



Government proposes tax concession under preferential policy package to attract strategic industries and investments

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In brief

Following the 2026 Policy Address announced in September 2026, the Government has recently set out in a paper submitted to the Legislative Council (LegCo) Panel on Financial Affairs more details of the proposed concessionary tax regime under the preferential policy package to attract strategic industries and investments¹.

The proposed regime would target qualifying enterprises operating in key sectors such as advanced manufacturing, research and development (R&D) in innovation and technology (I&T), headquarters activities, logistics and supply chain management, and finance. Approved enterprises could enjoy a concessionary tax rate of 5% or half-rate (i.e. 8.25% for corporations) for up to five years, subject to minimum substantial activity thresholds and ongoing compliance with the conditions set out in the approval certificate. Extension beyond five years would be available through a fresh application supported by a new investment or development plan. While the proposed regime would be available to both enterprises newly established in Hong Kong and those already operating in Hong Kong, for the latter the concession would apply only to qualifying incremental profits derived from the relevant activity.

The Government plans to introduce an amendment bill into the LegCo in December 2026, with a view to implementing the proposed regime with effect from the year of assessment 2027/28.

This news flash outlines the key features of the proposed regime and sets out our observations.

In detail

Background

The Government proactively sought to attract enterprises and investment into Hong Kong over the years. More recently, it has introduced or enhanced industry-oriented concessionary tax regimes for enterprises in targeted sectors such as asset and wealth management, maritime and aviation. To intensify those efforts in an increasingly competitive environment, the Government indicated in the 2025 and 2026 Policy Address that it would formulate a preferential policy package covering land grants, financial subsidies and tax concessions to attract high value-added industries and high-potential enterprises to set up in Hong Kong. The LegCo paper now sets out the proposed concessionary tax regime under that broader package.

Key aspects of the proposed regime

Concessionary tax rates and qualifying period

The concession would be in the form of a concessionary tax rate of 5% or half-rate (i.e. 8.25% for corporations). The paper also makes clear that, to comply with OECD requirements, the applicable rate must be one of the rates specified in the legislation, rather than negotiated separately with individual enterprises. The maximum qualifying period would be five years. An enterprise seeking an extension would need to submit a fresh application supported by a new investment or development plan.

Target enterprises

To qualify for the concessionary tax rates, enterprises must carry out the following specified activities:

- **Advanced manufacturing:** Manufacturing products using innovative technology, digital equipment or advanced materials, such as green and smart construction materials or products made through autonomous production lines.
- **R&D in I&T:** Activities in natural or applied science that extend knowledge, investigate new scientific or technical knowledge, or apply research findings to introduce new or substantially improved products before commercial production or use.
- **Headquarters activities:** Establishing or operating a global or regional headquarters in Hong Kong to manage, coordinate and control business and operational activities for a group with operations in Hong Kong and at least one place outside Hong Kong, including sourcing, procurement, supply chain management and treasury activities.
- **Logistics and supply chain management:** Providing storage, sorting, packaging, transportation or customs declaration services for goods or materials on behalf of another person without taking title, including inventory management, cargo handling, labelling, packaging and freight forwarding.
- **Finance:** Providing investment management services for quantitative funds, carrying out activities relating to the derivative market or commodities, and undertaking financial technology activities, including management of quantitative funds², derivatives trading and establishment of a fintech hub.

Eligibility of new and existing enterprises

Both enterprises newly established in Hong Kong and enterprises already operating in Hong Kong may benefit from the proposed regime.

For enterprises already operating in Hong Kong, however, the concessionary rates would apply only to qualifying incremental profits derived from the relevant activity during the qualifying period. Incremental profits would generally be determined by taking the assessable profits during the qualifying period and deducting from them the average assessable profits derived from that activity over the three consecutive years of assessment immediately before the qualifying period begins.

The paper also states that the proposed regime is intended to complement Hong Kong's existing preferential tax regimes. Qualifying enterprises that meet the requirements of those regimes may continue to rely on them without pre-approval. As such, the proposed regime is intended to expand, rather than displace, the current incentive framework.

Substantial activity requirements

The proposed regime would include substantial activity requirements, as required by the OECD, by reference to operating expenditure and full-time qualified employees. The Government intends to set the minimum thresholds in the legislation by reference to similar regional regimes to help maintain Hong Kong's competitiveness.

Application and approval

Invest Hong Kong (InvestHK), the Office of Attracting Strategic Enterprises (OASES) would identify and engage target enterprises and help facilitate their establishment in Hong Kong. An enterprise seeking tax concessions under the proposed regime would need to submit a Hong Kong business plan as part of its application. Applications would then be assessed holistically by the Steering Committee on Preferential Policies for Attracting Industries and Investment, led by the Financial Secretary (FS), with support from relevant bureaux and departments.

If an application is approved, the FS would issue a certificate of approval specifying the qualifying activity, concessionary tax rate, qualifying period, expenditure and employee requirements, and any additional conditions (e.g. introducing new technology to Hong Kong or making a specified investment).

Post-approval monitoring and enforcement

After approval, InvestHK and/or OASES would monitor compliance with the terms and conditions in the certificates of approval. Enterprises would need to submit reports and necessary documents as evidence of compliance. If the relevant conditions are confirmed to be met, the Inland Revenue Department would apply the approved concessionary rate in assessing the tax and issue the demand note accordingly. The proposed legislation would also allow the FS to revise, revoke or cancel an approval if important conditions are not met or if incorrect information is provided in the application.

Implementation timeline

The Government plans to introduce an amendment bill into the LegCo in December 2026, with a view to implementing the proposed regime from the year of assessment 2027/28. The amendment bill would provide the legal basis for the proposed regime, including the approval framework and the key features of the concession.

Our observations

The proposed concessionary tax regime is a welcome and pragmatic attempt to attract strategic industries and investment in Hong Kong. A notable feature is its more flexible approval-based framework, under which the applicable concessionary tax rate and conditions may be determined by reference to an enterprise's investment plan and expected contribution to the local economy. It can also operate alongside existing preferential tax incentives where applicable and be paired with

other measures under the wider package, including land grants and financial subsidies, so that support can be tailored to the needs of individual enterprises. The design also suggests that the regime is principally aimed at attracting new enterprises and new activities into Hong Kong, while also encouraging the return of activities that have previously moved out of Hong Kong.

That said, with a few enhancements, the package has the potential to become more compelling for a wider range of businesses. A qualifying period of up to five years may be too short for businesses that require significant upfront commitment or have a longer investment horizon, particularly as any extension would require a new application. The Government could therefore consider either a longer qualifying period for such activities, or a milestone-based approach that links concessions to objective delivery and gives businesses greater certainty.

The package may also cover a broader mix of incentives. For enterprises that need to build physical infrastructure in Hong Kong, such as data centres or warehouses, a reduced profits tax rate may not be the most relevant incentive. Targeted relief for capital expenditure on relevant facilities and infrastructure could make the regime more competitive.

The proposed regime should also be considered through a Pillar Two lens, as enterprises likely to qualify may often belong to multinational enterprise groups within the scope of the global minimum tax regime. For these groups, tax incentives in the form of reduced tax rates may lose all or part of their intended effect. It may therefore be worth considering whether part of the tax concessions could instead be provided through qualified refundable tax credits or other incentive that may qualify as 'qualified tax incentives', so as to preserve more of the intended economic benefits under the global minimum tax rules.

The takeaway

The proposed regime would be a significant addition to Hong Kong's efforts to attract strategic industries and investment through a more tailored approval framework. For businesses in the target sectors, the key question will be whether the final regime provides sufficient clarity on eligibility criteria and the conditions that may be attached to approval, and whether it is ultimately attractive enough to support new investment or the return of activities to Hong Kong.

We will also proactively share our observations with the Government on how the proposed regime could be enhanced to strengthen its attractiveness.

If you have any comments on the regime, or would like to discuss how it could affect your investment, expansion or relocation plans, please do not hesitate to contact us.

Endnote

1. The paper can be accessed via this link:
<https://www.legco.gov.hk/yr2026/english/panels/fa/papers/fa20261005cb1-1126-4-e.pdf>
2. Quantitative funds refer to funds where computer-based quantitative methods are material to the formulation or implementation of investment strategy or investment decisions.

Let's talk

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Hong Kong Tax News Flash

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