Consultation on enhancing Corporate Treasury Centre tax concession launched

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In brief

Following the 2026/27 Budget and the release of the Action Plan to Promote the Development of Corporate Treasury Centres in Hong Kong in the first half of 2026, the Government recently launched a public consultation on the proposed enhancements to the tax concession regime for corporate treasury centres (CTCs)[1].

The CTC regime, first introduced in 2016, has attracted more CTCs to Hong Kong, although certain operational pain points have emerged in practice. Building on that experience and earlier industry feedback, the consultation sets out a proposed two-tiered regime to further promote the development of CTCs in Hong Kong, as follows:

- Tier 1 – enhancing the existing regime applicable to all existing qualifying CTCs (QCTCs) and corporations conducting intra-group financing business in Hong Kong.
- Tier 2 – introducing a pre-approval mechanism under which a pre-approved QCTC and its pre-approved associated corporations would be entitled to additional tax benefits or greater flexibilities.

We are pleased that the Government has adopted several of our recommendations in formulating the proposals. The consultation is now open for public comment until 4 September 2026. The Government intends to (i) issue administrative clarifications for enhancements to the existing CTC tax concession regime within 2026, and (ii) introduce into the Legislative Council (LegCo) in the first half of 2027 an amendment bill to implement the tiered regime.

This news flash outlines the key aspects of the proposed two-tiered regime together with our observations.

In detail

Background

To encourage multinational corporations (MNCs) to establish CTCs in Hong Kong, the Government has been providing tax concessions for corporate treasury activities conducted in Hong Kong since 2016. Under the existing regime, a QCTC is entitled to a concessionary profits tax rate of 8.25% on assessable profits derived from one or more of the specified corporate treasury activities, namely (i) carrying on an intra-group financing business, (ii) providing corporate treasury services, and (iii) entering into corporate treasury transactions, provided that certain specified conditions are met, including the following:

- **Central management and control (CMC) requirement**: The CTC exercises its CMC in Hong Kong; and

- Either one of the following:

  - **Dedicated CTC condition**: The CTC is a standalone corporate entity engaging solely in corporate treasury activities; or

  - **Safe harbour rule**: At least 75% of the CTC's profits and assets are attributable to corporate treasury activities.

Subject to certain anti-avoidance provisions, tax deduction is also available for interest payable by a corporation carrying on an intra-group financing business in Hong Kong (including but not limited to a QCTC) to a non-Hong Kong associated corporation on money borrowed in the ordinary course of that business, provided that the lender is subject to overseas tax similar to Hong Kong profits tax at a rate not lower than the applicable Hong Kong profits tax rate (i.e. 16.5%, or 8.25% in the case of a QCTC). In particular, this requires the lender to pay tax in that territory for the taxable period in which the transaction occurs (i.e. a cash tax requirement).

There is also an anti-tax arbitrage rule, which requires a downward adjustment to the amount of tax deduction that a Hong Kong associated corporation subject to profits tax at 16.5% may claim in respect of payments made to a QCTC, which is subject to profits tax at 8.25%.

The consultation notes that the current regime has increased the number of CTCs in Hong Kong over the past decade, but market feedback suggests that certain aspects of the rules may deter more MNCs from establishing treasury activities in Hong Kong and constrain the expansion of existing CTCs.

Pain points identified in the consultation

- Corporations often struggle to qualify as QCTCs under the dedicated CTC condition or the safe harbour rule.
- Interest income earned by Hong Kong associated corporations from a QCTC remains taxable, making cash placements with a QCTC less attractive than bank deposits or deposits with overseas CTCs.
- Corporations may find it difficult to satisfy the subject to tax condition for claiming deduction on interest paid to non-Hong Kong associated corporations, particularly where the offshore lender is loss-making and thus not paying tax in the relevant period.
- The anti-tax arbitrage rule further limits overall efficiency by preventing a Hong Kong associated corporation from claiming a full deduction for expenses paid to a QCTC.

Having considered these pain points, together with other suggestions received during market engagement, the Government has proposed to enhance the existing CTC tax concession regime by introducing a tiered regime.

Key aspects of the proposed two-tiered regime

Tier 1 – Refine and broaden the existing regime

Tier 1 would build on the existing CTC tax concession regime applicable to all existing QCTCs and corporations conducting intra-group financing business in Hong Kong, with the following enhancements:

- **Subject to tax condition for interest deduction:** Where a non-Hong Kong associated corporation is not subject to tax outside Hong Kong in a taxable period, the CTC would be allowed to defer the deduction for interest expenses payable to that associated corporation until the latter is subject to tax. The allowable deduction would equal the non-Hong Kong associated corporate lender's actual tax paid divided by the applicable tax rate, capped at the unclaimed interest paid to that lender in previous years of assessment.

- **Scope of interest deduction:** The deduction would be expanded to cover interest expenses paid or payable by CTCs to their non-Hong Kong associated corporations for the provision of corporate treasury services (e.g. cash forecasting and pooling) and the entering into of corporate treasury transactions (e.g. investing the funds of associated corporations in financial instruments).

- **Substantial activity requirement:** A QCTC would be required to employ at least two professional staff for conducting corporate treasury activities and incur an annual operating expenditure of at least HK$2 million on corporate treasury activities.

- **Benchmark for intra-group financing business:** The benchmark in paragraph 10 of the Departmental Interpretation and Practice Notes No. 52 (DIPN 52) would be clarified as guidance only, rather than a strict rule[2]. Such clarifications may include the following:

  - where the benchmark is not met, all relevant facts and circumstances would be taken into account;

  - further examples would be provided for specific industries such as mining and aircraft leasing; and

  - the current threshold of at least four borrowing or lending transactions per month would either (i) be revised to an average of at least four transactions each month; or (ii) be removed altogether, with each case assessed on its facts and circumstances.

- **Definition of corporate treasury transactions[3]:**

  - The phrase 'on its own account and related to the business of an associated corporation' would be clarified as limiting qualifying transactions to those relating to the CTC and its associated corporations.

  - In-house factoring transactions satisfying the above requirement would be clarified to fall within the definition of 'corporate treasury transaction', with further elaboration to be provided in DIPN 52.

Our observations	We welcome the clarifications on the meaning of 'on its own account and related to the business of an associated corporation', as they would provide greater certainty regarding the treatment of transactions entered into by a CTC in connection with its treasury activities. Further, we are pleased that the Government has adopted our suggestion to expand the scope of the interest deduction, which has to date been limited to interest on money borrowed for one type of qualifying corporate treasury activity. Such expansion would better align with the full range of specified activities undertaken by CTCs. On the other hand, while the proposed relaxation of the subject to tax condition from a cash tax requirement to a deferral basis is welcome, it may still impose a practical administrative burden. A CTC would still need visibility over the overseas tax positions of its lenders and keep track of those positions over time. In practice, this may prove difficult, particularly where multiple lenders across multiple jurisdictions are involved, and could diminish the practical benefit of the relaxation.

Tier 2 – Introduce a pre-approval mechanism

On top of Tier 1, the Government proposes to introduce a Tier 2 with pre-approval mechanism, under which a pre-approved QCTC and its pre-approved associated corporations[4] would be entitled to additional tax benefits or flexibilities.

The salient features of the pre-approval mechanism are summarised in the table below:

Aspect	Details
Pre-approval	• Pre-approval would be granted by the Inland Revenue Department (IRD), after consultation with the Hong Kong Monetary Authority and/or Invest Hong Kong, where appropriate, for a period of five years, subject to renewal. • Pre-approval applications are expected to be processed within six weeks, provided that all relevant information and documents are furnished.
QCTC eligibility conditions	A pre-approved QCTC would no longer be subject to the CMC requirement, the dedicated CTC condition and the safe harbour rule. Instead, a pre-approved QCTC would need to be normally managed or controlled in Hong Kong.
Subject to tax condition for interest deduction	A pre-approved QCTC would no longer need to satisfy the subject to tax condition in order to claim a deduction for interest payable to non-Hong Kong associated corporations.
Scope of deductible interest expenses	The enhancements proposed under Tier 1 would also be applicable.
Benefit for pre-approved Hong Kong associated corporations	Pre-approved Hong Kong associated corporations would be entitled to claim a 50% exemption on interest income derived from the pre-approved QCTC.

Anti-tax arbitrage rule	Pre-approved Hong Kong associated corporations would no longer be subject to the anti-tax arbitrage rule, and would instead be entitled to a full tax deduction for interest expenses, subject to a cap of 30% of the earnings before interest, taxes, depreciation and amortisation (EBITDA).
Substantial activity requirement and ongoing qualifying conditions	A pre-approved QCTC would be subject to more detailed objective conditions to be maintained throughout the incentive period, including: • having a minimum annual turnover of HK$100 million; • conducting corporate treasury activities for at least six associated corporations, at least one of which must be located outside Hong Kong, every year; • incurring at least HK$4 million in annual operating expenditure (excluding interest expenses) and employing at least two professional staff. For renewal, these thresholds would need to be increased by HK$1 million and one additional staff member, respectively, in the year preceding renewal; • maintaining separate bank accounts and separate financial statements for its CTC business and non-CTC business; • carrying out separate audit, or providing separate certified financial statements, for its CTC business; and • maintaining its primary bank account with an authorised institution in Hong Kong. Note: On an exceptional basis, the pre-approval may be granted even if the above objective requirements are not met[5].

Our observations	We welcome the proposal to introduce a pre-approval mechanism under an additional tier for enjoying additional tax benefits or flexibilities. This accommodating approach would allow CTCs to opt for the tier that best aligns with their commercial and operational needs. The consultation paper does not propose any alternative concessionary tax rate under the Tier 2 regime. Pre-approved QCTCs would therefore appear to remain subject to the same 8.25% concessionary rate that applies to QCTCs under the Tier 1 regime. Corporations within the scope of Hong Kong's minimum top-up tax rules should carefully evaluate the implications of electing into the regime. While the relaxation of the anti-tax arbitrage rule is welcome, further details regarding the proposed 30% EBITDA cap are needed, for instance whether the amount exceeding the cap can be carried forward indefinitely. This is particularly important for research and development-intensive corporations that may incur losses in their initial years and yet have a greater need for funding from CTCs. The proposed restriction may also risk undermining the policy intent of encouraging the use of QCTCs through a tax environment that is not less favourable than that of third-party arrangements. In addition, while the requirement to conduct a separate audit or prepare separate certified financial statements is intended to address concern over the allocation of income and expenses between the CTC and non-CTC businesses where the QCTC is not a dedicated CTC, it may impose an administrative burden on CTCs. Given the proposed stringent pre-approval mechanism, together with the IRD's ability to issue enquiries requiring taxpayers to justify the allocation, this additional requirement

may not be necessary, particularly since the burden of proof already rests with taxpayers.

For ease of reference, a comparison of the proposed Tier 1 and Tier 2 regimes is set out in the **Appendix**.

Legislative timeline and consultation

Views on the consultation are invited by 4 September 2026. Taking into account the feedback to be received, the Government aims to (i) issue administrative clarifications to enhance the existing tax concession regime for CTCs within 2026, and (ii) introduce the amendment bill into the LegCo in the first half of 2027. However, the consultation does not specify when the proposals, if adopted, would take effect.

The takeaway

We welcome the Government's launch of a consultation on enhancing the CTC tax concession regime, an area in which we have long advocated reform. An attractive regime would strengthen Hong Kong's role as a key base for corporations establishing CTCs, enable them to fully leverage the city's comprehensive financial ecosystem, and enhance the city's appeal as a platform for 'bringing in and going global'.

While Tier 2 offers additional concessions, certain features remain more stringent than Singapore's Finance and Treasury Centre regime. Singapore does not impose anti-tax arbitrage limitations and permits unilateral tax credits for foreign taxes paid in non-treaty jurisdictions, whereas Hong Kong provides deductions rather than unilateral credits and relaxes anti-arbitrage rules subject to an EBITDA cap. We will continue engaging with the Government on these matters, which warrant further consideration if the regime is to remain competitive and practical.

Businesses that are operating CTCs in Hong Kong, or are considering establishing or expanding their CTC operations in Hong Kong, should assess whether the proposed Tier 1 refinements would address immediate issues and whether their scale and operating model would support a Tier 2 application. Please contact us if you have any questions about how the proposed changes may affect your business, or any recommendations that you would like us to convey to the Government as appropriate.

Endnotes

1. The consultation paper can be accessed via this link: https://www.fstb.gov.hk/fsb/en/publication/consult/doc/ctcConsultEn.pdf

2. According to Paragraph 10 of DIPN 52, a corporation would generally be accepted as carrying on an intra-group financing business if:
   (i) the corporation has not less than four borrowing or lending transactions each month;
   (ii) each borrowing or lending transaction exceeds HK$250,000; and
   (iii) borrowing or lending transactions are with not less than four associated corporations in the relevant basis period.

3. 'Corporate treasury transaction' means any prescribed transactions entered into by a corporation on its own account and related to the business of an associated corporation, such as investing the funds of the corporation or the associated corporation in financial instruments for managing the cash and liquidity position of the corporation or the associated corporation.

4. Apparently, upon application for the Tier 2 regime, the QCTC must furnish a list of its associated corporations for them to be included as pre-approved associated corporations. However, the consultation paper does not provide any further details in this regard.

5. Relevant considerations for granting pre-approval on an exceptional basis include but are not limited to the following:
   (i) the circumstances surrounding the inability to meet certain objective condition(s) (e.g. in the process of setting up a CTC in Hong Kong);
   (ii) the group's/CTC's likelihood to meet the objective condition(s) in the future;
   (iii) the group's growth potential;
   (iv) the group's commitment to Hong Kong's banking and other services;
   (v) the group's ability to generate economic benefits to Hong Kong; and
   (vi) the scale of the operation of the corporation in terms of the extent of its corporate treasury activities to be conducted in Hong Kong.

Let's talk

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

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Appendix

Comparison of the proposed Tier 1 and Tier 2 regimes

Aspect	Tier 1	Tier 2
Concessionary tax rate	8.25%	8.25%
Pre-approval	Not required – concession applies subject to meeting the specified conditions.	Required for a QCTC and its associated corporations for a period of five years, subject to renewal.
QCTC eligibility conditions	The dedicated CTC condition or the safe harbour rule, and the CMC requirement, remain applicable.	Disapplies the dedicated CTC condition and the safe harbour rule, and requires only that the pre-approved QCTC be normally managed or controlled in Hong Kong.
Subject to tax condition for interest deduction	Continues to apply, but allows deductions to be deferred rather than having them forfeited where the non-Hong Kong associated lender is not tax-paying in the relevant period.	Removes the subject to tax condition entirely.
Scope of deductible interest expenses	Expands the deduction beyond intra-group financing business to include other treasury services and treasury transactions.	Includes the Tier 1 enhancements.
Benefit for Hong Kong associated corporations	No additional benefit – interest income derived by Hong Kong associated corporations from the QCTC remains taxable.	Grants a 50% exemption on interest income derived by pre-approved Hong Kong associated corporations from the pre-approved QCTC.
Anti-tax arbitrage rule	Continues to apply.	Disapplies for pre-approved Hong Kong associated corporations, subject to a 30% EBITDA cap on interest expense deductions.
Substantial activity requirement and ongoing qualifying conditions	Requires at least two professional staff and HK$2 million in annual operating expenditure, with no step-up requirements.	Imposes more detailed objective conditions, including: • minimum annual turnover of HK$100 million; • service to at least six associated corporations, at least one of which must be located outside Hong Kong; • at least HK$4 million in annual operating expenditure and two professional staff, to be increased by HK$1 million and one additional staff member, respectively, in the year preceding renewal; • segregation of bank accounts and financial statements; and • a Hong Kong primary bank account requirement. Note: On an exceptional basis, pre-approval may be granted even if the objective requirements are not met.

In the context of this News Flash, China, Chinese Mainland or the PRC refers to the People's Republic of China but excludes Hong Kong Special Administrative Region, Macau Special Administrative Region and Taiwan Region.

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