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Hong Kong Tax News Flash

Government proposes refinements to enhanced tax concessions for funds and carried interest

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In brief

Further to the release of the bill seeking to implement the enhancements to the preferential tax regimes for privately-offered funds, family-owned investment holding vehicles (FIHV) and carried interest (Bill) in June 2026[1], the Government recently issued its written response to the public submissions on the Bill[2]. Encouragingly, the response addresses industry comments and accepts many of the recommendations put forward by stakeholders. To give effect to these recommendations, the Government has proposed a number of committee stage amendments (CSAs) and indicated that the Inland Revenue Department (IRD) will issue further guidance on certain administrative matters. The Bills Committee is expected to continue its scrutiny of the Bill and consider the Government's proposed CSAs.

This news flash summarises the Government's key responses and planned CSAs together with our observations. For an overview of the Bill's original proposals, please refer to our previous news flash[3].

In detail

The Government's key responses and planned CSAs

The Government's key responses in relation to each tax regime are set out below.

Carried interest tax concession regime

1. Application to multi-manager/multi-strategy funds

The carried interest tax concession may apply to multi-manager/multi-strategy funds where performance-linked remuneration is determined by reference to the profits of the investment portfolio managed by the portfolio manager, rather than the overall profits of the fund, provided that all other conditions of the tax concession are satisfied.

2. Delinking of salaries tax and profits tax concessions

Recognising that certain qualifying persons may choose not to claim the carried interest profits tax concession for various reasons, the Government will amend the rules to delink the salaries tax concession for qualifying employees from the qualifying persons' claims for the profits tax concession.

3. Eligibility of third-party co-fund managers

Third-party co-fund managers may qualify for the carried interest profits tax concession, provided there is a sufficient nexus between the fund's profits from investment and the third-party co-fund managers' entitlement to such carried interest, as evidenced by the relevant agreements.

4. Definition of 'eligible carried interest' for salaries tax concession purposes

To better align with the legislative intent of removing the 'paid through the qualifying person' requirement, the Government will amend the definition of 'eligible carried interest' to expressly provide that the relevant sums may be received by, or accrued to, a qualifying employee, directly or indirectly, from a qualifying payer.

5. Flexibility in distribution

The Bill originally proposed that a qualifying person or a qualifying employee is regarded as holding a specified right in respect of a fund's profits if, among other things, the entitlement to a share of those profits is 'not discretionary but may allow a degree of flexibility concerning the amount, timing, manner of payment or otherwise of the distribution of the share of the profits'. To reduce uncertainty regarding the threshold of flexibility, the Government will remove the phrase 'a degree of' from the definition.

6. Eligibility for the salaries tax concession and scope of investment management services in Hong Kong

The salaries tax concession applies only to qualifying employees directly engaged in the provision of investment management services in Hong Kong. Support staff, such as office administration and information technology personnel, are excluded. Eligibility is determined by the substance of the employee's work rather than their job title. Qualifying employees who occasionally work outside Hong Kong may still be eligible if their services are primarily performed in Hong Kong.

7. Transfer pricing and concession eligibility

Transfer pricing arrangements will not, by themselves, affect eligibility for the tax concession. However, Hong Kong investment managers and advisers must still be remunerated on an arm's length basis, having regard to their functions performed, assets used and risks assumed.

8. Effective date of the enhanced regime

The Bill originally proposed that the enhanced regime would apply to eligible carried interest received by, or accrued to, a qualifying person or a qualifying employee on or after 1 April 2025 for any year of assessment (YoA) commencing on or after that date.

There is uncertainty as to whether carried interest relating to a performance period prior to 1 April 2025, but received by an employee on or after 1 April 2025, would qualify for the salaries tax concession. An amendment will be proposed to clarify the interplay between the concept of 'accrual' under the profits tax concession and its application under the salaries tax concession.

The Government is currently preparing CSAs to implement the changes summarised above, except for the issues relating to third-party co-fund managers, investment management services and transfer pricing arrangements under items 3, 6 and 7, respectively.

Our observations	We warmly welcome the adoption of many stakeholder recommendations on the carried interest tax concession regime, particularly the confirmation that the enhanced concession may apply to multi-manager/multi-strategy funds, an important segment of the global fund industry. This should significantly enhance the regime's attractiveness. Nevertheless, the final legislative wording will be critical, as eligibility may depend on the precise terms of the relevant investment management agreement. Affected taxpayers should therefore carefully review the enacted provisions against their contractual arrangements.

Unified fund exemption (UFE) regime

1. Relaxation of the HK$240 million asset threshold test for fund-of-one arrangements

The timing for determining whether a fund-of-one arrangement satisfies the HK$240 million asset threshold will be relaxed by aligning the approach with that adopted under the FIHV tax concession regime, i.e. the test will be satisfied if the threshold is met in the relevant YoA or one of the two preceding YoAs. Qualifying assets held through a fund's special purpose entities may also be counted towards the threshold, based on the extent of the fund's beneficial interest in those entities.

2. Removal of the 20% precious metals investment cap

The 20% cap on investments in precious metals will be removed. New specific anti-round tripping provisions will be introduced to prevent precious metal trading business in Hong Kong from converting otherwise taxable profits into tax-exempt income under the UFE regime.

3. Effective date of substantial activities requirements

The substantial activities requirements, relating to the number of qualified employees and the amount of operating expenditure incurred in Hong Kong, will apply only from the YoA 2027/28 onwards.

4. Scope of the exclusion for Hong Kong immovable property activities

The exclusion list in proposed Schedule 16L will be amended so that only income arising from a business of property trading and property development in respect of immovable property in Hong Kong will be ineligible for exemption. Accordingly, a one-off property transaction that does not amount to the carrying on of a business will not be caught.

5. Alternative qualification test for perpetual funds

To accommodate perpetual funds that do not have a final closing, the definition of 'qualified investment fund' will allow '24 months from the first closing' to be used as an alternative reference point to the 'final closing of sale of interests' for the purposes of determining whether (i) there are more than four investors, and (ii) the capital commitments made by investors exceed 90% of the aggregate capital commitments.

The Government is preparing the necessary CSAs to give effect to the changes summarised above.

Our observations	The proposed deferral of the substantial activities requirements until the YoA 2027/28 and the removal of the 20% cap on precious metals are particularly encouraging. As the YoA 2026/27 will soon be drawing to a close, affected taxpayers may have insufficient time to adjust their operations to meet the new requirements. The deferral therefore represents a pragmatic approach that provides taxpayers with a reasonable transition period. The removal of the cap on precious metals is also a welcome and timely response to developments in competing jurisdictions, including the enhancement of an equivalent tax concession regime by one of Hong Kong's closest regional competitors. This change should help preserve Hong Kong's competitiveness and broaden the practical appeal of the enhanced regime.

The takeaway

We welcome the Government's acceptance of many stakeholder recommendations, including those submitted by PwC. These refinements should enhance the clarity and practical application of the enhanced tax regimes, further strengthening Hong Kong's attractiveness and competitiveness.

We will continue to monitor developments and share updates as further details become available. If you have any questions about the proposed changes or their potential implications, please contact us.

Endnotes

1. The Bill can be accessed via this link: https://www.legco.gov.hk/yr2026/english/bills/b202606122.pdf
2. The Government's response can be accessed via this link: https://www.legco.gov.hk/yr2026/english/bc/bc04/papers/bc04cb1-1295-1-e.pdf
3. Our news flash on the Bill can be accessed via this link: https://www.pwchk.com/en/services/tax/publications/hongkongtax-news-jun2026-8.html

Let's talk

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