mainland enterprises to consider setting up captive insurers in Hong Kong.



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