

# Hong Kong SAR Tax Alert

April 2026 | Issue 7



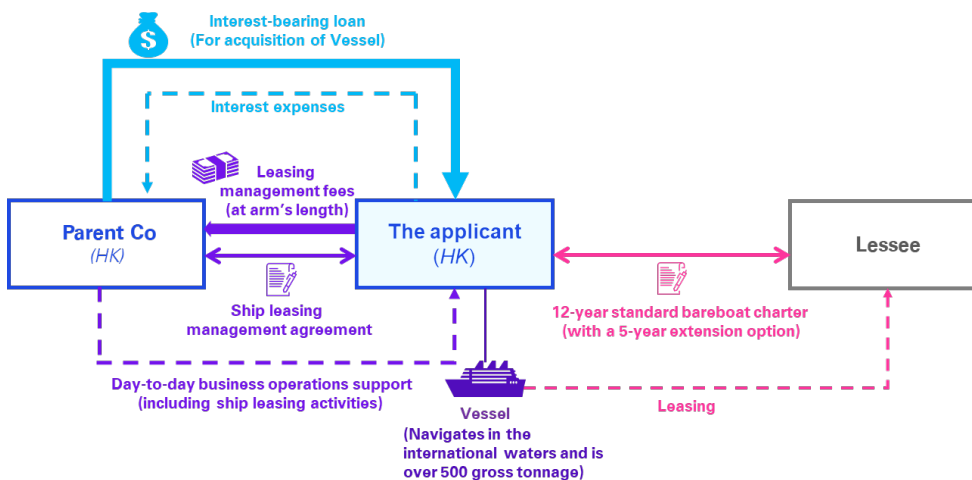
## The first published advance ruling case on the ship leasing tax concession in Hong Kong

### Summary

The Inland Revenue Department (IRD) recently published Advance Ruling Case No. 78<sup>1</sup>. It is the first published advance ruling case on the ship leasing tax concession in the Hong Kong SAR (Hong Kong) since the concession took effect from 1 April 2020. The IRD granted a favorable ruling to the applicant (i.e. the applicant is a “qualifying ship lessor” eligible for the 0% concessionary tax rate).

In this tax alert, we summarise the key points of the case and share our observations on the application of the tax concession.

### Background



#### Other relevant facts:

- The applicant is a wholly-owned subsidiary of Parent Co. Both entities are members of a MNE group and share the same **place of business in Hong Kong**.
- The applicant is **centrally managed and controlled in Hong Kong**. It does not have any branch, place of business or employees **outside** Hong Kong.
- Parent Co maintains the applicant's **books and records in Hong Kong**.
- There are **at least 2 full-time qualified employees** carrying out the profit-producing activities for the applicant's ship leasing business in Hong Kong.
- The applicant incurs annual operating expenses (i.e. interest expenses and leasing management fees) in Hong Kong of **at least HK\$7,800,000**.

<sup>1</sup> Advance Ruling Case No.78 can be accessed via this link: <https://www.ird.gov.hk/eng/ppr/advance78.htm>

### The IRD's ruling

Based on the above arrangement which suggests that the various conditions for enjoying the ship leasing tax concession are met, the IRD ruled that the applicant is a "qualifying ship lessor" and its assessable profits from qualifying ship leasing activities are eligible for the concessionary tax rate of 0%. The ruling applies for 5 years of assessment from 2024/25.

### KPMG observations

While the fact pattern of this case is relatively straightforward, the case offers several practical insights for taxpayers wishing to enjoy the ship leasing tax concession:

- The ruling mentions that the applicant does not have any branch, place of business nor employee outside Hong Kong. In practice, when assessing whether a taxpayer has sufficient business substance in Hong Kong for the purposes of the tax concession, the IRD may perform a comparison of the taxpayer's business substance relating to the ship leasing business in and outside Hong Kong. The absence of or limited substance relating to the ship leasing business outside Hong Kong may serve as a positive factor to support that the necessary substance to carry out the ship leasing business is in Hong Kong. Taxpayers wishing to benefit from the tax concession should take into consideration this comparative approach when evaluating their eligibility.
- The ruling does not specify whether the full-time qualified employees carrying out the activities producing the ship leasing profits of the applicant are employed by the applicant or another group company. In practice, it is common for the entities wishing to enjoy the tax concession to be special purpose vehicles (SPVs) set up within the ship leasing group for holding and leasing out the vessels. These SPVs are unlikely to have its own employees so will need to rely on the qualified personnel employed by other group companies for the purposes of meeting the substantial activities requirement.

The Departmental Interpretation and Practice Notes (DIPN) No. 62 indicates that outsourcing of core income generating activities to an associated person in Hong Kong is permitted for the purposes of satisfying the substantial activities requirement, subject to certain requirements. In such cases, the ship leasing groups would need to consider issues such as putting in place a proper outsourcing arrangement, charging arm's length fees for the services rendered by the group companies and keeping sufficient documentation.

- This ruling only concerns the application of the tax concession for ship lessors. Similar tax concession is available to ship leasing managers in Hong Kong if the specified conditions are met. Ship leasing groups with a group entity functioning as a ship leasing manager should explore whether they are eligible for the ship leasing manager tax concession as well.
- Separately, MNE groups that are in-scope of BEPS Pillar Two and engaging in ship leasing business should take note of the international shipping income exclusion under the GloBE rules. These business groups should carefully assess how the ship leasing tax concession in Hong Kong interacts with the international shipping income exclusion under the Hong Kong minimum top-up tax (HKMTT) regime and consider whether actions are required to optimise the overall tax outcome from both the Hong Kong profits tax and HKMTT perspectives.

If you have any questions or require assistance regarding the above content, please feel free to contact us via [taxservicesenquiry@kpmg.com](mailto:taxservicesenquiry@kpmg.com).

### About KPMG

KPMG China has offices located in 31 cities with over 14,000 partners and staff, in Beijing, Changchun, Changsha, Chengdu, Chongqing, Dalian, Dongguan, Foshan, Fuzhou, Guangzhou, Haikou, Hangzhou, Hefei, Jinan, Nanjing, Nantong, Ningbo, Qingdao, Shanghai, Shenyang, Shenzhen, Suzhou, Taiyuan, Tianjin, Wuhan, Wuxi, Xiamen, Xi'an, Zhengzhou, Hong Kong SAR and Macau SAR. Working collaboratively across all these offices, KPMG China can deploy experienced professionals efficiently, wherever our client is located.

KPMG is a global organisation of independent professional services firms providing Audit, Tax and Advisory services. KPMG is the brand under which the member firms of KPMG International Limited ("KPMG International") operate and provide professional services. "KPMG" is used to refer to individual member firms within the KPMG organisation or to one or more member firms collectively.

KPMG firms operate in 138 countries and territories with more than 276,000 partners and employees working in member firms around the world. Each KPMG firm is a legally distinct and separate entity and describes itself as such. Each KPMG member firm is responsible for its own obligations and liabilities.

KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

In 1992, KPMG became the first international accounting network to be granted a joint venture license in the Chinese Mainland. KPMG was also the first among the Big Four in the Chinese Mainland to convert from a joint venture to a special general partnership, as of 1 August 2012. Additionally, the Hong Kong firm can trace its origins to 1945. This early commitment to this market, together with an unwavering focus on quality, has been the foundation for accumulated industry experience, and is reflected in KPMG's appointment for multidisciplinary services (including audit, tax and advisory) by some of China's most prestigious companies.

[kpmg.com/cn/socialmedia](https://kpmg.com/cn/socialmedia)



For more KPMG Hong Kong SAR Tax Alerts, please scan the QR code or visit our website:  
<https://kpmg.com/cn/en/services/tax/hong-kong-tax-services/hk-tax-insights.html>



For a list of KPMG China offices, please scan the QR code or visit our website:  
<https://kpmg.com/cn/en/about/office-locations.html>

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2026 KPMG Huazhen LLP, a People's Republic of China partnership, KPMG Advisory (China) Limited, a limited liability company in Chinese Mainland, KPMG, a Macau SAR partnership, and KPMG, a Hong Kong SAR partnership, are member firms of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

© 2026 KPMG, a Hong Kong SAR partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.