Hong Kong Tax News Flash

Bill on enhanced maritime services tax concessions and new commodity trading tax concession gazetted

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In brief

Following the legislative proposals released in July 2025[1], the bill that seeks to (1) enhance the existing tax concessions for maritime services industry and (2) introduce a half-rate tax concession for physical commodity trading (Bill) was gazetted on 12 June 2026[2].

Subject to the passage of the Bill, both the proposed enhanced tax concessions for maritime services industry and the proposed new tax concession for physical commodity trading will apply from the year of assessment (YoA) 2025/26.

This news flash summarises the tax concession measures proposed in the Bill, together with our observations.

In detail

Enhancing existing tax concessions for maritime services industry

Following the implementation of the global anti-base erosion (GloBE) / Hong Kong minimum top-up tax (HKMTT) regime in Hong Kong from 2025, and in order to reinforce the competitiveness of the maritime services industry, the Government proposes enhancements to the existing tax concessions in the following four major areas:

1. Expanded scope of 'ship leasing activity'

The Bill proposes expanding the scope of 'ship leasing activity' by

(i) removing the one-year term restriction on operating leases and funding leases in respect of a qualifying ship leasing activity; and

(ii) extending the scope of lessees for qualifying ship leasing and ship leasing management activities from 'a ship lessor, ship leasing manager or ship operator' to 'any other person'.

2. Additional 15% concessionary tax rate option

The Bill proposes introducing an additional concessionary tax rate of 15% across the relevant maritime tax concession regimes, while retaining the existing concessionary tax rates. Qualifying taxpayers may elect their preferred tax rate on an annual basis. The additional option is intended to reduce the compliance costs of multinational enterprise (MNE) groups that fall within the scope of the GloBE/HKMTT regime.

Qualifying taxpayers	Existing concessionary tax rate	Additional concessionary tax rate
Ship lessors	0%	15%
Ship leasing managers	0% or 8.25%[i]	15%
Shipping commercial principals (i.e. ship agent, ship managers and ship brokers)	0% or 8.25%[ii]	15%

Notes
i. The 0% tax rate applies if the qualifying ship leasing management activities are carried out for an associated corporation.
ii. Qualifying profits derived by a qualifying shipping commercial principal from carrying out a qualifying activity for an associated shipping enterprise, which is entitled to a concessionary tax rate or income exemption, will also be eligible for the same tax concession as the associated shipping enterprise.

Substantial activities requirement under different concessionary tax rate tiers

The table below summarises the substantial activities requirement for the different concessionary tax rate tiers. In general, the 15% concessionary tax rate tier requires lower economic commitments than the existing lower-rate tiers, while the requirements for the latter remain unchanged. These requirements are subject to an adequacy test, meaning that the number of employees and the amount of operating expenditure must, in the opinion of the Commissioner of Inland Revenue (Commissioner), be adequate in the circumstances:

Qualifying taxpayers	Existing requirements	Proposed lower requirements for 15% concessionary tax rate
Ship lessors	• Employ ≥ 2 employees • Incur annual operating expenditure of ≥ HK$7.8 million	• Employ ≥ 1 employee • Incur annual operating expenditure of ≥ HK$3.9 million
Ship leasing managers	• Employ ≥ 1 employee • Incur annual operating expenditure of ≥ HK$1 million	• Employ ≥ 1 employee • Incur annual operating expenditure of ≥ HK$0.5 million
Shipping commercial principals	• Employ ≥ 1 employee • Incur annual operating expenditure of ≥ HK$1 million	• Employ ≥ 1 employee • Incur annual operating expenditure of ≥ HK$0.5 million

Note: The employee referred to in the above table must be a full-time employee with the necessary qualifications for the activity concerned.

Our observations	The introduction of the GloBE/HKMTT makes the proposed 15% concessionary tax rate a practical option for in-scope MNE groups. Electing the 15% rate may reduce compliance burdens by simplifying aspects of the top-up tax analysis for Hong Kong operations. It is also paired with a lower substantial activities requirement, which could widen access for taxpayers that may not meet the stricter conditions of the existing lower-rate tiers. In addition, the annual election mechanism gives taxpayers flexibility to choose the rate that best suits their tax profile and commercial circumstances, which may strengthen the regime's competitiveness against comparable regimes in other jurisdictions that require taxpayers to lock in a concessionary rate for a fixed period.

Adjustments to tax losses where the concessionary tax rate changes annually

Under the existing rules, where the applicable concessionary tax rate for a YoA is 0%, any loss sustained in that year is not available to be carried forward and set off against assessable profits in a subsequent year. The Bill does not propose any change to this treatment.

Specific rules are proposed to govern the carry-forward and utilisation of tax losses where a taxpayer changes its elected concessionary tax rate between YoAs. In particular, where a taxpayer elects the 15% concessionary tax rate in one YoA and a lower concessionary tax rate in a subsequent YoA, any unutilised tax loss brought forward to that subsequent YoA is adjusted as follows:

- where the 0% rate is applicable in that subsequent YoA, the adjustment factor is 1; and
- where the 8.25% rate is applicable in that subsequent YoA, the adjustment factor is 8.25/15.

3. Tax deduction on ship acquisition costs under operating lease

The Bill proposes replacing the existing 20% tax base concession for ship lessors under operating leases with a one-off tax deduction for specified capital expenditure incurred for the acquisition of a ship. Subject to certain anti-abuse rules designed to prevent duplicate claims for the same ship, a qualifying ship lessor may deduct specified capital expenditure, namely acquisition consideration and related legal and valuation fees, for ships acquired in or after the YoA 2025/26.

For a ship acquired before the enhanced regime takes effect, any capital expenditure incurred on the ship before 1 April 2025 is deemed to have been incurred in YoA 2025/26, and the deductible amount is the specified capital expenditure calculated after deducting actual initial allowances, actual annual allowances, notional annual allowances and relevant foreign capital allowances, if any.

The deduction is, however, subject to a claw-back on disposal. On disposal, any insurance money or other compensation and the actual amount of the consideration for disposal are treated as trading receipts up to the amount of prior deductions and allowances, subject to the statutory cap and adjustment rules.

Our observations	The proposed full tax deduction for a ship's acquisition cost would reduce the impact of potential top-up taxes under the GloBE/HKMTT regime and allow Hong Kong ship lessors to defer cash tax payments over the lease term.

4. Expanded scope of interest deductions for ship acquisition

The Bill also proposes expanding the scope of interest deduction to cover interest paid to non-Hong Kong non-financial institution financiers on money borrowed wholly or exclusively to finance a qualifying ship lessor's ship acquisition cost.

Where the lender is an associate of the borrower, the deduction will be available only if the following additional conditions are satisfied:

(i) **Subject to tax condition** – in respect of the interest, the associate is subject to a foreign tax similar to Hong Kong profits tax at a rate not lower than, for practical purposes, 15%; and

(ii) **Beneficial ownership requirement** – the associate's right to use and enjoy that interest is not constrained by a contractual or legal obligation to pass that interest to any other person (unless that obligation arises from a transaction between the associate and a person other than the borrower dealing with each other at arm's length).

Our observations	The proposed interest deduction provision is welcome, given longstanding concerns over the current restrictive rules. As the proposed deduction rule is modelled on the enhanced aircraft leasing regime, the Inland Revenue Department's (IRD) position under that regime is instructive. In particular, where the lender is an associate of the Hong Kong lessor, the IRD has indicated that the 'subject to tax' condition requires actual payment of foreign income tax by the associate lender. If the IRD takes the same approach for ship leasing, the deduction may be somewhat limited in practice. The IRD has also clarified that, where part of a loan is used for non-acquisition costs, interest is deductible only on an apportioned basis by reference to the portion used to finance the aircraft acquisition cost, provided the other conditions are met. It is hoped that the same approach will apply under the enhanced ship leasing regime.

Apart from the four key enhancements outlined above, the other features of the existing tax concession regimes remain substantially unchanged. In particular, the anti-tax arbitrage provision continues to apply. In other words, adjustments will still be made to the amount of tax deduction that a connected person subject to a higher profits tax rate may claim in respect of payments made to a qualifying taxpayer eligible for any of these tax concessions.

Introducing new tax concession for physical commodity trading

To attract commodity traders to Hong Kong and help propel the maritime services sector onto a more vibrant trajectory, the Bill also proposes introducing a new profits tax concession for physical commodity trading, echoing the industry's calls to strengthen the local maritime services ecosystem.

The key features of the proposed tax concession are summarised in the table below:

Key features	Details
Concessionary tax rate	• 8.25% or 15%, at the annual election of qualifying traders
Qualifying trading activity	• A commodity trading activity is a qualifying trading activity if: (1) the entity is the trader of the physical commodity to which the activity relates;

Key features	Details
	(2) the activity is carried out in the ordinary course of the entity's business carried on in Hong Kong; and (3) both the contracts for buying and selling of a qualifying physical commodity item are effected in Hong Kong. • A commodity trading activity means an activity of buying and selling of any physical commodity item that leads to its physical delivery, comprising actions such as soliciting the item or buyer/seller, setting and agreeing on contract terms, obtaining finance for the transaction and arranging transportation (and/or insurance therefor) of the item. • Wholesaling or retailing does not constitute a commodity trading activity.
Qualifying physical commodity item	• The list of qualifying physical commodity items comprises 55 items in physical form, covering three broad categories, namely: (1) energy or industrial commodities (e.g. crude oil, biofuel, green methanol and natural gas); (2) agricultural commodities (e.g. wheat and corn); and (3) metal mine commodities (e.g. copper and titanium). The full list is included in the newly added Schedule 17FE proposed in the Bill. • Only commodities commonly transported by sea are included to align with the policy intent of promoting the maritime service industry development.
Qualifying trader	• An entity is a qualifying trader if it: (1) has carried out qualifying trading activities and no other activities in Hong Kong; (2) satisfies the safe harbour rule (i.e. the 75% profit and asset test); or (3) has obtained the Commissioner's determination. • To enjoy the tax concession, the qualifying trader should also satisfy the following conditions: (1) its central management and control is exercised in Hong Kong; (2) the activities that produce the qualifying profits are carried out by it, or arranged by it to be carried out, in Hong Kong; and (3) the activities are not carried out by its permanent establishment outside Hong Kong.
Qualifying profits	• Assessable profits of a qualifying trader derived from its qualifying trading activity, including incidental income.
Minimum annual business turnover requirement	• The total revenue derived from the qualifying trading activities must be at least HK$700 million.
Minimum requirement on use	• Where a qualifying trader has incurred expenditure on any specified maritime services (such as ship leasing, ship management, marine cargo insurance, specified legal services and specified arbitration related

<table>
<tr><th>Key features</th><th>Details</th></tr>
<tr><td>of Hong Kong maritime services</td><td>services), at least part of that expenditure must be incurred on services provided by Hong Kong-based service providers as follows:

(1) if the expenditure is incurred only on one of the specified maritime services, at least 30% of that expenditure; or
(2) if the expenditure is incurred on more than one specified maritime services, either
(a) at least 30% of the expenditure on the specified maritime services in aggregate; or
(b) at least 50% of the expenditure on one of the specified maritime services.

• A person is Hong Kong-based service provider if
(1) it carries on, in Hong Kong, a business of providing
(a) any specified maritime service; or
(b) any service that includes specified maritime service; and
(2) its business is registered in accordance with the Business Registration Ordinance.

• This proposed requirement is intended to encourage the use of Hong Kong's maritime services.</td></tr>
<tr><td>Economic substance requirements</td><td>• These requirements are subject to an adequacy test, under which the Commissioner must be satisfied that the number of employees and the amount of operating expenditure are adequate in the circumstances:

<table><tr><th>Tax rate elected by entity</th><th>Number of full-time employees</th><th>Annual operating expenditure</th></tr><tr><td>8.25%</td><td>≥ 3</td><td>≥ HK$3 million</td></tr><tr><td>15%</td><td>≥ 1</td><td>≥ HK$1 million</td></tr></table></td></tr>
<tr><td>Anti-avoidance provisions</td><td>• Disqualified from profits tax concessions – If the tax concession does not apply to a qualifying trader for a YoA, the trader cannot re-enter the tax concession regime in the following year. This is intended to prevent a trader from opting in when it has qualifying profits and opting out in a loss-making year to claim deductions at the full rate. Nonetheless, a qualifying trader will not be disqualified from the profits tax concession merely because it incurs a tax loss from its qualifying operations. For how the tax loss is adjusted where a taxpayer changes its elected concessionary tax rate between YoAs, see the discussion above on the enhanced maritime tax concession.

• Arm's length principle – If a qualifying trader enters into any transaction in connection with a qualifying trading activity with its associate on terms that are not at arm's length, a transfer pricing adjustment will be made.

• Main purpose test – If the main purpose, or one of the main purposes, of a qualifying trader in entering into an arrangement is to obtain a tax benefit, in relation to a profits tax liability under the IRO, or under a tax treaty in a manner contrary to the purpose of the treaty, the tax concession</td></tr>
</table>

Key features	Details
	will not apply to the qualifying trader's assessable profits attributable to that arrangement.
Anti-tax arbitrage provision	• The amount of tax deduction that may be claimed by a connected person subject to a higher profits tax rate will be adjusted in respect of payments made to a qualifying trader eligible for the tax concession.

Our observations	The proposed concession is a welcome development for the commodity trading sector. In particular, the ability for qualifying traders to elect the concessionary tax rate annually should give taxpayers useful flexibility to choose the rate that best aligns with their commercial and tax profile from year to year. The proposed '30% or 50%' threshold for the use of Hong Kong maritime services also appears helpful, as it gives qualifying traders flexibility to mix and match the specified maritime services to satisfy the requirement.

Legislative timeline

The Bill will be introduced into the Legislative Council for first reading on 24 June 2026. Subject to the passage of the Bill, both the proposed enhanced tax concessions for maritime service industry and the proposed new tax concession for physical commodity trading will apply from the YoA 2025/26.

The takeaway

Overall, the proposed enhancements to the existing maritime services tax concession regimes, together with the proposed new concession for physical commodity traders, are positive measures that support Hong Kong's broader objective of consolidating its status as an international maritime centre, aligning with one of the policy directions set out in the First Five-Year Plan for Economic and Social Development of the Hong Kong Special Administrative Region.

However, as the Bill is still under legislative scrutiny while intended to take retrospective effect from YoA 2025/26, uncertainty remains as to how the concessions will be claimed in practice during the transition period. This is particularly relevant given that the 2025/26 tax filing season is already under way. It would therefore be helpful for the IRD to issue guidance in the near term.

If you would like to understand how the proposed measures in the Bill may affect your business, particularly considering their interaction with the GloBE/HKMTT rules, please contact us.

Endnotes

1. Our news flash on the legislative proposals can be accessed via this link:
https://www.pwchk.com/en/hk-tax-news/2025q3/hongkongtax-news-jul2025-10.pdf

2. The Bill and the Legislative Council brief can be accessed via these links:
https://www.legco.gov.hk/yr2026/english/bills/b202606123.pdf
https://www.legco.gov.hk/yr2026/english/brief/tlb500004003_20260610-e.pdf

Let's talk

For a deeper discussion of how this impacts your business, please contact:

PwC's Transportation and Logistic Tax Team based in Hong Kong

Agnes Wong
+852 2289 3816
agnes.hy.wong@hk.pwc.com

Emily Chak
+852 2289 3738
emily.sk.chak@hk.pwc.com

Ingrid Lau
+852 2289 3649
ingrid.il.lau@hk.pwc.com

PwC's Corporate Tax Leaders based in Hong Kong

Jeremy Ngai
+852 2289 5616
jeremy.cm.ngai@hk.pwc.com

Rex Ho
+852 2289 3026
rex.ho@hk.pwc.com

Cecilia Lee
+852 2289 5690
cecilia.sk.lee@hk.pwc.com

Jenny Tsao
+852 2289 3617
jenny.np.tsao@hk.pwc.com

Agnes Wong
+852 2289 3816
agnes.hy.wong@hk.pwc.com

Kenneth Wong
+852 2289 3822
kenneth.wong@hk.pwc.com

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For more information, please contact:

Long Ma
+86 (10) 6533 3103
long.ma@cn.pwc.com

Charles Chan
+852 2289 3651
charles.c.chan@hk.pwc.com

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