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AN INTRODUCTION TO

Doing Business in Hong Kong 2026-27





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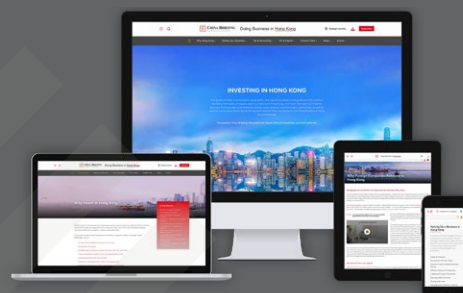
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This Investing Doing Business in Hong Kong guide was produced by a team of professionals at Dezan Shira & Associates, An Ascentium Company, with Zhou Qian as technical editor, and Gigi Wong, Katrina Huang, Mil Lui, and Sandy Zhang, and Jennifer Lu as contributors. Creative design of the guide was provided by Aliya Latisha Adiyanto.

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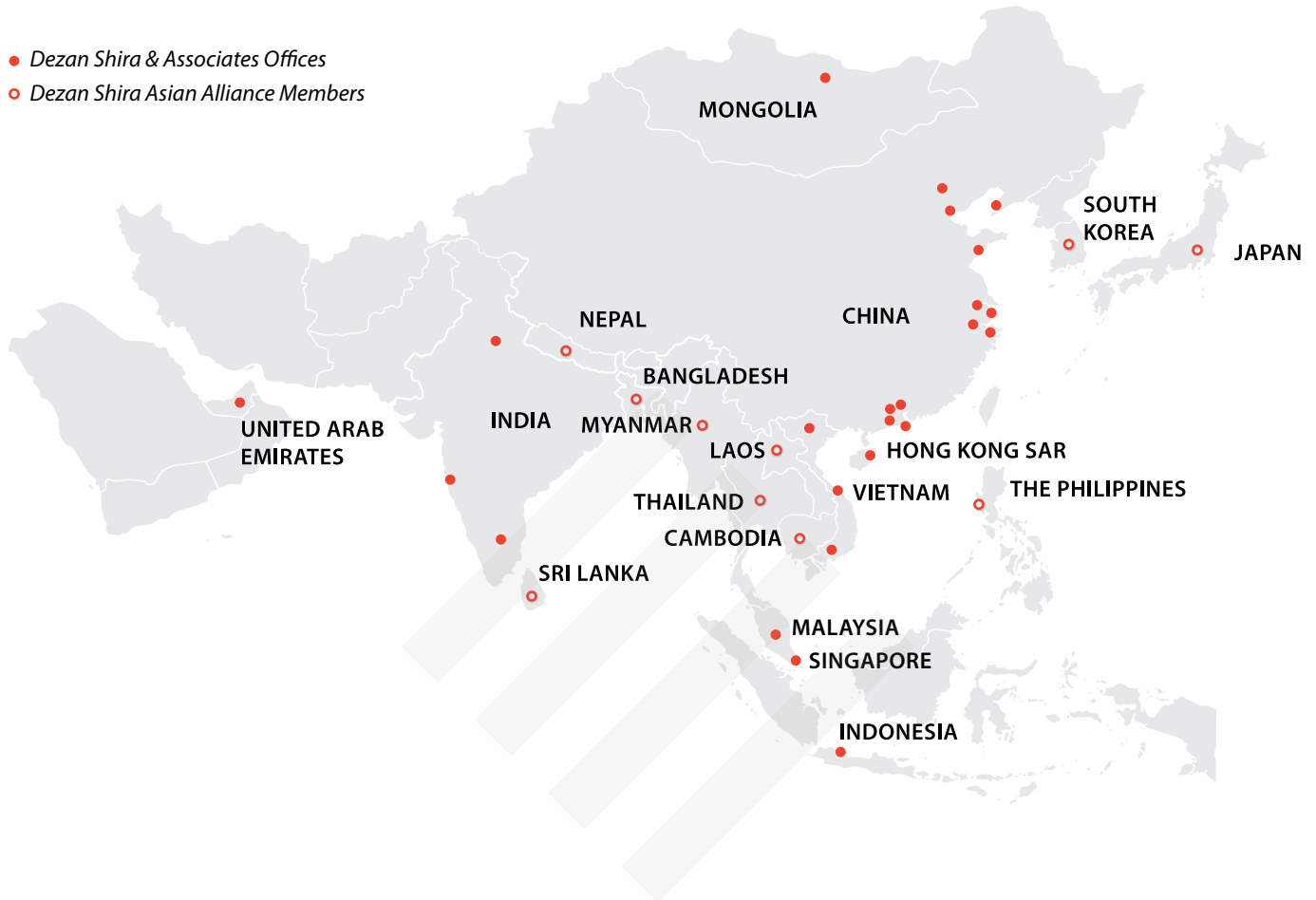
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About Dezan Shira & Associates

Dezan Shira & Associates, An Ascentium Company, is a pan-Asia, multi-disciplinary professional services firm, providing legal, tax and operational advisory to international corporate investors. Operational throughout China, India, ASEAN and the Middle East, our mission is to guide foreign companies through Asia's complex regulatory environment and assist them with all aspects of establishing, maintaining and growing their business operations in the region. With more than three decades of on-the-ground experience and a large team of lawyers, tax experts and auditors, in addition to researchers and business analysts, we are your partner for growth in Asia.

Preface

The People's Republic of China resumed sovereignty over Hong Kong in 1997, establishing the city as a Special Administrative Region (SAR) under the "One Country, Two Systems" framework. This model continues to grant Hong Kong a high degree of autonomy and preserves its distinct legal, regulatory, and economic systems. As a result, foreign investors will find that Hong Kong's business landscape remains fundamentally different from that of the Chinese Mainland.

For decades, Hong Kong has served as a vital bridge between global markets and China, supported by its strategic location, simple tax regime, open capital flows, independent judiciary, and strong intellectual property protections. Even amid shifting global dynamics, Hong Kong is reinforcing its role as an international financial and commercial hub, with major policy priorities such as the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) driving new opportunities for cross border integration and innovation.

In the 2026–27 Budget, the Hong Kong SAR Government introduced a new round of measures aimed at accelerating economic recovery, strengthening long term competitiveness, and supporting strategic industries. Meanwhile, China's 15th Five Year Plan positions Hong Kong as a comprehensive services hub for Chinese companies going global.

This publication provides an up to date introduction to the essentials of doing business in Hong Kong and was revised in April 2026 to incorporate the latest developments. It has been prepared by Dezan Shira & Associates, a specialist foreign direct investment practice offering corporate establishment, business advisory, tax and compliance, accounting, payroll, due diligence, and financial review services to multinational investors across emerging Asia.

Since its founding in 1992, Dezan Shira & Associates has grown into one of the region's most versatile full service consultancies, with operational offices across China, Hong Kong, India, Singapore, and Vietnam, as well as liaison offices in Italy, Germany, and the United States, and partner firms throughout ASEAN. Our professionals remain committed to improving transparency and understanding for companies navigating Asia's dynamic investment environment.



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What's New in This Guide?

Compared to the 2025-26 edition, the following sections have been updated:

Why Hong Kong: Global economic conditions and investment trends have shifted. This edition re-examines Hong Kong's appeal and competitive advantages in the current international context.

Development of the re-domiciliation regime: Hong Kong's re-domiciliation legislation was gazetted on May 23, 2025, and took effect on the same day. The regime allows non-Hong Kong-incorporated companies to transfer their place of incorporation to Hong Kong while preserving their legal identity, contractual rights, and ongoing business operations.

New requirements for IP agents: Updated IP filing requirements introduce a mandatory declaration by IP agents confirming their local physical presence in Hong Kong. While the changes do not restrict foreign IP ownership, they tighten standards for professional representation and have implications for trademark, patent, and design filings going forward.

Tax reductions proposed in the 2026-27 Budget: Relevant chapters have been updated to reflect the tax measures announced in Hong Kong's 2026-27 Budget, including adjusted reductions in profits tax, salaries tax, and tax under personal assessment for the year of assessment 2025/26.

AEOI 2.0: Hong Kong's draft amendments to the Automatic Exchange of Financial Account Information (AEOI) framework introduce a mandatory registration requirement for all reporting financial institutions, enhanced record-keeping obligations, and proportionate penalties. If enacted, the proposed amendments will take effect from January 1, 2027.

Global minimum tax and Hong Kong top-up tax: Amendments implementing the global minimum tax for multinational enterprise (MNE) groups were enacted on June 6, 2026. Under the new regime, each Hong Kong constituent entity of an in-scope MNE group is required to submit a top-up tax notification and top-up tax return electronically. The first phase of the Pillar Two Portal has been launched, with the second phase scheduled for Q4 2026.

Tax treaty updates: As of April 2026, Hong Kong has signed comprehensive double taxation agreements (DTAs) with 57 countries or regions and is negotiating comprehensive DTAs with 18 others.

New statutory minimum wage: The Legislative Council has approved subsidiary legislation increasing the statutory minimum wage from HK\$42.1 per hour to HK\$43.1, effective May 1, 2026.

Hong Kong's first comprehensive cybersecurity law: On March 19, 2025, Hong Kong strengthened its cybersecurity framework with the passage of the Protection of Critical Infrastructures (Computer Systems) Bill. Effective January 1, 2026, the Ordinance establishes a comprehensive statutory regime requiring designated critical infrastructure operators (CIOs) to implement robust measures to protect their computer systems.

Why Hong Kong?

Hong Kong is one of Asia's most practical investment bases because its unmatched capability to connect global capital, international standards, and Chinese Mainland opportunity in one commercially practical operating environment. For many investors, the advantage is not a single incentive — it is the ecosystem: contracts are designed and enforced in a predictable legal environment; capital can be raised, moved, and managed efficiently; and cross border business with the Chinese Mainland and broader Asia is operationally close and commercially mature.

For foreign investors, Hong Kong often serves as a base to structure and finance Asia strategies, especially when Chinese Mainland connectivity matters. For Chinese Mainland enterprises, it functions as an outward-facing bridge for global fundraising, overseas investment, and international contracting.

This chapter explains what makes Hong Kong work as an investment destination—and how companies typically use it in practice.

Why Businesses Choose Hong Kong



Largely autonomous political system under the “One Country, Two systems”

Hong Kong is allowed to retain its capitalist economic system and own currency, legal system, legislative system, and governmental system for 50 years till 2047.



Proximity to markets in Asia, including the Chinese Mainland

Hong Kong enjoys an ideal location in Asia that enables businesses to tap into the various opportunities in the Guangdong-Hong Kong-Macao GBA and throughout the rest of the region.



Low, simple, and competitive tax regime

Hong Kong enjoys one of the most tax-friendly systems in the world. It adopts the territorial basis of taxation and does not have any turnover taxes, making it a favorable location for profit shifting and conducting re-invoicing.



Open, fair, and efficient business environment

The absence of exchange controls, corruption-free government, free flow of information, capital, and talents, and low taxation has enabled Hong Kong to maintain a free and efficient environment for business activities and commerce.



A leading international financial hub and a prime location for financial services

Hong Kong's currency link, full capital convertibility, and deep markets anchor Connect platforms function as seamless cross-border financial infrastructure unmatched elsewhere in the region.



Excellent legal and dispute resolution services under rule of law

Hong Kong's strict maintenance of the rule of law and judiciary independence, its common law tradition, and its established English Chinese bilingual legal system has made it an ideal hub for dispute resolution worldwide.



World-class infrastructure with sophisticated support services

Hong Kong provides some of the most advanced business infrastructure in the world. The city is easily accessible with efficient and affordable public transport systems.



Robust IP protection aligned with global standards

With enforceable IP laws, specialist courts, and global treaty coverage, Hong Kong offers secure protection for innovation and positions itself as a leading regional IP trading center.



Highly skilled and multicultural talent pool

Hong Kong has a diverse talent pool, equipped with the skills and knowledge to drive business in Hong Kong and beyond. The HKSAR government has also been ramping up efforts in pooling more high-quality talents in recent years.



Active participation in the global transition to a green economy

Hong Kong pledges to reach carbon neutrality by 2050. It has been trying to lead by example and making it easier for green bond issuers to come to Hong Kong to raise funds.



Hong Kong's core advantages

A gateway to the Chinese Mainland and the GBA

Hong Kong's location and deep commercial integration make it one of the most effective places to coordinate business linked to the Chinese Mainland and the GBA. For many companies, the benefit is executional: it is easier to manage cross-border relationships, professional services, financing, and regional oversight from a jurisdiction that is globally connected yet operationally close.

A key mechanism is Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), which supports preferential access in certain areas and can be relevant to companies that structure qualifying goods or services through Hong Kong (subject to eligibility and rules of origin/service supplier requirements). In parallel, financial connectivity initiatives continue to strengthen Hong Kong's role as a bridge market for cross-border investment and market access.

For investors, Hong Kong helps companies "stay international" while working close to Chinese Mainland opportunities, especially when the business model involves cross-border finance, trade coordination, or regional governance.

Rule of law and an internationally familiar legal environment

Hong Kong's legal system is rooted in common law, with the Basic Law as its constitutional framework. The judiciary is independent, and the Court of Final Appeal is the highest court in the Hong Kong Special Administrative Region. Under "One Country, Two Systems," Hong Kong's legal system remains distinct from that of the Chinese Mainland, with PRC national laws applying in Hong Kong only in limited circumstances through mechanisms set out in the Basic Law (including Annex III).

From a commercial standpoint, what matters is that investors generally have access to a legal environment that supports predictable contracting, credible dispute resolution, and transparent regulatory processes, all of which are essential for long-term capital commitments.

From investor's perspective, legal predictability reduces friction in cross-border deals, licensing, financing arrangements, and IP-intensive activities.

Capital mobility and sophisticated financial infrastructure

Hong Kong's financial advantage is fundamentally about capital efficiency – the ability to raise, move, and manage capital across borders with minimal friction. This was enabled by its multi-currency fundraising, mature banking, deep and liquid capital markets, and a dense network of global investors and professional intermediaries.



The financial system is overseen by specialist regulators, including the Hong Kong Monetary Authority (HKMA), Securities and Futures Commission (SFC), Insurance Authority (IA), and Mandatory Provident Fund Schemes Authority (MPFA). Hong Kong's currency stability is supported by the Linked Exchange Rate System, which has pegged the Hong Kong dollar to the US dollar since 1983.

Beyond traditional fundraising, Hong Kong's value increasingly comes from operating cross border connectivity mechanisms, such as Stock Connect, Bond Connect, and Wealth Management Connect, that translate China-international capital flows into functioning, investable infrastructure.

For businesses, Hong Kong works particularly well where cross-border capital, treasury management, and international investor participation are central to the business model.

A simple, competitive tax regime

Hong Kong is often selected not merely for its low headline tax rates, but for the predictability and neutrality of its tax system. Operating under a territorial basis of taxation, Hong Kong generally taxes only profits arising in or derived from Hong Kong, with no capital gains tax, no value-added tax (VAT) or goods and services tax (GST), and no withholding tax on dividends and interest. In practice, this significantly limits tax leakage on cross border activities and investment flows.

The system itself is intentionally narrow and administratively light. Hong Kong levies three primary direct taxes, including profits tax, salaries tax, and property tax, supported by clear allowances and deductions that can materially reduce effective tax burdens without complex structuring. For multinational groups, this simplicity can be as valuable as the rates themselves, lowering compliance costs, audit risk, and coordination challenges across multiple jurisdictions.

For investors and operating groups alike, Hong Kong's tax clarity supports efficient regional structuring and capital deployment, particularly when paired with its well developed accounting standards, governance norms, and regulatory transparency. Together, these features position Hong Kong as a practical base for managing Asia Pacific operations and China related activities with minimal fiscal and administrative friction.

Free port status and efficient trade/logistics

Hong Kong's long standing free port status supports the fast movement of goods and a business environment designed for trade coordination and reexport activity. It generally imposes no tariffs on imported goods, with excise duties limited to a narrow range of commodities. Streamlined customs procedures and minimal documentation further reduce border related friction.



This tariff light framework is reinforced by strong trade and logistics infrastructure. Hong Kong's port and international airport serve as major cargo hubs, supported by efficient customs systems and a mature logistics and warehousing ecosystem. These features make it well suited for high velocity trade flows, consolidation, and regional distribution.

For companies engaged in international trade, sourcing, distribution, or Asia Pacific procurement, coordinating activities through Hong Kong can materially reduce operational complexity and time to market. The free port environment allows firms to manage inventory, trade flows, and regional logistics with minimal border costs, while retaining flexibility to serve both global markets and the Chinese Mainland efficiently.

IP protection and data governance readiness

IP protection is another major differentiator for sectors where value is embedded in patents, software, brands, designs, or creative content. Hong Kong maintains a comprehensive set of IP laws and an enforcement environment that investors typically consider reliable for protecting intangible assets and managing licensing arrangements.

On data privacy, Hong Kong's primary framework is the Personal Data (Privacy) Ordinance (PDPO), including the 2021 amendments that strengthened enforcement and introduced offences targeting doxxing. While not identical to the EU GDPR, the PDPO provides a mature baseline for privacy governance. In parallel, Hong Kong has been developing a more formal cybersecurity regulatory framework, particularly through sector specific requirements and proposed rules for protecting critical infrastructure, signaling greater emphasis on cyber risk management. Many organizations therefore apply internal standards that meet or exceed PDPO requirements across their regional operations.

For investors, Hong Kong can be a strong base for IP-heavy or data-reliant business models when governance and enforceability are priorities.

How companies use Hong Kong in practice

Hong Kong's value becomes clearest when looking at the repeatable patterns that companies use, not just the features.

For foreign investors: A base for Asia + Chinese Mainland-facing strategies

Foreign investors commonly use Hong Kong for:

- Regional headquarters functions (management oversight, finance, legal, compliance, procurement coordination)
- Treasury and cash management (multi-currency banking, regional settlement, risk management)
- China-connected deal execution (contracts, advisory ecosystems, cross-border structuring)
- Fundraising and investor access (particularly where international participation and liquidity matter)

The practical outcome is a base that supports both regional control and China-facing coordination without forcing investors into a single onshore operating model.

For Chinese Mainland enterprises: A springboard for global expansion

For Chinese Mainland enterprises, Hong Kong frequently functions as:

- An international holding and financing platform
- A hub for offshore treasury management and FX planning
- A base for overseas M&A and outbound investment
- A coordination center for global trade and supply chain relationships

A common structure is: Chinese Mainland parent → Hong Kong holding company → overseas subsidiaries. This structure can help centralize cross-border investment activity, streamline global treasury operations, and support international contracting, particularly when overseas stakeholders, counterparties, or investors require internationally familiar documentation and governance standards.



Choosing between hubs

The most useful question is not “Which city is best in Asia?” but “Does the business model benefit from operating where legal certainty, capital mobility, and Chinese Mainland connectivity intersect?”

If the answer is yes, Hong Kong tends to be a strong fit, especially for companies that are:

- Capital markets–dependent or financing-intensive;
- China-connected in revenue, suppliers, partners, or strategy;
- IP-heavy or brand-led; or
- Managing complex cross-border governance and contracting.

Where other hubs may compete on cost, sector clustering, or other forms of regional reach, Hong Kong’s comparative advantage is strongest when the operating model requires a credible international platform directly plugged into Chinese Mainland-linked finance and commercial activity.

To put it simply, Hong Kong’s competitiveness is best explained as specialization, not universal superiority. It performs best where three factors overlap:

1. Legal and regulatory credibility;
2. Capital efficiency and market infrastructure; and
3. Chinese Mainland and GBA connectivity.

For both foreign investors and Chinese Mainland enterprises, Hong Kong’s advantage is that it turns cross-border ambition into something operational, where contracts, capital, and coordination can be executed within an ecosystem built for international business.

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Establishing and Running a Business

- ◆ What are my options for investment?
- ◆ How do I establish a business?
- ◆ What are the key compliance requirements?
- ◆ How do I make changes to my company?
- ◆ How do I deregister my company?
- ◆ How do I solve legal disputes?

What are my options for investment

Foreign investors can carry on business in Hong Kong through multiple business vehicles, including:

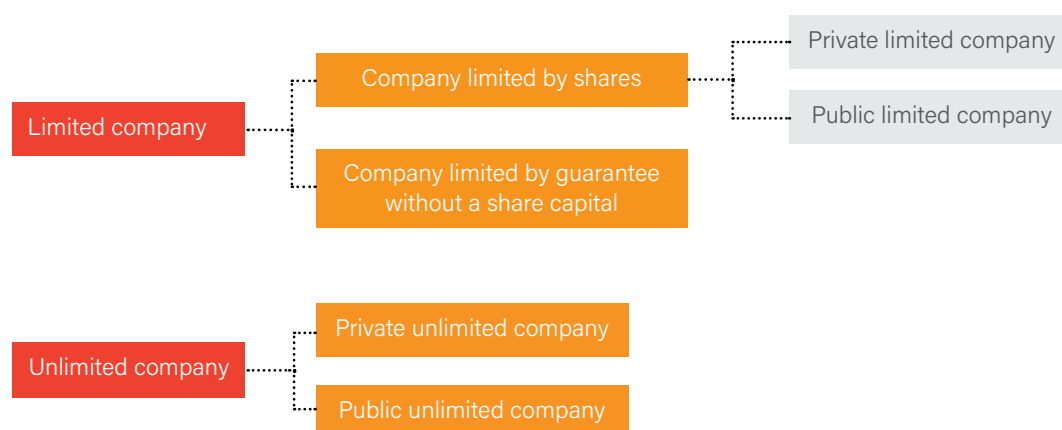
- A company incorporated in Hong Kong
- A branch office registered in Hong Kong of the foreign corporation
- A representative office established in Hong Kong
- Sole proprietorship
- Partnership

While some options are more commonly adopted than others, investors are advised to choose the most appropriate business structure based on the pros and cons of each option.

Hong Kong companies

Foreign investors can establish their presence in Hong Kong by setting up a Hong Kong company. Companies incorporated in Hong Kong can be limited or unlimited and can be public or private. To be more detailed, there are five types of companies that may be formed under the Companies Ordinance (Cap. 622):

- Private companies limited by shares (private limited company)
- Public companies limited by shares (public limited company)
- Companies limited by guarantee without a share capital
- Private unlimited companies with a share capital (private unlimited company)
- Public unlimited companies with a share capital (public unlimited company)



A company limited by guarantee does not have share capital, but the liability of its members is limited by the amount of assets they have undertaken to contribute. This is the type of company that is most suitable for nonprofit activities, such as operating a nonprofit research institute. It is not a suitable structure for a business undertaken for profit making purposes.

A company limited by shares has a share capital that is divided into a number of shares. The shares are issued to shareholders and the liability of its shareholders will be limited to the unpaid subscription price for the shares. This is most suitable for a company that carries on a business for profit making purposes.

A private limited company is a company limited by shares which:

- restricts the ability of its members to transfer shares;
- limits the number of members to 50 (not including employees or former employees); and
- does not issue invitations to the public to subscribe for shares or debentures of the company.

It is the most dominant type of business entity in Hong Kong, accounting for 99 percent of all companies incorporated in Hong Kong. Most small to medium sized companies are set up as private limited companies due to its many advantages, such as its separate legal entity, its limited liability to members, its positive image among banks and investors, and the convenience of ownership transfer.

A public limited company is a company whose shares and debentures are offered to the public. If a company is a limited liability company but does not fall into the scope of a private limited company or a company limited by guarantee, then it is a public limited company. Many public companies are listed on the Stock Exchange of Hong Kong Limited and the statutory requirement for a public company is much stricter as it raises capital from the public. A medium to large private limited company may decide to transfer the company structure to that of a public limited company (and thereby expanding its share base) – when they achieve significant growth in the industry.

An unlimited company is one where the liability of its members is not limited. This business structure is rarely adopted by investors.

Branch offices

A branch office has no separate legal identity and is treated as an extension of the overseas parent company in Hong Kong. As such, the overseas parent company is liable for all the debts and liabilities of the branch office.

A foreign corporation wishing to establish a Hong Kong branch office must register with the Companies Registry as a non-Hong Kong company under Part XVI of the Companies Ordinance (Cap. 622) and obtain a Business Registration Certificate.



GIGI WONG

Manager
Business Advisory Services
Hong Kong Office

“The statutory requirement for a public company is much more stricter than for a private one. As such, for most purposes, the private limited company is the most popular option for foreign investors.”



In general, branch offices of foreign companies registered in Hong Kong are subject to similar legal and tax requirements and consequences as companies incorporated in Hong Kong. The business activities that can be carried on in Hong Kong and the profit tax rate are the same for branch offices of foreign companies and locally incorporated companies.

While this option is generally not recommended for that parent company assumes larger liability for branch offices, foreign investors may prefer a branch over a subsidiary considering:

- A branch office might be more tax efficient for the parent company under certain circumstances, such as when losses incur in the Hong Kong branch.
- Generally, the transfer of the shares of a foreign company operating a branch in Hong Kong are not subject to stamp duty in Hong Kong.
- A branch office is subject to limited compliance requirements under the Companies Ordinance.
- A branch office is not required to conduct separate audit.
- A branch office can be terminated easily by notifying the Companies Registry.

Representative offices

Like a branch office, a representative office also has no separate legal identity, and the overseas parent company shall bear full responsibility for its debts and liabilities. Nevertheless, a representative office is not allowed to conduct any profit generating business activities (or else it is required to register as a branch office). It can only engage in promotion, liaison, and market research activities.

Representative offices need not be registered with the Companies Registry but are required to file for a Business Registration Certificate with the Inland Revenue Department.

Foreign investors who seek to study the market in Hong Kong may prefer representative offices over branches considering representative offices are exempted from filing profit tax returns if it does not conduct profit-generating businesses in Hong Kong.

Sole proprietorship

A sole proprietorship is the easiest and simplest form of business that is owned and operated by a sole person. It has no separate legal identity, and the sole proprietor is entitled to all the profits from the business and is personally responsible for all the liabilities. The only procedural step in establishing a sole proprietorship is to obtain a Business Registration Certificate.

In addition to easy setup, the sole proprietorship has certain tax advantages. The sole proprietor can elect for "Personal Assessment" in their tax return filed for the tax year, so that the profits from the sole proprietorship will be assessed under the salaries tax scheme, which are subject to generous allowance and deductions and the progressive rate of which may be lower than the corporate tax rate. Moreover, the business losses of the sole proprietorship can be offset against other income of the proprietor.

On the other hand, sole proprietorship is considered to be the riskiest business form as the sole proprietor shall bear joint liability for the debt that the business incurs. There is no protection of their personal assets. Thus, sole proprietorship is generally not recommended for investors.

Partnership

Partnership is a form of business where two or more people carry on business in common with a view of sharing profits. There are two types of partnerships in Hong Kong—general partnership and limited partnership.

In a general partnership, every partner is personally liable for the business's debts and liabilities. In addition, a general partner can be held responsible for the actions of other partners in the business. The only procedural step in establishing a partnership is to obtain a Business Registration Certificate.

In a limited partnership, there should be one or more general partners, who are responsible for the management of the partnership and liable for all its debt, and one or more limited partners, who are liable for the debts of the partnership within the amount they contribute to the capital of the partnership. A limited partner is not allowed to manage or control the partnership. A limited partnership is required to be registered with the Companies Registry and obtain a Business Registration Certificate.

Partnerships are generally easier to set up, maintain, and dissolve as compared to companies. There are fewer compliance requirements imposed on partnerships. Besides, partnerships might be more efficient in attracting talents as employees with skills, knowledges, and expertise have the chance to be promoted to partners.

Hong Kong's re-domiciliation regime

To strengthen Hong Kong's position as an international business hub, the government introduced a formal inward company re-domiciliation regime under the Companies (Amendment) (No. 2) Ordinance 2025. The legislation was passed by the Legislative Council on May 14, 2025, gazetted on May 23, 2025, and took effect on the same day, with applications now open to eligible companies. The regime allows non-Hong Kong incorporated companies to transfer their place of incorporation to Hong Kong while maintaining their legal identity, contractual rights, and business continuity.

Under the new framework, qualifying foreign companies may re-domicile without the need to wind up their original entity or undertake court-driven restructuring. Once approved, re-domiciled entities are treated as Hong Kong-incorporated companies and are subject to the Companies Ordinance in the same manner as locally incorporated peers. To address potential double taxation concerns, the government has confirmed that unilateral tax credits may be available where relevant profits are taxed both in Hong Kong and overseas, consistent with Hong Kong's territorial tax system.

From a practical perspective, the regime provides a streamlined and time-efficient mechanism for groups with substantive operations in Hong Kong or Asia to simplify corporate structures, reduce legal friction, and align their place of incorporation with operational reality. The Companies Registry has issued detailed guidance and upgraded its systems to support applications, signaling a clear policy intent to attract regional headquarters, holding companies, and internationally mobile businesses to Hong Kong.

Restrictions on foreign investment

Hong Kong does not subject foreign investments to special regulatory regimes or requirements per se. However, on the basis of public interest, there are restrictions on voting control by non-Hong Kong residents and corporations in the broadcasting sector. Such restrictions are set out in the Broadcasting Ordinance (Cap. 562) and the Telecommunications Ordinance (Cap. 106). The government's special industrial-land policy features somewhat more complex rules, but it is still less demanding than the policies of many other Asian investment centers.

▪ Television

The Broadcasting Ordinance states that foreign ownership of a Hong Kong company with a license to broadcast domestic free television requires written consent from the Broadcasting Authority at three thresholds:

- » Shareholding of 5-10 percent;
- » Shareholding of 10-15 percent; or
- » Shareholding of over 15 percent.

In addition, if foreign entities in aggregate hold over 49 percent of voting control in such a company, their votes shall be subject to a formula as outlined in the Broadcasting Ordinance.

Companies with a license to broadcast domestic free television must be Hong Kong companies, and may not be the subsidiary of another company.

These restrictions do not apply to paid television, or non-domestic television.

▪ Radio

Foreign shareholding in a company with a sound-broadcasting license may not exceed 49 percent. Sound-broadcasting licenses can only be given to Hong Kong companies. Such companies may not be the subsidiary of another company.



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How do I establish a business?

Requirements and steps to set up a company in Hong Kong

For the purpose of this guide, we only introduce the setup requirements and process of a private limited company in this chapter, as it is the most popular option for foreign investors.

The registration of a company in Hong Kong usually starts with the creation of the company name and ends with the issue of a business registration certificate. During the whole process, there are mainly two government departments involved, namely the Companies Registry and Business Registration Office under Inland Revenue Department. The detailed procedures are set out below.

▪ **Step 1: Selecting a company name**

A company may be registered with an English name, a Chinese name, or an English and Chinese name. But a company name with a combination of English words/letters and Chinese characters are not allowed. Investors can look up whether the desired name already registered (or if there is a similar name already registered) in the Companies Registry. Also, the name may not infringe upon other parties' intellectual property rights. This can be searched on the website of the Intellectual Property Department. Moreover, a limited company must include the word "Limited" at the end of its name unless a special application is submitted for not including the word "limited" to the Companies Registry.

▪ **Step 2: Deciding the organizational structure, amount of capital, company secretary, designated representative of Significant Controllers Register, and registered office address**

After selecting a company name, the investor should decide the member of the board of directors of the intended company. The first shareholder (i.e., founder member) should obtain a written consent from the director.

It should be noted that since March 3, 2014, all companies registered in Hong Kong should appoint at least one natural person to act as its director. However, there are no restrictions on the nationality of the director.

At the same time, the investor should determine the amount of capital and the number of shares to be issued to the first shareholder(s). The Companies Ordinance (Cap. 622) does not impose any restrictions on the minimum and maximum amounts of capital. It is the sole discretion of the investor to determine the amount of capital for the company based on the need of the operation and whether an extra license is required for the intended business activity. Since March 3, 2014, par values are not attached to shares. The Articles of Association ("AA") should only state the number of shares and the amount of capital.

The investor should contribute whatever amount stated in the AA immediately after the company is registered. The investor should also decide the company secretary, the designated representative of the significant controllers register, and address of the registered office before registration. If there are two or more directors, one of the directors could act as company secretary. However, if the investor will be the sole director of the intended company, another person should be appointed to act as company secretary. A written consent to act as company secretary should be obtained. The investor could also engage the service of a professional firm, duly registered in Hong Kong, to provide company secretarial service with a fixed annual fee.

Requirements of acting as company secretary and designated representative

The secretary of a company may be:

- An individual - must ordinarily reside in Hong Kong; or
- A body corporate - must have its registered office or a place of business in Hong Kong.

A company's designated representative must be either:

- A director, employee, or member of the company who is a natural person resident in Hong Kong; or
- An accounting professional, a legal professional, or a person who possesses a Trust or Company Service Provider (TCSP) license.

The address of the registered office should be located in Hong Kong. There is no other particular limitation on the registered office address, but a postal box number cannot be used as registered office address of a Hong Kong company. If the founder does not plan to lease a physical office, he can utilize the service of a professional firm. But it should be ensured that the service provider must possess a TCSP license.

▪ Step 3: Preparing registration documents and registering with the Companies Registry

In this step, the investor should prepare the registration documents, including mainly the AA, the incorporation form, and a Notice to Business Registration Office, and submit the aforesaid documents to the Companies Registry for registration. At the same time, the investor should pay the application fee for incorporation and business registration fee and levy. The application fee for incorporation is HK\$1,720 (subject to a 10% reduction for incorporation through the "e-Registry" portal). The business registration and levy fee is HK\$2,350 for one-year certificate and HK\$6,170 for three-year certificate, in the period from April 1, 2026 to March 31, 2027. Investors can choose to register for one year or three years. If the documents are prepared in accordance with the prevailing laws and regulations, the Companies Registry will issue the Certificate of Incorporation together with the Business Registration Certificate, which signifies that the company legally exists.

Generally, companies can be fully registered online if the founder members are individuals and the individual user accounts have been registered with the e-Registry*, but investors can also file a paper company registration. Excluding the time needed to prepare the registration documents, the whole registration process will take one to five working days.

Note that some business activities may require additional permits, certificates, and approvals, the details of which can be checked on the Business License Information Service under the Trade and Industry Department.

▪ **Step 4: Making company chop and printing the AA (optional)**

After the company is officially incorporated, the investor could find a service provider to make the company chop and print the AA. After March 3, 2014, the new Companies Ordinance (Cap. 622) has simplified the execution of documents by companies. It is now optional for companies to keep and use the common seal and the AA of the company can be in electronic form.

Opening a bank account in Hong Kong

In Hong Kong, while a bank account is not mandatory for company establishment, it is crucial for business operations. However, many investors believe it is more difficult to open an account in Hong Kong now as compared to before. This is mostly because financial regulations have been tightened in order to combat the designation of the city as a tax haven.

Common issues faced by investors relate to producing required supporting documents and conditions on maintaining fixed deposits. For many banks, it is common to impose a monthly charge for failing to maintain a balance above a certain minimum amount.

It is therefore important for foreign investors to understand the procedures and documents required. The internal practices of the bank may vary from one to another, but generally the following procedures can be expected:

- Most banks will require an initial appointment, via phone, online platform, email, or physical visit;
- Following this, a preliminary review is usually conducted by phone interview, electronic questionnaires, or physical meeting with directors, or by sending supporting documents to bank manager;
- If the preliminary review is passed, both parties will meet to sign the relevant bank application forms and documents, as well as pay the initial deposit and application fee:
 - » Deposit differs according to the bank and is subject to change from time to time.
 - » Signatories also differ according to the bank and time. While some banks accept certified and true copy of shareholders' ID, others require the director/shareholder/ beneficial owner/ nominee to be physically present. In most cases, banks require the same number of people present as that forms quorum in a board meeting according to the AA to satisfy

** To clarify, a single individual member can complete the e-incorporation, as only one member is required to submit the company application. The individual must have an e-user account.*

their Know Your Customer procedure.

- At this stage, the bank manager will send the application for the review department for final review, which normally takes approximately one to two months. It is not uncommon for the review department to require further supporting documents before finally opening a new bank account on your behalf.

Generally, the following documents are required during the application:

- Company documents: Business Registration Certificate, Certificate of Incorporation, AA, and NNC1 form.
- Proof of business: Documents required varies from bank to bank, but generally include evidence of the nature of the business, experience in the industry etc. For example, issued/ received invoices, business plan description, agreement with suppliers, bank reference letter, and website.
- Personal documents: Passport and residency proof (for example, utility bill, electricity bill, or bank statement which are issued within three months and include the holder's address and name).
- Source of Funds: The bank would ask for the source of fund of the investment to the Hong Kong company. For example, investor's bank statements.

Please note that when a company is marked as a 'shell company', it will be subject to a higher level of scrutiny. Here, a shell company is understood to be a corporation that does not conduct business activities itself, but channels funds for group companies. To open a bank account for a shell company, the identity documents of the beneficial owners is required as well.

Once the bank account has been approved, the investor will receive the bank account number, bank cards, and access codes.

There are no strict requirements for a bank account to be registered in Hong Kong. The company may choose to explore an offshore bank account if they deem it appropriate.

Digital banks and money service operators

In addition to traditional banks, another emerging option is using digital banks (formerly known as "virtual banks" prior to November 14, 2024), which have no physical branches and focus on digital services. This concept is still not very common in Hong Kong and for now, the HKMA only granted eight licenses for digital banking.

These banks are a good alternative for tech-savvy people and remote operations. However, it should be noted that some banks cater only to Hong Kong residents.

Advantages of digital banks include better rates and lower fees, integrations with enterprise software, a high set up convenience, and a heavy focus on small- and medium-sized enterprises



GIGI WONG

Manager
Business Advisory Services
Hong Kong Office

“Companies that have a physical office or employee located in Hong Kong usually have a much higher chance of success.”



(SMEs). Disadvantages include less personal relationship development, lack of ATM network, deposit inflexibility, and unavailability of specific services.

Another digital banking solution is money service operators (MSOs). They usually offer services, such as dedicated payment instructions, the ability to receive money via domestic or international bank transfers, and linking to third party services or currency exchange. In the past two years, MSOs have developed at a faster pace, expanding their coverage to other countries through partnerships with various banks. One advantage is that their KYC requirements are generally more lenient. However, a key drawback is that MSOs are not licensed banks, and deposits held in their accounts are not protected under the Hong Kong Deposit Protection Scheme.

For foreign SMEs operating in Hong Kong, digital banks could offer a more convenient and cheaper service. This is particularly true for business owners who operate subsidiaries in Hong Kong that primarily function as holding companies. But it should be noted that the digital banking industry is still very new and growing and as of now, not supportive enough for companies. Nevertheless, the market is expanding, and this might be a valuable option in the future.

Gradual improvements to the banking environment

The HKMA has announced that it has taken steps to improve its internal banking environment – taking the time to engage with various stakeholders to gather details of specific incidents relating to difficulties around bank account opening.

As a result, the HKMA has cautioned financial institution against a one-size-fits-all approach and encouraged them to take a risk-based approach that differentiates the “risk levels of individual customers in accordance with their backgrounds and circumstances”.

The situation is improving, but there is still a long way to go. Hong Kong needs to continue to ease its administrative red-tape in order to stay competitive with other international financial hubs in the region, such as Singapore – which like Hong Kong, serves as a financial gateway to Asia, but benefits from a more relaxed banking environment for foreign businesses.

Intellectual property

Hong Kong offers a high level of protection for intellectual property (IP). According to the 2025 World Competitiveness Yearbook published by the International Institute for Management Development in Lausanne, Switzerland, Hong Kong is ranked the 6th globally on the criterion of “intellectual property rights”. It is also a major global IP trading hub. Hong Kong recognizes several different classes of IP, including trademarks, patents, designs, copyright, trade secrets, plant variations, domain names, and lay-out designs of integrated circuits.

Registering a trademark

For the benefits of a registered trademark, an application for registration must be made to the Trade Marks Registry, Intellectual Property Department (IPD). Registration only covers the territory of the Hong Kong SAR. Registration of a trademark in Hong Kong does not affect the Chinese Mainland, and vice versa.

To register a trademark in Hong Kong, the investor should first investigate whether the trademark is already registered. This can be done online on the Trademark Online Search System (<https://esearch.ipd.gov.hk/nis-pos-view/#/>). The investor can also use the Search and Preliminary Advice services provided by the Trade Marks Registry by simply completing Forms T1 and submitting the appropriate fee.

If the trademark is available, the application to register a trademark can be made online through the IPD E-Filing System, or it can be filed physically with the Trade Marks Registry by filling Form T2, with a graphic representation of the trademark attached. Hong Kong does not require proof of use at the time of filing. Applicants need only declare that:

- The mark is in use in Hong Kong; or
- There is a bona fide intention to use the mark.

After filing, the Trade Mark Registry will examine whether the application meets the requirements laid out in the Trade Marks Ordinance (Cap. 559) and the Trade Mark Rules (Cap. 559A), including the following:

- The trademark needs to be distinctive;
- It cannot be a description of the goods or services the investor is providing or seeking to provide;
- It cannot be an industry or business term; and
- The trademark has not been registered or applied for by another trader.

Provided that the application is complete and correct, the trademark registration can be completed within three months, upon which it will be published in the Hong Kong Intellectual Property Journal. If the IPD objects the registration, it will notify the investor in writing. The applicant will have six months to ratify the application. A further period of three months extension may be granted.

Once registered, a trademark is deemed effective from its filing date and remains valid for 10 years. It may then be renewed indefinitely in successive 10-year periods.



RELATED READING

Case Study: Using Hong Kong as a Strategic Anchor in a Complex Chinese Mainland Trademark Landscape

China Briefing Article
March 9, 2026

This case study shows how using Hong Kong as a strategic anchor can help foreign brands manage complex Chinese Mainland trademark filing risks. By leveraging Hong Kong's stable and predictable IP system, Dezan Shira & Associates helped the Company maintain brand continuity across jurisdictions. The case demonstrates the value of a diversified rights-protection framework in Greater China.

[AVAILABLE HERE](#)

Registering a patent

Patents protect the inventor or the owner of an invention by giving them the legal right to prevent others from manufacturing, using, selling, or importing their patented invention, within a particular jurisdiction for a limited period.

An invention which is new, involves an inventive step, and is industrially applicable is patentable in the Hong Kong SAR if it is not an excluded subject-matter or activity. Examples of excluded subject-matters are discoveries, scientific theories, and surgical methods for treatment of the human body.

Applying for a patent elsewhere in the world or in other regions of China does not automatically give you protection in Hong Kong. Investors need to file an application with the Patents Registry of the IPD.

There are two types of patents in the Hong Kong SAR:

- standard patent (O or R); and
- short-term patent.

Patent inventors or owners who seek a longer patent protection term of up to 20 years for their invention may apply for a standard patent, by filing their application either via the “original grant patent” route directly in the Hong Kong SAR (“standard patent (O)”) or the “re-registration” route for a standard patent (“standard patent (R)”) on the basis of a corresponding patent application for the same invention previously filed with a designated patent office outside the Hong Kong SAR.

Alternatively, the patent inventors or owners may choose to seek a short-term patent having a relatively shorter protection term of up to eight years.

Before applying for a patent in Hong Kong, the applicants should conduct a prior search to ensure the invention is “new.” This can be done online on the Patent Online Search System. The applicants are also advised to carefully assess whether their inventions are worth patenting and prepare the patent specifications.

The application of a standard patent (O) involves both a formality examination and substantive examination. In general, there is no time limit for filing a standard patent (O) unless the invention has been disclosed or the applicant intends to claim priority from a first application. The Patents Registry will do an initial examination and accord a date of filing for the application, following which an examination on formality requirements will be conducted and a notice to correct any deficiencies will be issued within two months.

In the absence of any identified deficiencies or their subsequent rectification, the Patents Registry will proceed to publish the standard patent (O) application. This publication will be advertised in the Hong Kong Intellectual Property Journal within 18 months from the date of filing the application or the earliest date of priority claimed (if applicable).



Further, within three years after its date of filing or the earliest date of priority claimed (if applicable), the applicant needs to file a request with the Registrar of Patents for substantive examination of a standard patent (O) application, during which the patentability of the underlying invention will be examined. In instances where the Registrar of Patents deems an application as not meeting examination requirements, they may issue an examination notice, a subsequent examination notice, or potentially a provisional refusal decision. The applicant is then required to respond within specified timeframes.

Upon examination, if the standard patent (O) application is deemed satisfactory, the Registrar of Patents will proceed to grant and publish the patent. Furthermore, the grant will be publicly announced via a notice in the Hong Kong Intellectual Property Journal, and a certificate of grant for the patent will be issued.

The application for a standard patent (R) undergoes formal examination and consists of two phases. In the first phase, the applicant must file a request to record within six months following the publication of the designated patent application in the three designated patent offices (the 'domestic route'), or within six months after an international patent application has entered its national phase in the designated patent office (the PCT route). The three designated patent offices are the China National Intellectual Property Administration (CNIPA), the European Patent Office (EPO), and the United Kingdom Intellectual Property Office (UKIPO). Within two months after the request, the Patents Registry will notify the applicant of any issues with the application. If there are no issues, or if they have been rectified, the request will be published in the Hong Kong Intellectual Property Journal. The second phase involves filing a request for registration and grant of the Chinese, European, or UK granted patent in Hong Kong. This should be completed within six months after the publication of the request to record or the grant of the patent by the designated patent office.

The grant of a short-term patent is also based on formal examination. There are two routes available: the domestic route or the PCT route. For short-term patent application through the domestic route, there is generally no time limit for filing, unless the applicant wishes to claim priority from a first application. For short-term patent application through the PCT route, the application must be filed within six months after the international application has entered its national phase in China, or within six months after the date of issuance of an official notification by the CNIPA stating that the international application has entered the national phase in the office. Within two months after submitting the application, the Patents Registry will examine it and notify the applicant of any issues. If there are no issues or if they have been corrected, a short-term patent for the invention will be granted and published in the Hong Kong Intellectual Property Journal. To be noted, the patent proprietor or any other person with reasonable grounds or legitimate interest may request the Registrar to conduct post-grant substantive examination of the patent to determine its validity.

Registering a design

The Registered Design Ordinance (Cap. 522) defines designs as “features of shape, configuration, pattern or ornament applied to an article by any industrial process, being features which in the finished article appeal to and are judged by the eye”

Registered designs protect only the appearance of products, for example the look of a computer monitor. Registration of the design does not protect the way in which the product relating to the design works.

Designs can be registered and protected if the designer can show that they are new at the filing date of the application, or the priority date (if claimed). A design is new if it has not been previously registered, or has never been published or disclosed before. To file for the registration of a design, the applicant needs to submit the prescribed form, provide a representation and statement of novelty, and pay the registration fee. If the application is in order, the Designs Registry of IPD will publish the registration in the Hong Kong Intellectual Property Journal. The design will be protected for a maximum of 25 years from the filing date, and needs to be renewed every five years.

Copyright

Unlike the other IP rights in Hong Kong, copyright arises automatically and does not need to be registered. It differs from design in that design protects the shape of an object. A copyright applies to the following:

- Literary, dramatic, musical, or artistic work;
- Sound recordings, films, broadcasts, or cable programs; and
- The typographical arrangement of published editions.

With the copyright, the owner has the exclusive right to:

- Copy the work;
- Issue or make available copies of it to the public;
- Rent out copies of it to the public;
- Perform the work;
- Broadcast the work; and
- Make an adaptation to the work.

Others are restricted from copying the work, which is defined as reproducing the work in any material form.



The protection for copyright differs from that of registered design in that copyright only protects against reproduction of the works, whereas a registered design also protects against the independent creation of a new design that is not substantially different from the registered design. The threshold to prove a copyright infringement is also higher than for a registered design. For copyright infringement, the owner needs to show there is a reproduction in material form, whereas for registered design infringement, the designer needs to establish that the design is the same as or not substantially different from the registered design.

The owner of a copyright may seek a court injunction to prevent the reproduction and distribution of copyrighted materials, as well as claiming financial compensation.

New requirements on IP agents effective May 16, 2025

Hong Kong's IPD has released a set of trademarks, patents, and designs forms, which took effect on May 16, 2025, replacing the previous filing forms. A central change across all new forms is the introduction of a mandatory declaration by IP agents regarding their local physical presence in Hong Kong, including confirmation of residency or genuine business operations at the stated address.

The new forms also include an explicit statutory warning that submitting false information or declarations constitutes a criminal offence under Hong Kong law. This reflects the IPD's aim to reinforce accountability among representatives and to reduce the risk of procedural failures, such as missed communications or deadlines, caused by agents who maintain only a nominal or mailing-address presence in Hong Kong.

IP owners are strongly advised to engage agents with a genuine operational presence in Hong Kong, rather than overseas firms or intermediaries that rely on address-only arrangements. The change does not restrict foreign IP ownership, but it does tighten standards for representation, with implications for trademark, patent, and design filings going forward.

What are the key compliance requirements?

Annual compliance requirements

The compliance burden for a Hong Kong private limited company is actually very low. That said, there are still a few annual compliance requirements, including:

- **Renewal of Business Registration Certificate:** A local private limited company needs to renew its business registration in time. The renewal can be done annually or once every three years, depending on whether the certificate is valid for one year or three years. The Business Registration Office of the Inland Revenue Department will send a renewal demand note to the business address approximately in the middle of the month preceding the commencement month of the renewal Business Registration Certificate. The demand note will specify a payment due date, which is about four weeks after the business registration expiry date. The company is required to renew the business registration certificate before the payment due date.
- **Filing of annual return with the Companies Registry:** A local private limited company must deliver its annual return to the Registrar of Companies for registration within 42 days after the anniversary of the date of the company's incorporation in that year. The annual return (Form NAR1) should contain particulars of the company, such as the address of the registered office, shareholders, directors, company secretary, etc., as of the made-up date of the return.
- **Accounting and financial reporting obligations:** Companies in Hong Kong must maintain proper accounting records and prepare financial statements for each financial year. These typically include a balance sheet, income statement, statement of changes in equity, and, where applicable, a cash flow statement with accompanying notes, providing a true and fair view of the company's financial position and performance. Under the Companies Ordinance, statutory audits are required for all Hong Kong-incorporated companies except those that have formally declared dormant status. While small or eligible private companies may use simplified reporting standards, their financial statements must still be audited by a Hong Kong-practicing certified public accountant (CPA). Companies are also required to calculate assessable profits and comply with profits tax filing obligations, submitting audited accounts together with the tax return when required.
- **Holding annual general meeting:** Every company incorporated in Hong Kong must hold an annual general meeting (AGM) for every financial year. The AGM should be held within nine months of their financial year-end. For the first AGM, if the financial year exceeds 12 months, it must be held either nine months after the first anniversary of the company's incorporation or three months after the end of that accounting reference period, whichever is later. Shareholders must receive at least 21 clear days' notice before the AGM. Under the amended Companies Ordinance (Cap.622), companies can conduct AGMs virtually or in hybrid formats, making compliance with the AGM requirement more flexible and convenient.

Companies (Amendment) Ordinance 2023: Virtual and hybrid meetings

The Companies (Amendment) Ordinance 2023, which took effect on April 28, 2023, modernized Hong Kong's company law by expressly allowing companies to hold fully virtual and hybrid general meetings.

Under the Companies Ordinance (Cap. 622), companies are generally required to hold AGMs within prescribed timeframes and may convene other general meetings as needed. The 2023 amendments clarified that these meetings are no longer required to take place at a physical venue. Companies may now conduct meetings entirely through electronic means or combine online participation with in person attendance.

In practice, companies may choose among:

- In person general meetings;
- Fully virtual general meetings, with no physical meeting location; or
- Hybrid general meetings, allowing shareholders to attend either in person or online.

These meeting formats must still comply with the Companies Ordinance, the Companies (Model Articles) Notice (Cap. 622H), and the company's own articles of association, including rules on notice, quorum, voting, and shareholder participation.

The updated framework gives companies greater flexibility to manage shareholder engagement, reduce logistical costs, and facilitate participation by geographically dispersed shareholders, while maintaining established corporate governance standards.

Significant controllers register

Under the Companies (Amendment) Ordinance 2018 ("the Amendment Ordinance"), all companies incorporated in Hong Kong (except listed companies) need to comply with the significant controllers register requirements starting from March 1, 2018.

Some of the key requirements prescribed by the Amendment Ordinance include:

- Identify and ascertain a person/ persons who has / have significant control over the company;
- Maintain a significant controllers register to be accessible by law enforcement officers upon demand;
- Designate at least one person as its representative to provide assistance relating to the company's significant controllers register to the law enforcement officers;
- Keep the significant controllers register at the company's registered office or a prescribed place in Hong Kong; and
- Keep the significant controllers register updated.

Failure to comply with the significant controllers register requirements set forward in the Amendment Ordinance could qualify as a criminal offense. The company and every responsible person in breach of the Amendment Ordinance could liable for a fine levied at HK\$25,000, and where applicable, a further daily fine.

A significant controller is a person or legal entity who meets one or more of the following conditions:

- Holds, directly or indirectly, more than 25 percent of the company's issued shares or a right to share more than 25 percent of the capital or profits of the company;
- Holds, directly or indirectly, more than 25 percent of the voting rights of the company;
- Holds, directly or indirectly, the right to appoint or remove the majority of the board of directors of the company;
- Has the right to exercise, or actually exercises, significant influence or control over the company; or
- Has the right to exercise, or actually exercises, significant influence or control over the activities of a trust or a firm that is not a legal person, but whose trustees or members satisfy any of the above four conditions in relation to the company.

To identify a significant controller, companies can review their register of members, articles of association, shareholders agreements or other relevant agreements, and issue notice(s) to any person who is believed to be the significant controller and any person who is believed to know the identity of the significant controller and obtain their required particulars.

Compliance of anti-money laundering and counter-terrorist financing requirements for trust or company service providers

According to the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (Cap. 615) (AMLO) issued by the Companies Registry, starting from March 1, 2018, person carries on trust or company services are required to possess a TCSP license.

In general, TCSP licensees are required to:

- Take all reasonable measures to mitigate the risk of money laundering and terrorist financing; and
- Ensure that, among other things, the anti-money laundering and counter-terrorist financing requirements under the AMLO are complied with.

To fulfil the above-mentioned obligations, TCSP licensees must assess the money laundering and terrorist financing risk of their businesses, develop, and implement policies and procedures on:

- Risk assessment;
- Customer due diligence measures;
- Ongoing monitoring of customers;
- Suspicious transactions reporting;
- Record keeping; and
- Staff training.

Accordingly, companies are required to provide the due diligence documents to the service provider (TCSP licensee) due to this new requirement.

New inspection regime

Hong Kong has fully implemented a revised inspection regime under the Companies Ordinance (Cap. 622) to strengthen the protection of personal data recorded on the Companies Register, while maintaining an appropriate level of transparency.

Under the current regime, correspondence addresses are displayed in place of directors' usual residential addresses (URAs), and only partial identification numbers (IDNs) are made publicly available for directors, company secretaries, and certain other relevant persons, such as liquidators. The corresponding URAs and full IDNs are classified as "Protected Information" and are no longer open to general public inspection, either on the Companies Register or in registered documents.

Access to Protected Information is restricted to specified persons, such as law enforcement agencies, regulators, or parties with a demonstrable legal interest, who must apply to the Companies Registry and meet statutory requirements. This marks a significant change from the previous system, under which full residential addresses and complete ID numbers were accessible to the public.

By replacing URAs and full IDNs with correspondence addresses and partial IDNs, the regime enhances data privacy and reduces the risk of misuse of personal information, while still allowing the register to function as a reliable source of corporate information for legitimate purposes. Companies and individuals should ensure that their records with the Companies Registry are kept up to date and that appropriate withholding arrangements are in place where Protected Information is concerned.



RELATED SERVICES

Dezan Shira & Associates provides compliance assistance to foreign companies operating in Hong Kong. For more information, please contact our experts at hongkong@dezshira.com.

How do I make changes to my company?

Dormant company

A dormant company is a company that has no significant accounting transactions during a fiscal year. "Accounting transaction", in relation to a company, means a transaction that is required to be entered in the company's accounting records, excluding a transaction arising from the payment of any fee that the company is required by an Ordinance to pay.

A company can become dormant when it passes a special resolution (resolution approved by at least 75 percent of shareholders), and the resolution is delivered to the Registrar of Companies.

If a company is dormant, many of its compliance requirements are reduced or lifted. The company no longer needs to:

- Hold annual general meetings;
- Deliver annual returns*;
- Prepare financial statements and Directors' Reports;
- Appoint auditors and undergo annual audits; or
- Publish financial statements to the shareholders before general meetings.

Despite all the benefits, a dormant company still needs to maintain a registered office, corporate secretary, designated representative of significant controller(s), fulfill annual business registration, and comply with the taxation requirements of the Inland Revenue Department.

A company ceased to be dormant if the company passes a special resolution declaring that the company intends to enter into an accounting transaction and the resolution is delivered to the Registrar of Companies or there is an accounting transaction in relation to the company.

Changing a company name

To change the company name, the company needs to pass a special resolution, a resolution that is passed by a majority of at least 75 percent. The special resolution and the AA as altered need not be delivered to the Companies Registry, but a "Notice of Change of Company Name" (Form NNC2) should be filled and delivered within 15 days after the passing of the special resolution together with the required fee either electronically through the "e-Registry" portal (www.eregistry.gov.hk) or in hard copy form to the Shroff on the 14th floor of the Queensway Government Offices.

** However, a private company is still required to deliver an annual return for the year in which it declares itself to be dormant if the effective date on which the company becomes dormant falls after the 42nd day after the anniversary of its date of incorporation.*

Electronic Certificate of Change of Name will normally be issued within an hour by email. But if the Form NNC2 is delivered in hard copy, the Certificate of Change of Name will normally be issued within four working days, and has to be collected in person. The change of name will be effective from the date on which the Certificate of Change of Name is issued.

Please note that the intended company name should not be the same as or too similar to a name appearing in the index of company names kept by the Registrar of Companies, or in conflict with a trademark in the Trademark Register maintained by the Intellectual Property Department. Or else the change may be rejected by the Registrar, or the company may be subject to a change of name direction by the Companies Registry after change of name.

Changing the company's Articles of Association

A company may alter most of its AA except:

- Articles on the liability of its members as stated in Section 83 and 84(1) of the Companies Ordinance (Cap. 622);
- Articles that are inconsistent with any rights attached to shares in a class of shares (for company with shared capital) or any rights of a class of members (for company without a share capital); and
- Articles related to the contributions of members of a company limited by guarantee under Section 84(2) of the Companies Ordinance (Cap. 622) other than to increase the specified amount.

Under most circumstances, the alteration of the AA can only be done by passing a special resolution.

Within 15 days after the alteration is made, the following documents are required to be delivered to the Companies Registry:

- A copy of the special resolution for alteration of the AA;
- A notice of alteration in the relevant specified forms, namely Forms NAA1, NAA2, NAA3, or NAA4;
- A certified copy of the AA as altered (for Forms NAA1, NAA2, and NAA3); and
- Other relevant documents required to be delivered with the specified forms for registration as appropriate.

To be noted, the holders of at least five percent of the shares or five percent of the company's members can appeal to the court to cancel an alteration of the objects of a company.

How do I deregister my company?

A private company or a company limited by guarantee, other than those companies specified in Section 749(2) of the Companies Ordinance (Cap. 622), may apply for deregistration when it is defunct. To do so, the following conditions need to be met:

- All members agree to the deregistration;
- The company has not yet commenced operations or business, or has ceased operations or business during the three months before the application;
- The company has no outstanding liabilities;
- The company is not involved in any ongoing legal proceedings;
- The company holds no assets consisting of any immovable property situated in Hong Kong; and
- If the company is a holding company, its subsidiaries' assets do not consist of immovable property situated in Hong Kong.

Before the company can be deregistered, it first needs to obtain a letter of "Notice of No Objection to a Company being Deregistered" (Notice of No Objection) from the Commissioner of Inland Revenue Department (IRD), the Hong Kong tax office. Directors and shareholders, or a person authorized by the company, can apply for such a letter. To apply for this letter, the applicant has to fill in a form, retrievable from the tax office website, and pay a prescribed fee.

With the Notice of No Objection, the investor should then apply for deregistration with the Companies Registry within three months. To apply for deregistration, the investor has to fill in the designated form and pay a fee. The Notice of No Objection needs to be included in the submission. Where the applicant is a company, it must designate a natural person to give notice to the Companies Registry.

The deregistration will then be published in the Gazette on the website of the Government Logistics Department. If no objections are made within the following three months – such as by alleged creditors – the Registrar may deregister the company by publishing in the Gazette another notice declaring it to be deregistered on the date of publication of that other notice.

Former directors must keep the books and papers of the company for six years after deregistration.

Deregister a Company in Hong Kong



1 Assess whether the Company fulfils the conditions of deregistration



2 Confirm the date of cessation of business, if applicable



3 Preparation of last audit, if applicable
Lead time: case by case



4 Confirmation of tax clearance with the IRD
Lead time: case by case



5 Application of Notice of No Objection to a Company Being Deregistered with the IRD –
Lead time: around 1 month



6 Application of deregistration with the Companies Registry –
Lead time: around 1 month



7 Publication of Gazette for the proposed deregistration
Lead Time: 5 months



8 Officially dissolved by deregistration

How do I solve legal disputes?

Located in the center of Asia, Hong Kong prides itself as an ideal location for dispute resolution not only in Asia, but also worldwide. Given its geographic and economic proximity to the Chinese Mainland, Hong Kong acts as a bridge for cross-border disputes that involve this region. Thanks to Hong Kong's reputation for its strict maintenance of the rule of law and judiciary independence, its common law tradition, and its established English-Chinese bilingual legal system, Hong Kong has also become an ideal hub to resolve international disputes for foreign investors doing business in Hong Kong.

Below we introduce the common dispute resolution methods in Hong Kong.

Alternative Dispute Resolution (ADR)

Alternative Dispute Resolution (ADR) is a voluntary and private dispute resolution process in which the parties agree to appoint a neutral third party to assist them to settle or resolve their dispute.

Under the new High Court and District Court rules, which came into effect on April 2, 2009, the courts are required to actively manage cases and facilitating dispute resolution. Such case management includes, where appropriate, encouraging the parties to use procedures alternative to litigation to resolve their dispute, i.e., ADR.

ADR has certain advantages over litigation. In addition to cost and time saving, parties have more control over how the dispute is solved. Because of its confidential nature, it can sometimes preserve business relationship between the disputed parties. Unlike litigation in open courts, trade terms are not disclosed to the public.

Mediation and arbitration are the most commonly used forms of ADR.

Mediation

Mediation is a voluntary, confidential, and private dispute resolution process in which a neutral person, the mediator, helps the parties to reach their own negotiated settlement agreement. The mediator has no power to impose a settlement, other than the power of persuasion. A successful mediation results in an agreement signed by the parties. Despite being widely supported and recognized as having the potential to resolve disputes in a quick, cheap, and confidential way, mediation remains under-utilized when compared to arbitration.

Arbitration

Arbitration is a private process where disputing parties agree that one or several individuals can make a binding decision about the dispute after receiving evidence and hearing arguments. In an arbitration, the arbitrator investigates the legal rights and wrongs of a dispute and makes a decision. Once the arbitrator has arrived at a decision, it is binding on parties, whether they agree with it or not. This is how arbitration is different from mediation.

Arbitration is very much like the way a court case is decided by a judge, except that the process does not take place in a court room, and it is not open to the public.

As a leading seat of arbitration, Hong Kong maintains several the world's top arbitral institutions, such as:

- Hong Kong International Arbitration Centre (HKIAC);
- The International Court of Arbitration of the International Chamber of Commerce (ICC-ICA);
- China International Economic and Trade Arbitration Commission (CIETAC);
- China Maritime Arbitration Commission (CMAC);
- Permanent Court of Arbitration (PCA); and
- The Hong Kong Maritime Arbitration Group (HKMAG).

For parties who wish to commence an arbitration to resolve disputes, there must be a valid arbitration agreement, and as an arbitration friendly jurisdiction, Hong Kong adopts a broad definition of what constitutes a valid arbitration agreement. It could be a clause in the main contract, or a separate agreement made prior to or after the dispute happens. Among others, an arbitration agreement should set out how a party commences arbitration and the procedural guidelines of the arbitration. It must be made in writing or recorded in any written form to be enforceable in Hong Kong.

Arbitral awards made in Hong Kong can be enforced in all state parties to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Besides, in order to complete the network for recognition and enforcement of arbitral awards, the HKSAR has respectively entered into reciprocal arrangements with the Mainland and the Macao SAR. In 2019, HKSAR and the Chinese Mainland, signed the Arrangement Concerning Mutual Assistance in Court-ordered Interim Measures in Aid of Arbitral Proceedings by the Courts of the Mainland and of the Hong Kong Special Administrative Region, according to which parties to arbitral proceedings seated in the HKSAR and administered by designated arbitral institutions may apply to the Mainland courts for interim measures, including property preservation, evidence preservation, and conduct preservation. Notably, Hong Kong has become the first jurisdiction outside the Chinese Mainland where, as a seat of arbitration, parties to arbitral proceedings administered by its arbitral institutions would be able to apply to the Mainland courts for interim measures.

Litigation

Court litigation is the traditional legal dispute resolution method, commonly adopted in Hong Kong. Generally, people have no preference between litigation and arbitration, rather, they choose the best dispute resolution method based on a particular scenario. For example, litigation is usually preferred in insolvent related cases, intra-company dispute, debt enforcement, as well as cases where the enforcement is anticipated to be problematic because the counterparty is not located in an arbitration-friendly jurisdiction.



With a legal system that is based on common law, the litigation process in Hong Kong is generally an adversarial one, during which opposing parties act as adversaries seeking to convince the court or tribunal that their version of events or their legal submissions should prevail over those of the other side. This provides international parties with the familiarity of a legal system.

Civil procedures are mostly governed by legislation, including the High Court Ordinance and Rules of the High Court, the District Court Ordinance, and Rules of the District Court.

To commence litigation in Hong Kong, the party has first to identify the appropriate court, based on the nature and amount of the claim. For commercial disputes, it would often be the District Court or the Court of First Instance of the High Court, in which a party would commence an action. In addition to the above, complicated commercial cases (e.g., construction of mercantile documents, export or import of the merchandise, insurance, banking, etc.) will be directed by the court to the Commercial List, which is developed by the Chief Justice to facilitate the disposal of actions involving commercial matters. The matters are heard before a Commercial List judge, most of whom have expertise in commercial disputes and are bilingual so that they can understand the complexity of the case in both Chinese and English. Corporate insolvency and shareholder disputes are generally handled in an informal 'companies' list headed by a judge experienced in such matters.

The courts follow the doctrine of precedents, by which a lower court is bound to follow the ratio decidendi (i.e. the legal precept applied by the Court in resolving the issues before the Court) of a judgment by a superior court. Court decisions are generally made public and accessible online via the Judiciary's website at https://www.judiciary.hk/en/judgments_legal_reference/judgments.html.

If an applicant succeeds in his application for judicial review, the Court has the discretionary power to grant a form of final relief appropriate to the circumstances, including an order of mandamus (to perform an act), prohibition, or certiorari (to bring up and quash a decision), an injunction, a declaration (as to legal rights), or an award of damages, as the case may be. Subject to relevant law and procedures, appeals from decisions of the Court of First Instance in civil proceedings can be brought to the Court of Appeal and the Court of Final Appeal, which is the apex of the Court system. The Court of Final Appeal is vested with the "power of final adjudication" by the Basic Law.

As for enforcement outside Hong Kong, the Supreme People's Court of China and the Department of Justice at Hong Kong SAR signed the Arrangement between Mainland and the HKSAR on Reciprocal Recognition and Enforcement of the Decisions of Civil and Commercial Cases under Consensual Jurisdiction (the Arrangement) on January 18, 2019. The Arrangement makes provisions about the scope, procedures, and means of reciprocal recognition and enforcement of court decisions on civil and commercial cases. The Arrangement came into force on January 29, 2024, replacing the previous 2006 arrangement and significantly expanding the range of enforceable judgments.



Tax, Audit, and Accounting

- ◆ What are the major taxes in Hong Kong?
- ◆ What are the key compliance requirements?
- ◆ International taxation

What are the major taxes in Hong Kong?



JENNIFER LU

Partner

Hong Kong Office

According to the Basic Law of Hong Kong, the taxation system of the Chinese Mainland is not applicable to Hong Kong, which essentially means that Hong Kong enjoys an independent taxation system. Because the city only imposes three direct taxes, Hong Kong has one of the simplest tax systems in the world. There are also generous allowances and deductions to reduce the burden of taxpayers. Apart from direct taxes, certain indirect taxes are also collected, such as stamp duty and betting duty.

One thing to be noted is that Hong Kong doesn't have any turnover taxes, including sales tax or value added tax, making it a favorable location for various business activities. In this part of the guide, we first introduce the unique features of Hong Kong's taxation system and then concentrate on its three direct taxes, which constitute a major part of the government's fiscal revenue. Tax administration is charged by the Inland Revenue Department (IRD). The tax assessment year usually runs from April 1 to March 31 each year. A company may also choose its fiscal year at its own discretion.

“Hong Kong doesn't have any turnover taxes, including sales tax or value added tax, making it a favorable location for various business activities.”

Key features of Hong Kong's taxation system

Taxes in Hong Kong are only levied on a territorial basis, unlike most countries which apply both residential jurisdiction and territorial jurisdiction in determining tax liability. That is to say, only income arising in or derived from Hong Kong is taxable, whereas worldwide income is not taxable, irrespective of the residence status of the taxpayers. That said, some foreign-sourced passive income could be regarded as arising or derived from Hong Kong starting from January 1, 2023 under the Foreign-Sourced Income Exemption (FSIE) regime, though tax exemption on profits tax can apply if certain conditions are met.

Besides, there is no comprehensive system of income taxation in Hong Kong. Instead, a taxpayer is liable for tax on three different types of income. If an income fails to fall within any of the three specific tax provisions, then it shall not be subject to tax.

Salaries tax

All individuals earning income arising in or derived from Hong Kong from an office, employment, or pension are subject to salaries tax in Hong Kong. Tax payable is calculated at a progressive rate on the “net chargeable income” or at a standard rate on the “net income” (before deduction of the allowances), depending on which is lower. It is further reduced by the tax reduction, subject to a maximum.

NET CHARGEABLE INCOME = TOTAL INCOME - DEDUCTIONS - ALLOWANCES

NET INCOME = TOTAL INCOME - DEDUCTIONS

Tax Rates		
Progressive rates (year of assessment 2020/21 onwards)		
Net chargeable income (HK\$)	Rate	Tax (HK\$)
On the first 50,000	2%	1000
On the next 50,000	6%	3,000
On the next 50,000	10%	5,000
On the next 50,000	14%	7,000
Remainder	17%	
Standard rate of tax (year of assessment 2020/21 to 2023/24)		
15%		
Two-Tiered Standard rates of Tax (year of assessment 2024/25 onwards)		
On the first HK\$5,000,000 of net income	15%	
Remainder	16%	
Allowance		
Year of assessment 2026/27 onwards, in HK\$		
Basic allowance		145,000
Married person's allowance		290,000
Child allowance (For each of the 1 st to 9 th child)		140,000
For each child born during the year, the child allowance will be increased by		140,000
Dependent brother or sister allowance (for each dependent)		37,500
Dependent parent and dependent grandparent allowance (for each dependent)		
» Parent/grandparent aged 60 or above or is eligible to claim an allowance under the Government's Disability Allowance Scheme		55,000
» Parent/grandparent between the age of 55 to 60		27,500
Additional dependent and dependent grandparent allowance		
» Parent/grandparent aged 60 or above or is eligible to claim an allowance under the Government's Disability Allowance Scheme		55,000
» Parent/grandparent between the age of 55 to 60		27,500
Single parent allowance		145,000
Disabled dependent allowance (for each dependent)		75,000
Personal disability allowance		75,000

* From the 2026/27 year of assessment, taxpayers may claim twice the additional child allowance for newborns (i.e. HK\$280,000, based on the proposed child allowance of HK\$140,000) for each child in the first two years after birth, applicable to children born on or after April 1, 2025.

Deductions (Maximum Limits)	
Year of assessment 2026/27 onwards, in HK\$	
Expenses of self-education	100,000
Elderly residential care expense	110,000
Home loan interest: Basic	100,000
Additional	20,000
Mandatory contribution to recognized retirement schemes	18,000
Approved charitable donations (income - allowable expenses - depreciation allowance) x percentage	35%
Qualifying premiums paid under Voluntary Health Insurance Scheme (VHIS) policy (for each insured person)	8,000
Qualifying annuity premiums and tax deductible MPF voluntary contributions	60,000
Expenses on assisted reproductive services	100,000
Domestic rent deduction: Basic	100,000
Additional	20,000

Maximum tax reductions

Salaries tax for the year of assessment 2025/26 is further reduced by a one-off tax reduction of 100 percent, subject to a ceiling of HK\$ 3,000 per case. For single taxpayers, the ceiling is applied to each individual; for couples jointly assessed, the ceiling is applied to each married couple (that is, capped at HK\$3,000 in total). Married persons may elect personal assessment separately to reduce tax liability.

The tax reduction will only be applicable to the final tax for the year of assessment 2025/26, but not to the provisional tax of the same year. Therefore, taxpayers are still required to pay their provisional tax on time despite the reduction measure.

Provisional salaries tax

Salaries tax is chargeable on the assessable income for each year of assessment. As the assessable income for any particular year cannot be known until after the end of the year concerned, a provisional tax charge has to be raised. When the assessable income for the year of assessment is subsequently ascertained, a final assessment will be issued by the IRD and the provisional salaries tax paid will be utilized to offset the tax liability under the assessment.

The tax payer can apply in writing for holding over of the whole or part of the provisional salaries tax on the grounds as specified in the Inland Revenue Ordinance (Cap. 112).

Profits tax

Any party, including corporations, partnerships, trustees, and organizations involved in any trade, profession, or business in Hong Kong, is subject to tax on all profits arising in or derived from Hong Kong (excluding profits arising from the sale of capital assets). Profits tax is levied based on assessable profits, which is determined by excluding deductions and tax-exempt incomes. It is further reduced by the tax reduction, subject to a maximum.

Profits tax rate

Normal rate

Two-Tiered Profits Tax Rates in Hong Kong		
Assessable profits	Corporations	Unincorporated businesses
First HK\$2 million	8.25%	7.5%
Over HK\$2 million	16.5%	15%

Generally, profits earned by a corporation are taxed at a standard rate of 16.5 percent, while profits earned by unincorporated businesses are taxed at a standard rate of 15 percent.

Starting from the year of assessment 2018/19, the two-tiered profits tax regime has been introduced, which lowers the tax rate for the first HK\$2 million of assessable profits.

Under the two-tiered tax regime, the first HK\$2 million of profits earned by a corporation will be taxed at 8.25 percent. The remaining profits will continue to be taxed at the existing 16.5 percent tax rate. For unincorporated businesses, the first HK\$2 million of profits earned will be taxed at 7.5 percent. The remaining profits thereafter will be taxed at the existing 15 percent tax rate.

However, for two or more connected entities, only one of them may elect the two-tiered profits tax rates. The rest of the entities shall still be taxed at 16.5 percent for corporations and 15 percent for unincorporated businesses.

In order to avoid double benefits, enterprises that already benefit from preferential tax regimes, such as the corporate treasury center regime, aircraft leasing regime, etc. shall be excluded from the two-tiered profits tax regime.

Additionally, the assessable profits for sums received by or accrued to holders of qualifying debt instruments as interest, gains, or profits shall be excluded, as these should already be taxed at half the rate (8.25 percent or 7.5 percent, as the case may be).

Concessionary rate

A tax rate at 50 percent of the normal profits tax rate will be applied to:

- trading profits and interest income received or derived from “short / medium term debt instruments” (issued before 1 April 2018);
- qualifying profits of a qualifying corporate treasury center (for the year of assessment 2016/17 onwards);
- qualifying profits of a qualifying aircraft lessor or a qualifying aircraft leasing manager (for the year of assessment 2017/18 onwards);
- qualifying profits of a professional reinsurer or authorized captive insurer (for the year of assessment 2018/19 onwards); and
- qualifying profits of a specified insurer or licensed insurance broker company (for the year of assessment 2020/21 onwards).

A profits tax rate at 0 percent or 50 percent of the normal profits tax rate will be applied to:

- qualifying profits derived by a qualifying ship lessor or a qualifying ship leasing manager from their qualifying activities (for the year of assessment 2020/21 onwards); and
- qualifying profits derived by a qualifying ship agent, a qualifying ship manager, or a qualifying ship broker from their qualifying activities (for the year of assessment 2022/23 onwards).

A profits tax rate at 5 percent will be applied to:

- concessionary portion of assessable profits from eligible intellectual property income derived from the eligible intellectual property in a year of assessment beginning on or after April 1, 2023 (under the “Patent Box Regime”).

A profits tax rate at 0 percent will be applied to:

- trading profits and interest income received or derived from qualifying debt instruments (issued on or after April 1, 2018);
- net eligible carried interest derived by a qualifying person under specified conditions (for the year of assessment 2020/21 onwards); and
- assessable profits arising from qualifying transactions and incidental transactions derived by eligible family-owned investment holding vehicles managed by eligible single family offices in Hong Kong, or family-owned special purpose entities (for the year of assessment 2022/23 onwards).

Exemptions

The following sums can be exempted from the assessable profits of a company:

- Dividends received from a corporation which is subject to Hong Kong profits tax;
- Amounts already included in the assessable profits of other persons chargeable to profits tax;
- Interest on Tax Reserve Certificates;
- Interest on, and any profit made in respect of, a bond issued under the Loans Ordinance (Cap. 61) or the Loans (Government Bonds) Ordinance (Cap. 64), or in respect of an Exchange Fund debt instrument or in respect of a Hong Kong dollar-denominated multilateral agency debt instrument;
- Interest income and trading profits derived from long term debt instruments;
- Interest, profits or gains from qualifying debt instruments (issued on or after April 1, 2018) exempted from payment of profits tax; and
- Sums received or accrued in respect of a specified investment scheme by or to the person as:
 - » A person chargeable to profits tax in respect of a mutual fund, unit trust, or similar investment scheme that is authorized as a collective investment scheme under section 104 of the Securities and Futures Ordinance (Cap. 571); or
 - » A person chargeable to profits tax in respect of a mutual fund, unit trust, or similar investment scheme where the Commissioner is satisfied that the mutual fund, unit trust, or investment scheme is a bona fide widely held investment scheme, which complies with the requirements of a supervisory authority within an acceptable regulatory regime.

A person is exempt from payment of profits tax in respect of the following sums:

- Interest (accrued on or after 22 June 1998) that is derived from any deposit placed in Hong Kong with an authorized institution, excluding interest received by or accrued to a financial institution; and
- Starting from the year of assessment 2009/10, interest on and any profit made in respect of Renminbi sovereign bonds.

Deductions

- Deductible expenses
 - » Generally, all outgoings and expenses, to the extent to which they have been incurred by the taxpayer in the production of chargeable profits, are allowed as deductions. A transfer of certain allowable head office administrative expenses by means of a charge to a local branch or subsidiary in Hong Kong would be allowed as a deduction for Hong Kong tax purposes, to the extent to which they were incurred during the basis period for the year of assessment in the production of profits chargeable to tax.
- Non-deductible items
 - » Domestic or private expenses and any sums not expended for the purpose of producing the profits;
 - » Any loss or withdrawal of capital, the cost of improvements, and any expenditure of a capital nature;
 - » Any sum recoverable under insurance or contract of indemnity;
 - » Rent of or expenses relating to premises not occupied or used for the purpose of producing the profits;



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- » Taxes payable under the Inland Revenue Ordinance (Cap. 112), except salaries tax paid in respect of employees' remuneration;
- » Any remuneration or interest on capital or loans payable to section 16AA, contributions made to a mandatory provident fund scheme in respect of the proprietor or the proprietor's spouse or, in case of a partnership, to its partners or their spouses;
- » General provisions not specifically allowable under the Inland Revenue Ordinance;
- » Fines, penalties, or expenses arising from breaches of law; and
- » Hong Kong profits tax.
- Expenditure on building refurbishment
 - » A person who incurs capital expenditure on the renovation or refurbishment of business premises is allowed to deduct that expenditure over a period of five years in equal installments commencing the year in which the expenditure is made.
- Expenditure on plant and machinery specially related to manufacturing, and on computer hardware and software
 - » For this kind of expenditure, a full deduction is allowed during the basis period in which the expenditure was incurred.
- Expenditure on environmental protection facilities
 - » Expenditure on environmental protection machinery – with effect from the year of assessment 2008/09, a full deduction is allowed during the basis period in which the expenditure is incurred;
 - » Expenditure on environmental protection installation – with effect from the year of assessment 2008/09, a deduction at 20 percent of the expenditure is allowed during the five consecutive years commencing from the year in which the expenditure is incurred; with effect from the year of assessment 2018/19, a full deduction is allowed during the basis period (instead of over five years) in which the expenditure is incurred for procuring environmental protection installations, including any part of expenditure on environmental protection installation that remains to be deducted (and is to be fully deducted) in the year of assessment 2018/19; and
 - » Expenditure on environmentally friendly vehicles – with effect from the year of assessment 2010/11, a full deduction is allowed during the basis period in which the expenditure is incurred.
- Depreciation allowances
 - » Industrial building allowances on industrial buildings and structures
 - › Initial allowance – 20 percent on the cost of construction of the premises;
 - › Annual allowance – four percent on the cost of construction of the premises (time limit for claiming annual allowances removed from the year of assessment 2024/25); and
 - › Balancing allowance or charge will be due upon disposal of the premises.
 - » Commercial buildings allowances on commercial buildings and structures
 - › Annual allowance – four percent on the cost of construction of the premises; and
 - › Balancing allowance or charge will be due upon disposal of the premises.

» Plant and machinery

- › Initial allowance – 60 percent on the cost;
- › Annual allowance – at rates of 10 percent, 20 percent or 30 percent as prescribed by the Board of Inland Revenue in the Inland Revenue Rules, on the reducing value of the asset. Items qualifying for the same rate of annual allowance are grouped under one “pool”; and
- › A balancing allowance is available only on cessation of a business to which there is no successor. A balancing charge can, however, arise whenever the disposal proceeds of one or more assets exceed the reducing value of the whole “pool” of assets to which the disposed items belong.

• Donations

- » Charitable donations made to approved charitable institutions or trusts of a public character or to the Government of the Hong Kong SAR, amounting in aggregate not less than HK\$100 but not exceeding 35 percent (year of assessment 2008/09 onwards) of the adjusted assessable profits before deduction of donations, are allowable for deduction in computing the assessable profits.

Maximum tax reductions

Profits tax for the year of assessment 2025/26 is further reduced by the tax reduction of 100 percent, subject to a ceiling of HK\$3,000 per case.

The reduction will be reflected in the final tax payable for the year of assessment 2025/26, but not to the provisional tax of the same year. Therefore, taxpayers are still required to pay their provisional tax on time despite the reduction measure.

Provisional profits tax

Profits tax is chargeable on the assessable profits for each year of assessment. As the assessable profits for any particular year cannot be known until after the end of the year concerned, a provisional tax charge has to be raised. When the assessable profits for the year of assessment are subsequently ascertained, an assessment will be made and the provisional profits tax paid will be utilized to offset the tax liability under the assessment.

The tax payer can apply in writing for holding over of the whole or part of the provisional tax on the grounds as specified in the Inland Revenue Ordinance (Cap. 112).

If the provisional tax is payable by two installments and the first installment has been settled by the due date, an application for holding over of the whole or part of the second installment may be made subject to the prescribed time limit and grounds for application.

Enhanced tax deduction for R&D expenditures

To encourage enterprises to conduct more research and development (R&D) activities locally and to promote technological innovation and economic growth in Hong Kong, the government introduced an enhanced tax deduction for expenditures on “qualifying R&D activities” in 2018.

Eligible R&D expenditures are categorized into two types: Type A expenditures and Type B expenditures.

Enhanced Tax Deduction for R&D Expenditures in Hong Kong

Type of R&D expenditures		Deduction ratio
Type A expenditures		100%
	First HK\$2 million	300%
Type B expenditures	Any remaining amount	200%

Type B expenditure refers to R&D expenditures that fall under any of the following categories:

- Payments made to a designated local research institution (DLRI) for qualifying R&D activities related to your trade, profession, or business
- Payments made to a DLRI whose objective is to undertake qualifying R&D activities related to the class of trade, profession, or business to which your enterprise belongs, provided the payment is used to pursue that objective
- Qualifying in-house R&D expenditures related to your trade, profession, or business

Type A expenditures are R&D expenditures that do not fall under Type B. For example, payments made to overseas universities for qualifying R&D activities related to your trade, profession, or business.

There is no cap on the total amount of enhanced deduction, and it applies to all enterprises, regardless of size or industry. Companies may claim this enhanced deduction for qualifying R&D expenditures incurred on or after April 1, 2018.



RELATED SERVICES

For assistance navigating Hong Kong's various tax compliance requirements, please contact our tax experts at hongkong@dezshira.com

Property tax

Property tax is levied on income arising from the letting of immovable property in Hong Kong, which is payable by the owner(s) at the standard rate of the year of assessment on "net assessable value" (NAV). Under the provisions of the Inland Revenue Ordinance (Cap. 112), each and every joint owner or owner in common is responsible for reporting rental income on tax returns and paying property tax as if he/she is the sole owner. Where the owner receives only rent and no other benefit, the annual rent is the "assessable value" (AV). Rent receivable (due but not yet received) should be included in the AV. Irrecoverable rent can be excluded from tax charge in the year in which it became irrecoverable. Any amount subsequently recovered is assessable to tax as income in the year of recovery.

The property tax is paid on 15 percent of the NAV:

- If the tenant pays rates, the NAV is equal to AV less than a standard allowance of 20 percent for repairs and outgoings; and
- If the owner is responsible for paying rates, rates paid can be deducted before allowing for the 20 percent deduction.

Provisional property tax

Property tax is chargeable on NAV for each year of assessment. As the NAV for any particular year cannot be known until after the end of the year concerned, a provisional tax charge has to be raised. When the NAV for the year of assessment are subsequently ascertained, an assessment will be made and the provisional property tax paid will be utilized to offset the tax liability under the assessment.

The tax payer can apply in writing for holding over of the whole or part of the provisional property tax on the grounds as specified in the Inland Revenue Ordinance (Cap. 112).

Hong Kong's principle of taxation based on territorial source

Hong Kong adopts a territorial source principle of taxation. Only profits derived from a trade, profession, or business carried on in Hong Kong are taxable here. Profits sourced elsewhere are not subject to Hong Kong profits tax. The principle itself is very clear but its application in particular cases can be contentious.



MIL LUI

Manager

Corporate Accounting Services
Hong Kong Office

“Hong Kong adopts a territorial source principle of taxation. The principle itself is very clear but its application in particular cases can be contentious.”

Over the years, the following principles have emerged from authoritative court decisions:

- **Matter of fact** – the question of locality of profits is a hard, practical matter of fact. No universal rule can apply to every scenario. Whether profits arise in or are derived from Hong Kong depends on the nature of the profits and of the transactions which give rise to such profits.
- **The operations test** – identifying the operations that generated the profits in question and determining where they were carried out. The guiding principle is to examine what the taxpayer has done to earn the profits and where they were earned. The source of profits must be attributed to the operations of the taxpayer responsible for generating them, rather than to those of other entities within the taxpayer's group.
- **Antecedent or incidental activities** – the relevant operations do not comprise the whole of the taxpayer's activities. The focus is on establishing the geographical location of the taxpayer's profit-producing transactions as distinct from activities antecedent or incidental to those transactions.
- **Place where decision is made** – the place where the day-to-day investment and business decisions take place is only one factor which must be considered in determining the source of profits. It is not usually the deciding factor.
- **Gross profits from transactions** – the distinction between Hong Kong profits and offshore profits is made by reference to the gross profits arising from individual transactions.
- **Business presence overseas** – while a company may have operations outside of Hong Kong that generate profits, the lack of such a presence does not automatically mean that all profits arise in or derive from Hong Kong. However, if the company's main operations are in Hong Kong and there is no presence overseas, it is highly likely that any profits earned will be subject to profits tax in Hong Kong.

In trading companies, the location of profits from goods and commodities is typically determined by the place where contracts for their purchase and sale are "effected." This includes not only the legal execution of the contracts, but also the negotiation, finalization, and fulfillment of their terms.

In manufacturing businesses, the source of profits is determined by the location where the goods are produced. Profits derived from the sale of goods manufactured in Hong Kong are subject to full taxation here. If the goods are produced both inside and outside of Hong Kong, the portion of profits related to the production outside of Hong Kong will not be considered to arise in Hong Kong. The location where the goods are sold does not factor into this determination. If a business earns commission by securing buyers for products or by securing suppliers of products needed by customers, the source of commission income is the location where the agent performs these activities. The income arises from the arrangement of transactions between the parties. Therefore, if these activities take place in Hong Kong, the commission income is sourced in Hong Kong.

To provide certainty and clarity in the operation of the territorial source principle, the IRD provides advance rulings on the source of profits of a business for profits tax purposes. The service is subject to the payment of a fee.

Foreign source income exemption

To align with international tax standards, Hong Kong has made significant amendments to its FSIE regime for passive income. Under these changes, multinational entity (MNE) groups that lack a sufficiently substantive presence in Hong Kong will now be required to pay profits tax on certain types of foreign-sourced passive income.

In effect, this will mean that MNEs that are incorporated in Hong Kong purely for tax purposes and that do not have actual operations in the region will be required to pay profits tax on this type of income, while companies with actual operations in Hong Kong can continue to enjoy the exemption.

The Hong Kong government introduced the first part of its FSIE regime in December 2022, when the Inland Revenue (Amendment) (Taxation on Specified Foreign-sourced Income) Ordinance 2022 (the “2022 Amendment Ordinance”) was enacted.

The 2022 Amendment Ordinance added interest, dividend, IP income, and equity interest disposal gain as types of passive income derived overseas that would be applicable under the FSIE regime. This amendment took effect on January 1, 2023.

Subsequently, in December 2023, the Hong Kong government further refined its FSIE regime to align with the EU’s updated guidance. The Inland Revenue (Amendment) (Taxation on Foreign-sourced Disposal Gains) Ordinance 2023 (the “2023 Amendment Ordinance”) was enacted, expanding the coverage of foreign-sourced disposal gains to include assets beyond shares or equity interests. The 2023 Amendment Ordinance became effective on January 1, 2024.

Under the FSIE regime, certain foreign-sourced income accrued to a member of a multinational entity (MNE) group carrying on a trade, profession, or business in Hong Kong is to be regarded as arising in or derived from Hong Kong and chargeable to profits tax when it is received in Hong Kong, unless certain additional conditions can be satisfied. Previously, these incomes were not subject to profits tax at all if they were foreign-sourced. The in-scope foreign source income include interest, dividend, intellectual property (IP) income, disposal gain from sale of IP assets (IP disposal gain), and disposal gain from the sales of non-IP assets such as property and equity interest. Nevertheless, any interest, dividend, or non-IP disposal gain derived by certain entities, such as a regulated financial entity, do not fall into the scope. Specified foreign-sourced income received in Hong Kong will not be brought into charge if the MNE entity meets the exception requirements specifically for the particular types of incomes.

The exception requirements are as follows:

Exception Requirements for Specified Foreign-Sourced Income under the FSIE Regime						
Exceptions	Specified foreign-sourced income					
	Interest	Dividend	Disposal gain		General IP income (e.g. royalty)	
			Non-IP assets			IP assets
			Equity interest	Others		
Economic substance requirement	✓	✓	✓	✓		
Nexus requirement					✓	
Participation requirement		✓	✓			

Meanwhile, as per the 2023 Amendment Ordinance, an intra-group transfer relief has been introduced to defer charging of tax on foreign-sourced disposal gain derived from the transfer of property between associated entities, subject to specified anti-abuse rules.

In general, the economic substance requirement will be tested in terms of the number of qualified employees in Hong Kong and the amount of operating expenditure incurred in Hong Kong. The participation requirement is an alternative to the economic substance requirement for the foreign-sourced dividend or disposal gain. It requires certain conditions to be met, such as the MNE entity must continuously hold not less than five percent of equity interests in the investee entity concerned for a period of not less than 12 months immediately before the foreign-sourced dividend or disposal gain accrues. The nexus requirement will be tested in reference to the research and development activities concerning the IP.

To further mitigate the impact of the FSIE regime, Hong Kong provides multiple double taxation relief. If an MNE entity has specified foreign-sourced income chargeable to profits tax and has paid similar tax in a territory outside Hong Kong, double taxation relief will be available regardless of whether that territory has entered a comprehensive avoidance of double taxation arrangement with Hong Kong or not. The amount of tax credit is capped at the lower of foreign tax paid and the profits tax that would have been payable on the same income. If an MNE entity has paid tax for its in-scope income in a foreign jurisdiction, it will only need to pay a reduced or even no tax in Hong Kong in most cases, given Hong Kong's relatively low tax rate.

To be noted, relevant taxpayers will be subject to some additional obligations under the FSIE regime. An MNE entity must do the following:

- Report its specified foreign-sourced income in the profits tax return and submit relevant form (IR1478) for the year of assessment in which the income accrues;
- Report the amount of chargeable specified foreign-sourced income in the profits tax return and designated form for the year of assessment in which the income is received in Hong Kong;
- Notify the Commissioner in writing that it is chargeable to profits tax within four months after the end of the basis period of the year of assessment during which the income is received in Hong Kong in case no profits tax return has been issued to it for the year of assessment concerned;
- Notify the Commissioner in writing of the withdrawal, abandonment, or refusal of a patent application made under Cap. 514 or under the law of any place outside Hong Kong, for which an excepted portion of qualifying IP income was regarded as not chargeable to profits tax in a previous year of assessment, within four months after the end of the basis period of the year of assessment in which the withdrawal, abandonment or refusal takes place; and
- Retain records of transactions, acts, or operations relating to the specified foreign-sourced income at least until the expiry of seven years after the completion of those transactions, acts or operations, or the expiry of seven years after the income is received, or to be regarded as received, in Hong Kong, whichever is later.

In conclusion, the amendments to the FSIE regime have made Hong Kong's territorial source principle of taxation more advanced than before. Taxpayers with foreign sourced income that falls under the scope of the new rules should review their business structure, understand the updated compliance requirements, and make any necessary arrangements to optimize their tax status. However, the impact of the new regime will mainly be felt by shell companies of multinational enterprises. The tax impact on most companies with existing operations in Hong Kong is expected to be minimal. With Hong Kong committed to maintaining its competitiveness, businesses can continue to benefit from the territory's relatively low tax rates and straightforward tax system, particularly smaller companies.

Interaction with the territorial source principle of taxation

With the FSIE regime coming into effect, the territorial source principle of taxation is no longer as simple as it used to be. But as clarified by the IRD, the determination of source of profits is not affected by the introduction of the economic substance requirement. The source of profits and the economic substance requirement will be considered in separate contexts, with the former continuing to be determined based on the prevailing requirements of the Inland Revenue Ordinance (Cap. 112) and the broad guiding principle as established by judicial precedents.



RELATED SERVICES

To evaluate how Hong Kong's new foreign source income exemption (FSIE) regime will affect the tax burden of your business, please contact our tax experts at hongkong@dezshira.com.

What are the key compliance requirements?

Accounting standards

As one of the two SARs of China, Hong Kong enjoys the rights to develop its own accounting standards, rather than applying the relative standards of the Chinese Mainland. The Hong Kong Institute of Certified Public Accountants (HKICPA) is the only organization authorized by law to promulgate financial reporting and auditing standards for professional accountants in Hong Kong.

The accounting standards of Hong Kong are known as the Hong Kong Financial Reporting Standards (HKFRS), which have been fully converged with International Financial Reporting Standards (IFRS) since January 1, 2005. According to the HKICPA, HKFRS are designed to apply to general purpose financial statements and other financial reporting of all profit-oriented entities.

On April 30, 2010, the HKICPA issued the Hong Kong Financial Reporting Standard for Private Entities (HKFRS for Private Entities) as a financial reporting option for private entities to relieve the reporting requirements under full HKFRS. Section 1 of HKFRS for Private Entities presents the qualifying criteria for applying this standard. However, entities are not mandated to adopt this standard, even if they are eligible to do so. This means that such eligible entities can apply for the full HKFRS if they wish.

There is an additional standard that applies to small and medium-sized entities, the Hong Kong Small and Medium-sized Entity Financial Reporting Framework and Financial Reporting Standard (SME-FRF & SME-FRS). This standard was initially issued in August 2005 and revised in March 2014. Again, the standard is not mandatory. The qualifying criteria is set out in Division 2 of the Hong Kong Companies Ordinance (Cap. 622) and highlighted in Paragraphs 22-43 of this standard.

Bookkeeping requirements

According to Part 9 of the Hong Kong Companies Ordinance (Cap. 622), companies incorporated in Hong Kong must maintain proper books of accounts and must also satisfy statutory audit requirements on an annual basis.

To be more detailed, the bookkeeping requirements in Hong Kong are as follows:

- **A company must keep accounting records* that comply with:**
 - » Accounting records that are sufficient to show and explain the company's transactions; to disclose the company's financial position and performance with reasonable accuracy; and to enable directors to ensure that the financial statements comply with the Companies Ordinance (Cap. 622).

* Section 51C of the Inland Revenue Ordinance (Cap. 112) provides a more specific list of the records to be kept.

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- » In particular, the accounting records must contain:
 - › daily entries of all sums of money received and expended by the company, and the matters in respect of which the receipt and expenditure takes place; and
 - › the assets and liabilities of the company.
 - **Where to keep the accounting records:**
 - » A company's accounting records must be kept at its registered office or any other place that the directors think fit, and must be open to inspection by the directors at all times without charge; and
 - » If a company's accounting records are kept in a location outside Hong Kong, the accounts and returns must be sent to a place within Hong Kong. Those accounts and returns must disclose with reasonable accuracy the financial position of the business in question at intervals of not more than six months.
 - **How long accounting records are to be preserved:**
 - » The company must preserve the records for seven years after the end of the financial year to which the last entry was made or matter recorded in the records, or the accounts and returns, relates.
 - **Penalties for not complying with the bookkeeping requirements:**
 - » A director of a company who fails to take all reasonable steps to secure compliance with the bookkeeping requirements commits an offence and is liable to a fine of HK\$300,000.

Financial reporting requirements

Statutory reports are required annually for companies incorporated in Hong Kong. The reports must contain audited financial statements for the current year, with corresponding amounts for the preceding year, including a balance sheet, profit and loss account, and a cash flow statement. Audited financial statements must be prepared and signed off by a certified public accountant on behalf of a business or non-profit organization, to provide financial accountability and accuracy to a company's stakeholders and people with a vested interest in the company.

Companies incorporated outside Hong Kong but have a place of business there should register as a foreign company with the Companies Registry. If required to publish their financial statements under the laws or regulations of their incorporated place, the foreign company should file its financial statements in the annual return to the Companies Registry.

Foreign companies whose securities are publicly traded in the Hong Kong Stock Exchange may prepare financial statements in accordance with either the HKFRS or the IFRS, or under certain limited conditions of other reporting frameworks, such as the China Accounting Standards for Business Enterprises (ASBE) and Generally Accepted Accounting Principles in the United States of America (US GAAP).

To prepare financial statements, certain documents might be required according to the instructions by IRD. These are as follows:

Documents to be Maintained for Financial Statements by Type of Transaction	
Type	Record to be maintained
Sales	Sales invoice
	Goods return note
	Receipt slip
	Daily receipt record
Purchases	Purchases invoice
	Petty cash voucher
	Payment slip
	Check stub
	Statement
General expenses	Expenses invoice
	Payment receipt
	Check stub
	Salary record
Bank transaction	Bank statements
	Bank paid-in slip and related receipt details
	Check stub and copy
Tangible assets	Purchase and sale agreement
	Invoice and receipt
	Check stub and copy
Inventory	Purchase and sale agreement
	Invoice and receipt
	Check stub and copy
	Inventory list (including quantity and unit cost on every item)
Investment	Obsolete or slowing-moving inventory
	Security ask/bid confirmation slip
	Purchase and sale agreement
	Capital inspection report (apply for PRC investment)

Filing of annual profits tax return with the IRD

Businesses carrying on a trade, profession, or business in Hong Kong are required to file an annual profits tax return with the IRD if they are chargeable to profits tax. The profits tax return must be completed accurately and submitted together with all required supporting documents, including audited financial statements, profits tax computations, and any applicable supplementary forms prescribed by the IRD.

For newly incorporated companies, the IRD typically issues the first profits tax return around 18 months after the date of incorporation. This initial filing generally covers the company's first accounting period, allowing sufficient time for business operations to commence and accounts to be prepared and audited.

Subsequently, profits tax returns are issued on an annual basis. The IRD follows a bulk issuance schedule, with returns normally sent out on the first working day of April each year, marking the start of the annual profits tax filing cycle. Upon receipt, businesses are generally required to file the completed profits tax return, together with all supporting documents, within one month from the date of issue, unless an extension is granted.

The IRD may allow filing extensions under certain circumstances, such as where a company appoints a tax representative, adopts a specific accounting date, or falls within the IRD's block extension framework. However, extensions are not automatic, and taxpayers remain responsible for ensuring timely submission and compliance.

Failure to file the profits tax return or supporting documents by the due date may result in penalties, estimated assessments, or other enforcement actions. Businesses are therefore advised to plan ahead, particularly to allow sufficient time for audit completion and tax computation preparation ahead of the filing deadline.

For the assessment year of 2025/26, the profits tax return incorporates three interconnected updates:

- Mandatory e filing for large MNE groups;
- iXBRL tagging of financial statements and tax computations; and
- A new Pillar Two top up tax notification requirement.

Together, these measures give the IRD a consistent, automated view of MNE tax positions across jurisdictions and support Hong Kong's integration into the global minimum tax system. That said, the IRD aims for full e-filing by 2030, meaning every corporation will eventually need to adapt. The 2025/26 return thus serves as a chance for all businesses to test systems and processes before e-filing becomes universal.

International taxation



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Hong Kong's transfer pricing regime

The Inland Revenue (Amendment) (No.6) Ordinance 2018 ("the Amendment Ordinance"), which was gazette on July 13, 2018, established a more comprehensive transfer pricing regime in Hong Kong. It codified the transfer pricing principles, implemented certain measures under the Base Erosion and Profit Shifting (BEPS) Package, and aligned the provisions in the Inland Revenue Ordinance (Cap. 112) with international tax requirements.

Fundamental transfer pricing rule

On the basis of the arm's length principle, the Amendment Ordinance introduced fundamental transfer pricing rules (FTPR) that further empower the IRD. This includes the ability to adjust the profits or losses of an enterprise where the actual provision made or imposed between two associated persons departs from the provision that would have been made between independent persons and has created a tax advantage.

The Amendment Ordinance does not contain any safe harbor rules in respect to the FTPR. What this means is that taxpayers of all sizes, engaged in either domestic and/or cross border intercompany transactions of any size, will be required to ensure that the prices are at arm's length.

Transfer pricing documentation

The Amendment Ordinance further introduced mandatory documentation requirements based on the three-tiered approach of Country-by-Country (CbC) Reporting, Master File, and Local File.

Hong Kong entity of a group will be required to prepare a Master File and a Local File for each accounting period beginning on or after April 1, 2018. The Master File and Local File must be prepared within nine months after the end of the entity's accounting period, and be retained for a period of no less than seven years after the end of the accounting period of the entity. The Hong Kong entity has to declare in the profits tax return and supplementary form S2 whether a master file and a local file have to be prepared. The master file and the local file should be ready for submission upon request by the Assessor. The information items to be included within the Master File and the Local File are largely in-line with the Organization for Economic Co-operation and Development (OECD) guidance.

“In light of the IRD's focus on related party transactions, it is imperative that companies ensure they have a reasonable charging mechanism in place and that any related party payments made in Hong Kong are arm's length in nature.”

Taxpayers will not be required to prepare Master and Local Files if they meet either of the following two sets of exemptions:

1) Based on size of business (any two of the three criteria)	Threshold per financial year
Total revenue	≤HK\$400 million
Total assets	≤HK\$300 million
Employees	≤100

If the amount of a category of related party transactions for the relevant accounting period is below the respective threshold, the entity will not be required to prepare a Local File for that category of transactions.

2) Based on controlled transactions (for that particular category of transactions)	Threshold per financial year
Transfer of properties (excluding financial assets/intangibles)	≤HK\$220 million
Transactions in financial assets	≤HK\$110 million
Transfer of intangibles	≤HK\$110 million
Any other transactions (e.g. service income/royalty)	≤HK\$44 million

If all of an entity's controlled transactions are exempted by the above related party transaction criteria, the entity is not required to prepare both the Master File and the Local File.

Country-by-country reporting

Country-by-Country (CbC) Reporting is a minimum standard formulated by OECD under Action 13 of the BEPS Package. In Hong Kong, the requirements for filing a CbC Return, which includes a CbC Report, only apply to a MNE group whose annual consolidated group revenue reaches the specified threshold amount, i.e. HK\$6.8 billion (Reportable Group).

In respect of a Reportable Group, the primary obligation of filing a CbC Return is on the ultimate parent entity (UPE) resident in Hong Kong and not on any other constituent entities resident in Hong Kong (Hong Kong Entities). The Hong Kong UPE is required to file a CbC Return for each accounting period beginning on or after January 1, 2018.



A Hong Kong Entity of a Reportable Group whose UPE is not resident in Hong Kong is subject to a secondary obligation of filing a CbC Return under certain conditions. Each Hong Kong entity of a Reportable Group must file a written notification informing within three months after the end of the accounting period.

The deadline for filing a CbC Return is 12 months after the end of the relevant accounting period or the date specified in the assessor's notice, whichever is the earlier. A service provider (SP) may be engaged to file a CbC Return or the related notification.

AEOI reporting

In September 2014, Hong Kong indicated its support for implementing automatic exchange of financial account information (AEOI) on a reciprocal basis with appropriate partners. In 2016, Hong Kong introduced an amendment bill regarding the implementation of AEOI, which commenced operation on June 30, 2016.

Under the AEOI standard, financial institutions are required to identify financial accounts held by tax residents of reportable jurisdictions or held by passive non-financial entities whose controlling persons are tax residents of reportable jurisdictions in accordance with due diligence procedures. Required information of these accounts has to be collected and furnished to the IRD on an annual basis.

"Tax residents of reportable jurisdictions" refer to those who are liable to tax by reason of residence in the jurisdictions. In general, whether or not an individual is a tax resident of a jurisdiction is determined by having regard to the person's physical presence or stay in a place (e.g. whether over 183 days within a tax year) or, in the case of a company, the place of incorporation or the place where the central management and control of the entity is exercised. Account holders may be requested to provide self-certifications on their personal information including tax residence, so as to enable financial institutions to identify the reportable accounts.

Hong Kong has expanded the number of reportable jurisdiction from 75 to 126 for the more effective implementation of the arrangement relating to AEOI. These jurisdictions include all EU member states, all of Hong Kong's tax treaty partners that have committed to Common Reporting Standard (CRS), and other jurisdictions that have expressed an interest to the OECD in exchanging CRS information with Hong Kong.

Hong Kong will only conduct AEOI with a reportable jurisdiction when an arrangement is in place with the reportable jurisdiction concerned to provide the basis for exchange.

Hong Kong to strengthen AEOI framework with 2026 amendment bill

The Inland Revenue (Amendment) (Automatic Exchange of Information) Bill 2026, gazetted on March 27, 2026, seeks to strengthen Hong Kong's administrative framework for the Common Reporting Standard (CRS) to ensure more effective and consistent implementation. The Bill is currently subject to scrutiny by the Legislative Council and if enacted, the proposed amendments will take effect from January 1, 2027.

A key change is the introduction of a mandatory registration requirement for all reporting financial institutions (RFIs) in Hong Kong. RFIs will be required to register on the AEOI Portal regardless of whether they have reportable accounts or only make nil returns. Existing unregistered RFIs must complete registration by March 31, 2027, while newly qualifying RFIs must register by January 31 following the year in which they first become RFIs. Certain group structures, such as trusts and umbrella funds, may register through a single related RFI under specified conditions.

The Bill also enhances record-keeping requirements, requiring RFIs to retain sufficient CRS-related records for six years after the filing deadline, even if the institution ceases operations or is dissolved. Directors or responsible persons remain accountable for record retention post-dissolution.

Finally, the Bill strengthens the sanctions regime by introducing proportionate penalties linked to the number of affected financial accounts and establishing an administrative penalty mechanism as an alternative to prosecution, improving enforcement efficiency and deterrence.

Global minimum tax and Hong Kong minimum top-up tax for MNEs

In 2021, Hong Kong joined over 130 jurisdictions in adopting the OECD's BEPS 2.0 two-pillar framework to address cross-border tax challenges arising from the digitalization of the global economy. In fulfilment of this commitment, the Inland Revenue (Amendment) (Minimum Tax for Multinational Enterprise Groups) Ordinance 2025, enacted on June 6, 2025, introduces two new tax regimes effective from fiscal years beginning on or after January 1, 2025: the global minimum tax (GMT) and the Hong Kong minimum top-up tax (HKMTT).

The GMT, based on the OECD's Global Anti-Base Erosion (GloBE) Rules, imposes a minimum effective tax rate of 15 percent on large MNE groups. The GloBE framework operates through two interlocking rules:

- Income inclusion rule (IIR): This is the primary rule that imposes top-up tax on the parent entity of an in-scope MNE group in respect of constituent entities taxed below the 15 percent minimum rate outside the parent's jurisdiction. The IIR top-up tax is payable in relation to a fiscal year beginning on or after January 1, 2025.
- Undertaxed Profits Rule (UTPR): This is a backstop to IIR. If top-up tax is not fully collected under IIR, UTPR ensures the remaining amount is collected by other jurisdictions (including Hong Kong) based on employee headcount and tangible asset values. UTPR implementation date in Hong Kong is to be announced separately.

The Hong Kong minimum top-up tax (HKMTT) is Hong Kong's own qualified domestic minimum top-up tax (QDMTT). According to GloBE rules, a jurisdiction that introduces their own QDMTT has the first priority to collect top-up tax on locally situated low-taxed entities before other jurisdictions can do so. That is to say, top-up taxes paid under HKMTT are creditable against top-up taxes imposed under the GloBE rules. If certain conditions are met, in-scope MNE groups can benefit from the QDMTT Safe Harbour, which deems the GloBE top-up tax payable by the group in Hong Kong as zero, thereby relieving the group from undertaking GloBE computation for Hong Kong and reducing its tax compliance burden. The HKMTT is payable in relation to a fiscal year beginning on or after January 1, 2025.

Top-up tax imposed in Hong Kong under the GloBE rules and HKMTT is treated as profits tax for Hong Kong tax administration and charging purposes.

Who must comply

These rules apply to in-scope MNE groups, which are defined as MNE groups with annual consolidated revenue of EUR 750 million or more in at least two of the four fiscal years immediately preceding the current fiscal year.

Entities potentially subject to the regime include Hong Kong constituent entities, as well as joint ventures (JVs) and their subsidiaries, and stateless entities that are located or operate in Hong Kong. This broad scope is designed to ensure comprehensive coverage of relevant group entities with economic activity in the territory.

Certain entities are explicitly excluded. In particular, investment entities and insurance investment entities are carved out of the HKMTT regime in order to preserve tax neutrality and avoid unintended impacts on regulated investment structures.

For location purposes, an entity is considered located in Hong Kong if it is incorporated in Hong Kong, or, if incorporated elsewhere, normally managed or controlled in Hong Kong. To be noted, this location test applies retrospectively from January 1, 2024, helping to limit exposure to top up taxes being imposed by other jurisdictions under the global minimum tax rules.

Top-up tax calculation

The top-up tax payable is calculated as:

$$\text{TOP UP TAX} = \text{EXCESS PROFITS} \times \text{TOP-UP TAX PERCENTAGE}$$

Excess profits refer to the portion of profits in a low tax jurisdiction that remain after taking into account the economic substance of activities performed there. This is calculated by first aggregating the GloBE income or loss of all constituent entities in that jurisdiction, and then subtracting a substance based income exclusion. The exclusion represents a routine return for tangible assets and employees, on the basis that profits linked to real economic activity should not be subject to top up tax. What remains after this deduction is treated as excess profit, which is considered potentially undertaxed.

The top up tax percentage measures how far the jurisdiction's effective tax rate (ETR) falls below the global minimum tax rate. Specifically, it is calculated as the difference between the jurisdiction's ETR and the minimum rate of 15 percent. If the ETR is below 15 percent, this gap determines the rate at which the excess profits are subject to additional, or "top up," taxation to bring the overall tax burden up to the global minimum level.

Key compliance obligations

Filing a top-up tax notification

Every Hong Kong constituent entity of an in-scope MNE group must file an annual Top-Up Tax Notification to inform the IRD that the group has come within the scope of the GMT and HKMTT, within six months after the last day of the fiscal year.



The notification must detail its obligations for filing a top-up tax return, such as identifying the entity and jurisdiction for exchange of information relating to the GloBE Information Return (GIR). Where there are multiple Hong Kong constituent entities of an in-scope MNE, they can appoint one entity to handle the filing procedures.

Filing top-up tax return

Each Hong Kong constituent entity must file a combined Top-Up Tax Return covering both GloBE and HKMTT obligations, incorporating the GIR format, within 15 months after the last day of the reporting fiscal year. For the first transition year, the deadline is extended to 18 months after the last day of the reporting fiscal year. Similar to the top-up tax notification filing, one Hong Kong entity may be designated to file on behalf of the whole group.

Mandatory e-filing of profits tax returns

As part of Hong Kong's tax digitalization initiative, entities of in-scope MNE groups are required to e-file their profits tax returns for the year of assessment 2025/26 onwards. Once an entity is required to e-file, the "once-in, always-in" rule applies, meaning e-filing remains mandatory for all subsequent years, even if the group later falls out of scope.

How to file

A constituent entity of an in-scope MNE group must file a top-up tax notification and a top-up tax return in the form of an electronic record using a system, i.e., the Pillar Two Portal, subject to limited exemptions:

- Phase 1 of the Pillar Two Portal has been launched to allow relevant entities to file annual top-up tax notifications.
- Phase 2 of the Pillar Two Portal will be launched in Q4 of 2026 to accommodate the filing of top-up tax returns, as well as the viewing and downloading of notices of top-up tax assessments by relevant entities.

To file, the filing entity needs to follow below procedures:

Step 1: Apply for a group code

Before any Pillar Two filings can be made, each in scope MNE group must obtain a group code for identification and tax administration purposes. Separate codes also apply to Hong Kong standalone JVs or JV groups, where relevant.

To obtain the code, the group must submit the "Application for Group Code in respect of Multinational Enterprise Group, HK Standalone JV or JV Group" (Form IR1485) to the IRD. This application must be filed in paper form. Groups are strongly encouraged to apply early, as the group code is required before filing any top up tax notifications.

Step 2: Register for online filing access

As Pillar Two Portal operates as an extension of the Business Tax Portal (BTP), the entity responsible for filing (the “notifying entity”) must:

- Register a dedicated BTP account; and
- Ensure authorized individuals hold an Organizational e Certificate with AEOL functions, which is required to sign and submit filings.

Step 3: File the top-up tax notification

Applicable entities must submit an annual top up tax notification via the Pillar Two Portal within six months after the end of the fiscal year, which is already alive.

Step 4: File the top up tax return and manage assessments

Once Phase 2 is launched, entities will also file their top up tax returns through the Portal. Any notices of assessment issued by the IRD will be delivered electronically via BTP for viewing and download.

Using service providers

Approved service agents, such as tax representatives or compliance service providers, may access the Pillar Two Portal on behalf of the entity. These access rights are managed directly through the BTP by the entity’s administrator.

Safe harbors

The Inland Revenue (Amendment) (Minimum Tax for Multinational Enterprise Groups) Ordinance 2025 outlines a range of transitional safe harbors that ease the compliance burden on in-scope MNEs during the transition period. The transition period covers all fiscal years beginning on or before December 31, 2026, not including fiscal years ending after June 30, 2028.

These transitional safe harbors are:

- Transitional CbCR safe harbor: Allows simplified calculations using Country-by-Country Reporting data.
- QDMTT safe harbor: If conditions are met, the GloBE top-up tax for Hong Kong is deemed zero, relieving the group from full GloBE computation for Hong Kong.
- Transitional UTPR safe harbor: Provides relief during the transitional period before UTPR takes full effect.

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- Simplified calculations safe harbor: Reduces the scope of GloBE calculations required for non-material constituent entities.

Anti-avoidance

A modified version of Hong Kong's established general anti-avoidance rule applies to GloBE and HKMTT. Any transaction entered into for the sole or dominant purpose of obtaining a top-up tax benefit may be disregarded or counteracted by the IRD. This includes transactions that achieve outcomes inconsistent with the GloBE Model Rules or that result in a reduction in top-up tax liability.

Considerations for MNEs

With Hong Kong's Pillar Two compliance framework now operational, in-scope MNEs should ensure that internal processes, responsible entities, and electronic filing access are fully in place. This includes confirming which Hong Kong constituent entity will be designated for filings, aligning reporting timelines with group-level compliance obligations, and preparing for mandatory e-filing through the Pillar Two Portal and the Business Tax Portal.

From an advisory perspective, we recommend that in scope MNEs approach Pillar Two compliance as an ongoing governance and operational exercise, rather than a one off filing obligation. As a practical next step, many groups benefit from conducting an early readiness review, covering scope confirmation, designation of Hong Kong filing entities, data availability, internal review and sign off processes, and access to the Pillar Two Portal. Taking these steps well ahead of the first notification and filing deadlines can materially reduce execution risk, avoid last minute remediation, and provide management with greater certainty over compliance outcomes.

Hong Kong's double taxation agreement network

Double taxation arises when two or more tax jurisdictions overlap, resulting in the same item of income or profit being taxed in each. Hong Kong adopts the territoriality basis of taxation, whereby only income/profit sourced in Hong Kong is subject to tax, and that derived from a source outside Hong Kong by a local resident is in most cases not taxed in Hong Kong. Therefore, Hong Kong residents generally do not suffer from double taxation. Many countries which tax on a worldwide basis also provide their residents who operate a business in Hong Kong with unilateral tax credit relief. Hong Kong allows a deduction for foreign tax paid of a similar nature in respect of an income, which is also subject to tax in Hong Kong. Businesses operating in Hong Kong therefore do not generally have problems with double taxation of income.

Notwithstanding this, the Hong Kong SAR government recognizes that there are merits in concluding comprehensive double taxation agreements (DTAs) with their trading partners. A DTA provides certainty to investors on the taxing rights of the contracting parties, helps investors to better assess their potential tax liabilities on economic activities, and provides an added incentive for overseas companies to do business in Hong Kong and likewise for Hong Kong companies doing business overseas. As of April 2026, Hong Kong has signed comprehensive DTAs with 57 countries or regions, among which 51 are already in force. In addition, Hong Kong is in the process of negotiating comprehensive DTAs with 18 countries or regions such as Germany, Cyprus, and Venezuela.

Due to the international nature of aircraft operations, airline operators are more susceptible to double taxation than other taxpayers. As negotiation of a DTA may take a long time, it has been Hong Kong's policy to include double taxation relief arrangements for airline income in the bilateral Air Services Agreements negotiated between Hong Kong and its aviation partners. Shipping income is another area of concern. Hong Kong is currently negotiating double taxation relief for shipping income with jurisdictions that either do not provide reciprocal tax exemption themselves or, even when reciprocal exemption provisions exist, prefer to employ bilateral agreements. There are also agreements that cover both airline and shipping income.



Hong Kong's onshore-offshore tax regime often results in a reduced tax burden for those that operate through Hong Kong companies by pricing intra-group transactions. This has led to heightened transfer pricing scrutiny from the Hong Kong IRD in recent years. Consequently, the Advance Pricing Arrangement (APA) program* was introduced to Hong Kong in 2012, which was widely regarded as a welcome development for multinational companies, as it offers a non-adversarial approach in which taxpayers can engage with tax authorities in a transparent manner to achieve an optimal tax outcome. Importantly, Hong Kong can only start an APA program with another country after having signed a DTA with that country.

Certificate of Resident Status

A Certificate of Resident Status is a document issued by the Hong Kong competent authority to a Hong Kong resident who requires proof of resident status for the purposes of claiming tax benefits under the DTA.

The Certificate of Resident Status should constitute as a sufficient proof of the resident status of a Hong Kong resident. The Hong Kong competent authority will issue a Certificate of Resident Status after the DTA between Hong Kong and the relevant jurisdiction has become effective. Generally, only one Certificate of Resident Status will be issued to a Hong Kong resident in respect of each DTA for each year.

The following persons can apply for a Certificate of Resident Status:

- Individual who ordinarily resides in Hong Kong;
- Individual who stays in Hong Kong for more than 180 days during a year of assessment or for more than 300 days in two consecutive years of assessment – one of which is the relevant year of assessment;
- Company/partnership/trust/body of persons incorporated or constituted in Hong Kong; and
- Company/partnership/trust/body of persons incorporated or constituted outside Hong Kong but managed or controlled in Hong Kong.

Below we listed countries and regions with existing DTAs with Hong Kong, or with DTAs under negotiation with Hong Kong.

** An APA is an agreement that determines an appropriate set of criteria (e.g. transfer pricing method, external data, appropriate adjustments, critical assumptions as to future events) to determine the pricing of related party transactions over a fixed period of time. This is either three or five years.*

Countries/Regions Having Signed DTAs with Hong Kong (As of April 2026)

Armenia	France	Latvia	Qatar
Austria	Georgia	Liechtenstein	Romania
Bahrain	Guernsey	Luxembourg	Russia
Bangladesh	Hungary	Macao SAR	Rwanda*
Barbados*	India	Malaysia	Saudi Arabia
Belarus	Indonesia	Maldives*	Serbia
Belgium	Ireland	Malta	South Africa
Brunei	Italy	Mauritius	Spain
Cambodia	Japan	Mexico	Switzerland
Canada	Jersey	Netherlands	Thailand
Chinese Mainland	Jordan*	New Zealand	Türkiye
Croatia	Korea	Norway*	United Arab Emirates
Czech Republic	Kuwait	Pakistan	United Kingdom
Estonia	Kyrgyz Republic*	Portugal	Vietnam
Finland			

*Signed but not yet effective.

Countries/Regions Having DTA under Negotiation with Hong Kong (As of April 2026)

Azerbaijan	Cabo Verde	Cameroon	Cyprus
Germany	Israel	Laos	Lithuania
Mongolia	Morocco	Nigeria	North Macedonia
Oman	Philippines	Slovenia	Turkmenistan
Ukraine	Venezuela		

Tax rates for dividends, interest, royalties, and technical fees under DTAs

The following table shows the maximum rates of tax those countries / regions with Comprehensive DTAs with Hong Kong can charge a Hong Kong resident on payments of dividends, interest, royalties, and technical fees.

Tax Rates for Dividends, Interest, Royalties, and Technical Fees Under DTAs						
Country / region	Effective from	Dividends		Interest (%)	Royalties (%)	Technical fees (%)
		Qualifying companies (%)	Others (%)			
Armenia	Year of Assessment 2026/2027	0	5	5	5	NA
Austria	Year of assessment 2012/2013	0	10	-	3	NA
Bahrain	Year of Assessment 2026/2027	-	-	-	5	NA
Bangladesh	Year of assessment 2025/2026	10	15	10	10	10
Barbados	Pending	-	-	5	3/5	NA
Belarus	Year of assessment 2018/2019	5	5	5	3/5	NA
Belgium	Year of assessment 2004/2005	0/5	15	10	5	NA
Brunei	Year of assessment 2011/2012	-	-	5/10	5	15
Cambodia	Year of assessment 2020/2021	10	10	10	10	10
Canada	Year of assessment 2014/2015	5	15	10	10	NA
Chinese Mainland	Year of Assessment 2007/2008	5	10	7	5/7	NA
Croatia	Year of assessment 2025/2026	5	5	5	5	NA
Czech	Year of assessment 2013/2014	5	5	-	10	NA
Estonia	Year of assessment 2020/2021	0	10	0/10	5	NA

Tax Rates for Dividends, Interest, Royalties, and Technical Fees Under DTAs						
Country / region	Effective from	Dividends		Interest (%)	Royalties (%)	Technical fees (%)
		Qualifying companies (%)	Others (%)			
Finland	Year of assessment 2019/2020	5	10	-	3	NA
France	Year of assessment 2012/2013	10	10	10	10	NA
Georgia	Year of assessment 2022/2023	5	5	5	5	NA
Guernsey	Year of assessment 2014/2015	-	-	-	4	NA
Hungary	Year of assessment 2012/2013	5	10	5	5	NA
India	Year of assessment 2019/2020	5	5	10	10	10
Indonesia	Year of assessment 2013/2014	5	10	10	5	NA
Ireland	Year of assessment 2012/2013	-	-	10	3	NA
Italy	Year of assessment 2016/2017	10	10	12.5	15	NA
Japan	Year of assessment 2012/2013	5	10	10	5	NA
Jersey	Year of assessment 2014/2015	-	-	-	4	NA
Jordan	Pending	5	5	5	5	NA
Korea	Year of assessment 2017/2018	10	15	10	10	NA
Kuwait	Year of assessment 2014/2015	5	5	5	5	NA
Kyrgyzstan	Pending	5	10	8	8	NA
Latvia	Year of assessment 2018/2019	0	10	0/10	0/3	NA
Liechtenstein	Year of assessment 2012/2013	-	-	-	3	NA
Luxembourg	Year of assessment 2008/2009	0	10	-	3	NA
Macao SAR	Year of assessment 2021/2022	5	5	5	3	NA
Malaysia	Year of assessment 2013/2014	5	10	10	8	5

Tax Rates for Dividends, Interest, Royalties, and Technical Fees Under DTAs						
Country / region	Effective from	Dividends		Interest (%)	Royalties (%)	Technical fees (%)
		Qualifying companies (%)	Others (%)			
Maldives	Pending	5	10	10	10	10
Malta	Year of assessment 2013/2014	-	-	-	3	NA
Mauritius	Year of Assessment 2024/2025	0	5	5	5	NA
Mexico	Year of assessment 2014/2015	-	-	4.9/10	10	NA
Netherlands	Year of assessment 2012/2013	0	10	-	3	NA
New Zealand	Year of assessment 2012/2013	0/5	15	10	5	NA
Norway	Pending	5	15	5	5	NA
Pakistan	Year of assessment 2018/2019	10	10	10	10	12.5
Portugal	Year of assessment 2013/2014	5	10	10	5	NA
Qatar	Year of assessment 2014/2015	-	-	-	5	NA
Romania	Income derived on or after 01.01.2017	3	5	3	3	NA
Russia	Year of assessment 2017/2018	0/5	10	-	3	NA
Rwanda	Pending	7.5	7.5	8	9	10
Saudi Arabia	Year of assessment 2019/2020	5	5	-	5/8	NA
Serbia	Year of assessment 2021/2022	5	10	10	5/10	NA
South Africa	Year of assessment 2016/2017	5	10	10	5	NA
Spain	Year of assessment 2013/2014	0	10	5	5	NA
Switzerland	Year of assessment 2013/2014	0	10	-	3	NA
Thailand	Year of assessment 2006/2007	10	10	10/15	5/10/15	NA
Türkiye	Year of Assessment 2027/2028	5	10	7.5/10	7.5/10	NA
United Arab Emirates	Year of assessment 2016/2017	5	5	5	5	NA
United Kingdom	Year of assessment 2011/2012	0/15	0/15	Domestic rate	3	NA
Vietnam	Year of assessment 2010/2011	10	10	10	7/10	NA



Human Resources and Payroll

- ◆ Hiring employees
- ◆ What obligations do I have as an employer?
- ◆ Visa requirements and procedures in Hong Kong
- ◆ Terminating an employee

Hiring employees

Typical hiring process in Hong Kong

The recruitment process in Hong Kong generally follows standard international practices.

Job advertising

Employers must ensure that job advertisements comply with anti-discrimination laws and do not contain biased criteria related to gender, disability, or race.

Application screening

Companies review applications and shortlist candidates who meet the role's qualifications. During this stage, employers must comply with the Personal Data (Privacy) Ordinance, which regulates how personal information is collected and processed.

Interviews and verification

Candidates may be interviewed in person or through video conferencing.

Employers often conduct background checks, reference verification, and credential validation.

Job offers and onboarding

Once a candidate is selected, the employer issues a written offer outlining employment terms.

During onboarding, the employer must:

- Enroll the employee in an Mandatory Provident Fund (MPF) scheme;
- Enroll the employee in IRD ;
- Set up payroll records; and
- Provide workplace orientation.

Costs of hiring employees in Hong Kong

Although Hong Kong has relatively low payroll taxes, companies must still consider several employment costs beyond base salary.



Typical costs include:

- MPF contributions;
- Recruitment expenses;
- Background verification;
- Onboarding and training costs;
- Office infrastructure and equipment; and
- Employees' compensation insurance.

Employer burden rates are relatively low compared with other developed economies, estimated at roughly five percent of salary excluding severance pay, long severance pay and insurance costs.

However, companies must also consider Hong Kong's high cost of living and commercial real estate when planning compensation packages.

Compliance challenges for foreign companies

Foreign investors entering Hong Kong's labor market may encounter several challenges:

- Competition for talent: Hong Kong remains one of Asia's most competitive talent markets, particularly in finance, compliance, and technology sectors. Companies must offer competitive salaries and career development opportunities to attract top candidates;
- High living costs: Hong Kong's housing market is among the most expensive in the world, which can affect salary expectations and relocation packages; and
- Regulatory compliance: Companies unfamiliar with Hong Kong's regulatory framework may face difficulties with payroll reporting, MPF contributions, and employment documentation. Working with local HR specialists or legal advisors can help mitigate compliance risks.

What obligations do I have as an employer?

Generally, the main areas of an employer's obligation in the workplace include:

- Complying with obligations under the Occupational Safety and Health Ordinance (Cap. 398) and common law duty of care;
- Complying with obligations under the Employment Ordinance (Cap. 57), Minimum Wage Ordinance (Cap. 608), and the contract of employment;
- Complying with the Disability Discrimination Ordinance (Cap. 487); and
- Complying with the Employees' Compensation Ordinance (Cap. 282).

Below we list out some obligations that employers should pay special attention to.

Employment contracts

Hong Kong allows employment contracts to be either written or verbal. However, written agreements are strongly recommended for compliance and risk management purposes.

Typical employment contracts include provisions covering:

- Job title and responsibilities;
- Salary and payment schedule;
- Probationary period;
- Working hours and rest days;
- Leave entitlements;
- Termination procedures; and
- Confidentiality and non-competition clauses.

Mandatory Provident Fund

Mandatory Provident Fund (MPF) is a retirement scheme introduced on December 1, 2000. Under the MPF scheme, an employer must comply with all MPF-related obligations under the law. These include enrolling all qualifying employees in MPF schemes, making MPF contributions for them, and records keeping and notifications.

The mandatory contribution rate for both employers and employees is five percent of the employee's relevant income to the MPF, subject to the minimum and maximum relevant income levels. Both employer and employee can make voluntary contributions in addition to mandatory contributions.

For a monthly-paid employee, the current minimum and maximum relevant income levels are HK\$7,100 and HK\$30,000 respectively. Please note that the figures may vary from year to year according to the government policy.

Mandatory Contributions Payable by Employer and Employee by Monthly Relevant Income		
Monthly relevant Income	Amount of mandatory contributions payable by employer	Amount of mandatory contributions payable by employee
Less than HK\$7,100	Relevant income x 5%	No contributions required
HK\$7,100 to HK\$30,000	Relevant income x 5%	Relevant income x 5%
More than HK\$30,000	HK\$1,500	HK\$1,500

“Relevant income” refers to all monetary payments paid or payable by an employer to an employee, including wages, salary, leave pay, fees, commissions, bonuses, gratuities, perquisites, or allowances, but excluding severance payments or long service payments under the Employment Ordinance (Cap. 57).

An employee may claim a tax deduction for mandatory contributions made to an MPF scheme, subject to a maximum deduction of HK\$18,000 per year starting from the year of assessment 2015/16. For voluntary contributions to a recognized occupational retirement scheme, tax deductions are only available if specific conditions are met—for example, the employee must be a member of an MPF-exempted ORSO scheme (explained below). These deductions are also subject to the same HK\$18,000 annual limit. In addition, an employee may claim a tax deduction for certain voluntary contributions made to an MPF scheme, provided the contributions are made into a Tax Deductible Voluntary Contribution (TVC) account as defined under the Mandatory Provident Fund Schemes Ordinance. The taxpayer must be the holder of the TVC account. The maximum deduction for TVC contributions is HK\$60,000 per year, starting from the year of assessment 2019/20.

Employers can claim tax deductions for the mandatory and voluntary contributions made for their employees, capping at 15 percent of the total emoluments of the employee. Besides, the Hong Kong Budget Plan proposes to increase the tax deduction for voluntary contributions made by employers to the MPF for employees aged 65 or above from the current 100 percent to 200 percent.

In addition to MPF, there is another pension scheme under Occupational Retirement Schemes Ordinance (Cap. 426) (ORSO), which operates on a voluntary basis. However, if an employer offers both ORSO scheme and MPF scheme, it must provide a one-time option to existing members and new eligible staff (if applicable) to choose between the two schemes.

Employee's Compensation Insurance (EC)

Under the Employees' Compensation Ordinance (Cap. 282), employers in Hong Kong are obliged to hold an employee's compensation insurance policy. This policy covers their liability to compensate employees for work-related injuries, including death, or occupational diseases that occur during the normal course of their work. This obligation applies regardless of job nature, length of employment contract, working hours, and employment status (whether full-time or part-time, permanent or temporary).

Number of employees	Amount of the liability which must be insured per event
Not more than 200	Not less than HK\$100 million
More than 200	Not less than HK\$200 million

The amount of the liability which must be insured is determined by reference to the total number of the employer's employees:

The minimum amount of insurance cover is not the maximum liability that the party concerned is required to bear. The employer should therefore carefully assess the possible risk and consult insurers for professional advice on whether an insurance policy for an amount more than the minimum should be taken out. An employer shall not make any deduction from the earnings of an employee in order to defray the cost of insuring against their liability to pay compensation.

Other payroll obligations

Unlike most countries or regions, individual income tax, or salaries tax as it is known in Hong Kong, is not withheld by the employer from the employees' payroll. Instead, individuals need to pay their salaries tax themselves.

As such, there are only two administrative requirements applicable to employers in Hong Kong.

Keeping payroll records

Employers need to keep records of the following information concerning their employees:

- Personal details;
- Nature of employment: (full time or part time);
- Position;
- Amount of cash remuneration, non-cash remuneration and other fringe benefits;
- Contributions to the MPF or its equivalent;
- Employment contract and the amendments to the terms of the employment contract; and
- Period of employment.

The IRD needs to be informed of:

- Changes in the employee's particulars (change of residential address, marital status, etc.);
- Changes in the terms of employment; and
- The Hong Kong Identity Card No. of the employee.

Reporting remuneration paid to an employee

On the first working day of April every year, the IRD will issue a document called the Annual Employer's Return (Form BIR56A) to companies. Within one month of receiving the Employer's Return, the company needs to complete it and lodge with the IRD even if it does not hire any employee, the business has not commenced, or the business has ceased. If a company has employed persons who meet the conditions for such a return to be filed but the company has not received the Employer's Return by mid April, it should request the IRD to issue a return.

Companies are required to report the below employees on the Employer's Return:

- Unmarried individuals that are paid an annual income of HK\$132,000 or more for the year of assessment 2024/25;
- Married individuals (regardless of amount);
- Part time staff (regardless of amount); and
- Directors (regardless of amount).



SANDY ZHANG
Senior Manager
Shenzhen Office

“ Unlike most countries, individual income tax, or salaries tax as it is known in Hong Kong, is not withheld by the employer. Instead, individuals need to pay their tax themselves. ”

Employees are defined as:

- Persons employed by a Hong Kong company, including:
 - » Part time and full time staff;
 - » Hong Kong and non-Hong Kong residents; and
 - » Persons who provide services for the company in or outside Hong Kong.
- Employees assigned or seconded to a Hong Kong company by its overseas holding company or subsidiary.
- "Relevant Individuals" under section 9A of the Inland Revenue Ordinance, including:
 - » Persons who render personal services under employment-like conditions, but have entered into service contracts in the name of service companies owned by them.

When the company hires a new employee, it needs to inform the IRD by filing the Employer's Return (Form IR56E) within three months of employee's commencement of employment if the company anticipates that the employee is likely to be chargeable to salaries tax.

When an employee is terminated, the company needs to file the Employer's Return (Forms IR56F or IR56G) one month before the date of termination.

When an employee leaves Hong Kong permanently or for a substantial period of time, the employer needs to:

- Ascertain from the employee their expected date of departure;
- File two copies of the IR56G form one month before the expected date of departure; and
- Withhold all amounts due to be paid to the employee (including salaries, commission, bonus, reimbursement of rent/expense, money or money's worth included) from the date of filing the IR56G form until the employee has made tax clearance and can provide to the employer a "letter of release" issued by the IRD.

Below we listed some tax forms that are required by the IRD under specific situation for your easy reference:

Statutory Obligation of an Employer to Report Remuneration Paid to an Employee			
Employment condition	Tax form to complete	Statutory period for notification	Notes
Commencement of employment	IR56E	Within 3 months	Both IR56E & IR56B are required for the commencement year
Still under employment as of March 31	IR56B	Within 1 month	Must be submitted annually together with a BIR56A
Cessation of employment	IR56F	Not later than 1 month before cessation	IR56B for the cessation year is not required
Departure from Hong Kong	IR56G	Not later than 1 month before departure and withhold money for tax clearance	IR56B for the departure year is not required

Employee leaves and vacations

Statutory and general holidays

Hong Kong's holiday system is unique in that it distinguishes between statutory holidays, which are the minimum legally required days off for employees, and general (public) holidays, which apply to banks, schools, and government offices.

In 2026, Hong Kong will observe 15 statutory holidays, which is one more than in 2025. The increase is due to the Employment (Amendment) Ordinance 2021, under which Easter Monday becomes a statutory holiday starting in 2026.

According to the Employment (Amendment) Ordinance 2021 (effective January 1, 2022), Hong Kong will increase statutory holidays from 12 to 17 in phases.

- First addition: Birthday of the Buddha (May 8, 2022)
- Second addition: First weekday after Christmas Day (2024)
- Third addition: Easter Monday (2026)
- Fourth addition: Good Friday (2028)
- Fifth addition: Day after Good Friday (2030)

Statutory Holidays in Hong Kong 2026			
No.	Statutory holiday	Date (2026)	Day
1	The first day of January	January 1	Thursday
2	Lunar New Year's Day	February 17	Tuesday
3	The second day of Lunar New Year	February 18	Wednesday
4	The third day of Lunar New Year	February 19	Thursday
5	Ching Ming Festival	April 5	Sunday
6	Easter Monday	April 6	Monday
7	Labor Day	May 1	Friday
8	The Birthday of the Buddha	May 24	Sunday
9	Tuen Ng Festival	June 19	Friday
10	Hong Kong Special Administrative Region Establishment Day	July 1	Wednesday
11	The day following the Chinese Mid-Autumn Festival	September 26	Saturday
12	National Day	October 1	Thursday
13	Chung Yeung Festival	October 18	Sunday
14	Chinese Winter Solstice Festival or Christmas Day (at the option of the employer)	December 22 or December 25	Tuesday or Friday
15	The first weekday after Christmas Day	December 26	Saturday



All employees are entitled to the above statutory holidays. If the statutory holiday falls on a rest day, a holiday should be granted on the day following the rest day which is not a statutory holiday or an alternative holiday or a substituted holiday or a rest day. An employee having been employed under a continuous contract (i.e., having been employed continuously by the same employer for four weeks or more, with at least 17 hours worked in each week, or with a total of 68 hours worked in a four-week period) for not less than three months is entitled to pay on statutory holidays. Holiday pay should be paid to the employee not later than the day on which he is next paid his wages after that statutory holiday.

An employer can ask an employee to work on statutory holidays. But the employer is required to give their employee at least 48 hours' prior notice for work on a statutory holiday. The employer must then arrange an alternative holiday within 60 days before or after the statutory holiday. In this situation, an employer is advised to keep clear records of the alternative or substitute holiday taken by an employee. An employer must not make any form of payment to an employee in lieu of a statutory holiday.

Under the General Holidays Ordinance, general holidays are days that must be observed by all banks, educational institutions, public offices, and government departments. In practice, many businesses – particularly white collar employers – also offer general holidays as paid days off, but this is purely a matter of contractual agreement. Whether an employee is required to work on a general holiday, and whether they are entitled to pay if they are not required to work, is ultimately determined by the employer under the terms of the employment contract.

Except for normal Sundays, Hong Kong has maintained 17 general holidays (excluding Sundays) since 1967, and 2026 is no exception.

General Holidays in Hong Kong 2026			
No.	General holiday	Date (2026)	Day
1	Every Sunday	—	Sunday
2	The first day of January	January 1	Thursday
3	Lunar New Year's Day	February 17	Tuesday
4	The second day of Lunar New Year	February 18	Wednesday
5	The third day of Lunar New Year	February 19	Thursday
6	Good Friday	April 3	Friday
7	The day following Good Friday	April 4	Saturday
8	The day following Ching Ming Festival	April 6	Monday
9	The day following Easter Monday	April 7	Tuesday
10	Labor Day	May 1	Friday
11	The day following the Birthday of the Buddha	May 25	Monday
12	Tuen Ng Festival	June 19	Friday
13	Hong Kong Special Administrative Region Establishment Day	July 1	Wednesday
14	The day following the Chinese Mid-Autumn Festival	September 26	Saturday
15	National Day	October 1	Thursday
16	The day following Chung Yeung Festival	October 19	Monday
17	Christmas Day	December 25	Friday
18	The first weekday after Christmas Day	December 26	Saturday

Although the gap between statutory holidays and general holidays is gradually narrowing, statutory holidays will still be two days fewer than general holidays in 2026, with the missing days being Good Friday and the day after Good Friday. Employers should therefore clarify their holiday policy well in advance, particularly if they follow only the statutory holiday schedule.

Annual leave

Employees are entitled by law to paid annual leave after having been employed under a continuous contract for every 12 months. An employee's entitlement to paid annual leave increases progressively from seven days to a maximum of 14 days according to the length of service with the company:

Entitlements of Paid Annual Leave									
Years of service	1	2	3	4	5	6	7	8	9 or more
Days leave	7	7	8	9	10	11	12	13	14

Employers can determine when annual leave is to be taken after consultation with the employee or his representative and must give 14 days' written notice to the employee of the time that they have selected. Annual leave must, however, be granted within 12 months of the end of the leave year, although in practice, most employers allow annual leave to be taken as it accrues.

Paid annual leave should be granted for an unbroken period, unless the employee requires so. For leave entitlement not exceeding 10 days, up to three days can be granted separately and the balance should be granted consecutively. For leave entitlement exceeding 10 days, at least seven days should be granted consecutively. Any rest day or statutory holiday falling within a period of annual leave will be counted as annual leave and another rest day or holiday must be appointed.

Can an employer make payment to an employee in lieu of annual leave?

An employer should not include in an employment contract a term to forgo all or any of the employee's annual leave entitlement, including payment of wages in lieu of any annual leave days. However, the law allows an employee to choose to accept payment in lieu of that part of the leave entitlement which exceeds 10 days. For example, if an employee is entitled to 12 days' annual leave, they can take 10 days' leave and accept payment of the equivalent wages for the 2 days' leave.

Employees are entitled to take a payment in lieu of any accrued and untaken statutory annual leave from the previous leave year that exceeds 10 days and are also entitled to payment in respect of any outstanding annual leave due upon cessation of employment on a pro-rata basis. The law also permits employees to carry forward all untaken annual leave for 12 months after the preceding leave year.

The daily rate of annual leave pay is a sum equivalent to the average daily wages earned by an employee in the preceding 12-month period. If an employee is employed for less than 12 months, the calculation shall be based on the shorter period.

Sick leave

An employee employed under a continuous contract is entitled to sickness allowance if the following conditions are fulfilled:

- The sick leave taken is not less than four consecutive days with limited exceptions, such as pregnancy check-ups, post confinement medical treatment, or miscarriage;
- The sick leave is supported by an appropriate medical certificate; and
- The employee has accumulated sufficient number of paid sickness days.

Paid sickness days are accumulated at the rate of two paid sickness days for each completed month of the employee's employment during the first 12 months, and four paid sickness days for each completed month of employment thereafter, up to a maximum of 120 paid sickness days. Paid sickness days can be accumulated throughout the whole employment period.

The employee is not entitled to sickness allowance if:

- The employee, without reasonable excuse, refuses treatment from a company doctor under a medical scheme recognized by the Director of Health or disregards the doctor's advice;
- The sickness day falls on a statutory holiday for which the employee is entitled to holiday pay; and Compensation is payable by law (Employees' Compensation Ordinance).

The daily rate of sickness allowance is a sum equivalent to 4/5 of the average daily wages earned by an employee in the past 12 months preceding the sickness day (or the first sickness day where the sick leave is longer than one consecutive day). If an employee is employed for less than 12 months, the calculation shall be based on the shorter period.

An employer is prohibited from terminating the contract of employment of an employee on his paid sick leave, except in cases of summary dismissal due to the employee's serious misconduct.

Day(s) of sickness day(s)	Specified dates
1 day	The sickness day
More than 1 consecutive day	The first sickness day



RELATED SERVICES

For assistance on employee payroll management, please contact our HR & payroll experts at hongkong@dezshira.com

Maternity leave

The Employment (Amendment) Ordinance 2020, which extends the statutory maternity leave from 10 weeks to 14 weeks, took effect on December 11, 2020. Since then, an employee who becomes pregnant is entitled to:

- A continuous period of 14 weeks' maternity leave;
- If child birth occurs later than expected, added leave until the child is born; and
- An additional leave of maximum four weeks for illness or disability due to the childbirth.

The employee may decide to take leave two to four weeks prior to the expected date of childbirth, with the agreement of the employer. In absence of such a decision, leave starts four weeks prior to birth. If childbirth occurs earlier than expected, that day is the starting day of the maternity leave.

The employee is eligible for maternity leave pay, if she has worked under a continuous contract for 40 weeks and has given notice to the employer about the pregnancy with a qualified medical certificate provided. It should be noted, however, that any extended maternity leave due to late delivery and/or illness or disability will be unpaid.

The maternity leave pay is calculated at four-fifths of the employee's average daily wages earned in the 12-month period leading up to the first day of the maternity leave. If an employee is employed for less than 12 months, the calculation shall be based on the shorter period. The maternity leave pay for the additional maternity leave from the 11th to 14th week is capped at HK\$80,000 per employee.

After paying maternity leave pay to its employee, the employer can be 100 percent reimbursed by the government for the extra cost (i.e., maternity leave pay for the 11th to the 14th week), as long as the employee is eligible for 14 weeks' maternity leave pay under the Employment Ordinance.

The employee is also entitled to sickness allowance for any day on which the employee has attended a medical examination related to pregnancy, given that a certificate of attendance issued by professionals can be provided as proof.

Paternity leave

A male employee is entitled to 5 days' paternity leave for each confinement of his spouse/partner if he:

- is the father of a new-born child or a father-to-be;
- has been employed under a continuous contract; and
- has given the required notification to the employer.

The employee may take paternity leave at any time during the period from 4 weeks before the expected date of delivery of the child to 14 weeks beginning on the actual date of delivery of the child. The employee may take all five days of paternity leave in one go or on separate days.

A male employee is entitled to paternity leave pay if he has been employed under a continuous contract for not less than 40 weeks immediately before the day of paternity leave, and has provided the birth certificate of his child, on which his name is entered as the child's father, to the employer within the stipulated period.

The daily rate of paternity leave pay is a sum equivalent to four-fifths of the average daily wages earned by an employee in the 12-month period preceding the first day of paternity leave. If an employee is employed for less than 12 months, the calculation shall be based on the shorter period.

Other leave

There is no other employee leave defined in Hong Kong law, therefore, all other kinds of employee leave shall be mutual agreed by two parties and may be included in the employee's employment contract.

Visa requirements and procedures in Hong Kong

Generally, a visa or entry permit is required to work, study, establish, or join in any business or to take up residence in the HKSAR. Otherwise, there is high risk of being refused admission on arrival.

However, if an individual holds any of the following travel documents, no visa or entry permit shall be required for any purpose:

- Hong Kong Special Administrative Region Passport;
- British National (Overseas) Passport;
- Hong Kong Certificate of Identity;
- Hong Kong Re-entry permit (for entry from mainland of China and the Macao SAR only);
- Hong Kong Seaman's Identity Book;
- Hong Kong Document of Identity for Visa Purposes, provided that the document is valid or the holder's limit of stay in Hong Kong has not expired;
- Travel documents bearing one of the following endorsements:
 - » Holder's eligibility for Hong Kong permanent identity card verified
 - » The holder of this travel document has the right to land in Hong Kong
- Hong Kong Permanent Identity Card.

Visitor's visa

Hong Kong grants a visa free period for citizens of most countries, usually for a length of 7, 14, 30, or 90 days depending on the country in question. Exceptions are for British nationals, who may stay in Hong Kong without visa for up to 180 days. To stay longer than the visa free period allowed, visitors must apply for a visa or entry permit before travelling to the HKSAR.

Visitors are required to have adequate funds to cover the duration of their stay without working and to hold onward or return tickets unless they are in transit to the mainland of China or the Macao SAR.

Visitors are not allowed to take up employment (paid or unpaid), to establish or join in any business or to enter school as a student, where other types of visa or entry permit might be applied. That said, while on visitor status, the Immigration Department generally permits a person to engage in limited business-related activities and deliver speeches or presentations.

Permissible activities for visitors

Business-related activities

Individuals permitted to enter the HKSAR as visitors may generally engage in the following business-related activities:

- Concluding contracts or submitting tenders;
- Examining or supervising the installation or packaging of goods or equipment;
- Participating in exhibitions or trade fairs (excluding the direct sale of goods or provision of services to the general public, or constructing exhibition booths);
- Settling compensation or other civil proceedings;
- Participating in product orientation sessions; and
- Attending short-term seminars or other business meetings.

Delivering speeches or presentations

In addition, visitors to the HKSAR may attend events to deliver speeches or presentations, provided that the individual will not receive any remuneration for speaking or presenting at the event, except for the provision or reimbursement of event-related expenses such as accommodation, travel, and meals. An exception applies to participants in sector-specific speaking engagements under the Immigration Facilitation Scheme for Visitors Participating in Short-term Activities in Designated Sectors, where remuneration is permitted for certain sectors as approved by the relevant government bureau or departments.

There is no limit to the number of events at which the individual may speak during each permitted stay, provided the total duration of such speaking engagements does not exceed 14 consecutive calendar days, starting from the date the individual first participates in an event.

Employment visa

Hong Kong has several different types of visa for employment and investment, including visa under the General Employment Policy (GEP), visa under the Admission Scheme for Mainland Talents and Professionals (ASMP), visa under Immigration Arrangements for Non-local Graduates (IANG), visa under Admission Scheme for the Second Generation of Chinese Hong Kong Permanent Residents, and visa under Capital Investment Entrant Scheme (CIES).



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Generally, the type of visa that is most applicable to foreign investors is the employment visa under the GEP. Other work visas are for entrepreneurs and semi-skilled workers, like technicians. Applicants for the employment visa must possess skills, knowledge, or experience that are not readily available in Hong Kong. Note that different rules apply for Mainland Chinese.

To apply for the employment visa, the following requirements must be fulfilled:

- The applicant has no record of a serious crime, nor poses a security risk;
- Good background, such as a degree in a relevant field, or technical qualifications, proven professional abilities or experience, backed by documentary evidence;
- The applicant has a confirmed job offer; and
- Remuneration is broadly in line with market levels.

Apart from the application form, the following documents need to be submitted:

- From the employee:
 - » Passport;
 - » Copy of academic qualifications and relevant work experience; and
 - » Recent photo.
- From the employer:
 - » The company's employment contract or letter of appointment to the applicant containing information about post, salary, other fringe benefits and employment periods;
 - » Photocopy of the Business Registration Certificate;
 - » Photocopy of proof of financial standing, such as an audited financial report;
 - » Documents with details of company background such as business activities; and
 - » Detailed business plan.

These documents need to be collected and delivered to the Immigration Department of Hong Kong SAR. Foreigners residing in the Chinese Mainland at the time of application need to submit these documents to the Immigration Division of the Hong Kong Government in Beijing. The processing of the work visa application takes about two to three months.

If the visa application is granted, a permit label will be issued to the applicant, who has to affix it onto their passport. At this point, the fees need to be paid as well. With the label affixed onto the passport, the applicant can enter and work in Hong Kong.

Terminating an employee

Types of termination

An employment contract in Hong Kong can be terminated in two ways: termination by notice, or immediate termination.

Immediate termination

The employer may terminate the contract without notice in case of:

- Willful disobedience of a lawful and reasonable order;
- Misconduct;
- Fraud or dishonesty; or
- Habitual neglect of duties.

Besides, no notice is required during the first month of a probation period – if one is agreed upon. The employee may terminate the contract without notice for:

- Reasonable fear of physical danger by violence or disease;
- Ill-treatment by the employer; or
- Having been employed for not less than five years and become permanently unfit for the type of work engaged in, as judged by a registered medical practitioner.

To be noted, immediate termination is a serious disciplinary action. It only applies to cases where an employee has committed very serious misconduct or fails to improve himself after the employer's repeated warnings. In addition, employer is required to give evidence of employee's misconduct for immediate termination.

Termination by notice or payment in lieu of notice

An employment contract may be terminated by either side by giving the other party notice, or by giving payment in lieu of notice. The notice period must be at least seven days during probation and at least one month after the probation period. Parties may contractually agree upon shorter notice, but no less than seven days. If termination happens in the first month of the probation period, then neither notice or payment in lieu of notice are required.

The payment in lieu of notice is calculated by taking the employee's average daily wages/month wages (depending on whether the notice period is expressed in days, weeks or months) as earned in the 12-month period preceding the day when a notice of termination is given, or the day when the contract is terminated in case a notice has not been given.

Termination prohibited

In five cases, an employee cannot be terminated:

- An employee who is confirmed to be pregnant and has submitted a pregnancy notice;
- An employee on paid sick leave;
- For reasons of giving evidence or information related to court proceedings, or an inquiry related to the enforcement of employment laws;
- For trade union membership or activities; or
- An employee injured at work, without having first come to an agreement on compensation or before the issue of a certificate of assessment.

Termination payments

The items and amount of payments payable to an employee on termination of employment or expiry of the contract depend on a number of factors, such as the length of service, the terms of employment contract, and the reason for termination of contract. Termination payments usually include:

- Outstanding wages;
- Wages in lieu of notice, if applicable;
- Payment in lieu of untaken annual leave;
- Any outstanding sum of end of year payment, and pro rata end of year payment for the current payment period;
- Where appropriate, severance payment or long service payment; and
- Other payments under the employment contract, such as gratuity, provident fund, etc.

An employer must pay all termination payments, except for severance payment, to the employee as soon as practicable and, in any case, not later than seven days after the date of termination or expiry of the contract.

Severance payment

Employee who has worked with a company for not less than 24 months under a continuous contract are eligible for severance payment. And severance payment is payable if the employee is dismissed by reason of redundancy, the contract is not renewed by reason of redundancy, or the employee is otherwise laid off.

Here, redundancy means that the employer closes or intends to close the business, the employer has ceased or intends to cease to do business in the place where the employee was employed, or the type of work the employee is involved in has ceased or diminished or is expected to diminish or cease.

Layoff is a specific term that applies when the employee is hired under terms where remuneration depends on specific tasks that the employer provides. If, during half of the total number of normal working days in any consecutive four weeks, no work is provided or no wages is paid, then this constitutes a layoff. It is also a layoff if, in one-third of the total number of normal working days in any 26 consecutive weeks, no work is provided, or no wages is paid.

The severance payment should be calculated according to the following formula:

- For monthly-paid employee
- For daily-rated/piece-rated employee

$$\text{SEVERANCE PAYMENT} = \frac{2}{3} \text{ OF THE LAST FULL MONTH WAGES* } \times \text{ RECKONABLE YEARS OF SERVICE}$$

$$\text{SEVERANCE PAYMENT} = \text{ANY 18 DAYS' WAGES CHOSEN BY THE EMPLOYEE OUT OF HIS LAST 30 NORMAL WORKING DAYS* } \times \text{ RECKONABLE YEARS OF SERVICE}$$

Service of an incomplete year should be calculated on a pro rata basis. Subject to the applicable transitional arrangements, certain gratuities and employer contributions to retirement schemes may be used to offset severance payment. However, since May 1, 2025, mandatory MPF contributions for post-transition service can no longer be used for such offset.

The total entitlement is subject to a maximum payment of HK\$390,000. Severance Payment shall be paid to the employee as soon as practicable and not later than two months from the receipt of a notice of claim made by the employee.

** The sum should not exceed 2/3 of HK\$22,500 (i.e. HK\$15,000). An employee may also opt to use his average wages in the last 12 months for the calculation.*

Long service payment

Employees who have been employed under a continuous contract for not less than five years are entitled to long service payment, if:

- The employee is dismissed for reasons other than serious misconduct or redundancy;
- The contract expires and is not renewed*;
- The employee dies (money goes to spouse, children or parents);
- The employee has been issued a certificate in a specified form by a registered medical practitioner or a registered Chinese medicine practitioner, certifying that he is permanently unfit for his present job and he resigns; or
- The employee is aged above 65 and resigns on ground of old age.

The amount of long service payment is calculated by reference to the same formula as for severance payment. The maximum entitlement shall not exceed HK\$390,000. The amount of any contractual gratuity based on length of service is deductible from the amount of long service entitlement. In addition, that part of a retirement scheme payment which is due to the employer's contributions may be deducted from the amount of long service payment. Long Service Payment shall also be paid to the employee as soon as possible but in any case, not later than seven days after the day of termination of the employment contract.

**If not less than 7 days before the expiry of the fixed term contract in case of long service payment, the employer has offered in writing to renew the contract of employment or re-engage him under a new contract but the employee has unreasonably refused the offer, the employee is not eligible for the entitlements.*



RELATED READING



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June 2024

The Guide to HR Compliance and Best Practices in China, compiled by professionals at Dezan Shira & Associates in May 2024, introduces the fundamentals of HR management and labor compliance within the Chinese market. Whether you're a new entrant or an existing player, this guide equips you with the knowledge necessary to navigate HR complexities in China effectively.

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Abolition of MPF offsetting arrangement

On June 9, 2022, Hong Kong's Legislative Council passed the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Bill 2022, officially abolishing the use of employers' mandatory MPF contributions to offset their service payment and long service payment owed to employees upon termination. The abolition took effect on May 1, 2025 (referred to as the "Transition Date").

After the abolition of the MPF offsetting arrangement, employers will categorize the offsetting of severance payment or long service payment for employees into two main categories based on their employment days. The Transition Date serves as the dividing line:

1. Employees whose employment commenced before the transition date:

For employees who are already in employment before the transition date, their severance payment or long service payment will be divided into pre-transition portion (i.e. for the employment period before the transition date) and post-transition portion (i.e. for the employment period starting from the transition date). Employers can continue to use the accrued benefits derived from their MPF contributions (irrespective of whether the contributions are made before, on or after the transition date, and irrespective of whether the contributions are mandatory or voluntary) to offset the pre-transition portion (but not the post-transition portion) of severance payment or long service payment.

2. Employee whose employment commenced on or after the transition date:

For employees whose employment commenced on or after the Transition Date, employer mandatory contributions cannot be used to offset their severance payment or long service payment.

However, the accrued benefits (vested portion) derived from employer voluntary contributions and gratuities based on employees' years of service can continue to be used for offsetting both pre- and post-transition portions of severance payment or long service payment.

The abolition of the MPF offsetting arrangement marks a significant step toward strengthening retirement protection for employees in Hong Kong and aligning the city's employment practices with international standards. Employers should be aware of these adjustments and comply accordingly.



RELATED READING

Hong Kong Abolishes MPF Offsetting: What Employers Need to Know

China Briefing Article
April 2, 2025

Hong Kong government will implement the Abolition of the MPF Offsetting Arrangement starting May 1, 2025. Learn how businesses can stay compliant, manage costs, and apply for government subsidies.

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Cybersecurity and Data Protection

- ◆ What are the major cybersecurity and data protection laws?
- ◆ What are some of the key compliance requirements?

What are the major cybersecurity and data protection laws?

PDPO

Like other major economies, Hong Kong has been ramping up efforts on improving data privacy protection within its jurisdiction.

In Hong Kong, the Personal Data (Privacy) Ordinance, Cap 486 of the Laws of Hong Kong (PDPO) protects the privacy of individuals in relation to personal data, which was amended in 2021 to cope with new privacy challenges and address public concerns.

The PDPO is applicable to both the private and the public sectors. It is technology-neutral and principle-based. The Data Protection Principles ("DPPs" or "DPP") in the PDPO outline how data users should collect, handle, and use personal data, complemented by other provisions imposing further compliance requirements.

When the PDPO was drafted, reference was made to the relevant requirements under the OECD Privacy Guidelines 1980 and the EU Directive 95/46/EC. Given that the European Union's General Data Protection Regulation (GDPR), in effect from 2018, contains significant developments on personal data protection as compared to the EU Directive 95/46/EC, the GDPR includes several requirements that are not found under the EU Directive 95/46/EC and the PDPO.

One of the key developments introduced under the GDPR to the data protection landscape outside the EU is the explicit requirement of compliance by organizations established in non-EU jurisdictions in specified circumstances. The Personal Information Protection Law (PIPL) of the Chinese Mainland is also extraterritorial in its application. Given the diversified business scope and multiple types of transaction models (such as, several types of online transactions) in the current economic landscape, it is all the more important for enterprises in Hong Kong to ascertain if the GDPR or the PIPL is applicable to them to keep up with compliance requirements.

Hong Kong has not made a unified law regarding cybersecurity. Some provisions relevant to cybersecurity can be found in different laws including the Crimes Ordinance (Cap. 200), the Telecommunications Ordinance (Cap. 106), the Unsolicited Electronic Messages Ordinance (Cap. 593), and so on. There is no prescribed obligation imposed on cyber use or operators to adopt security measures, except those involving personal data as specified in the PDPO.

Potential amendments to the PDPO

The Office of the Privacy Commissioner for Personal Data (PCPD) in Hong Kong has been diligently collaborating with the Government to conduct a comprehensive review of the PDPO. As part of this effort, the PCPD has put forth several concrete proposals for legislative amendments. In their 2023 annual review report, the PCPD highlighted the following key amendments proposed to the PDPO:

- establishing a mandatory data breach notification mechanism;
- requiring formulation of a data retention policy;
- empowering the Privacy Commissioner to impose administrative fines; and
- introducing direct regulation of data processors.

Additionally, the PCPD had previously proposed other amendments in their annual review reports, including:

- the definition of personal data;
- conferring on PCPD criminal investigation and prosecution powers;
- increasing the maximum level of criminal fines; and
- imposing mandatory legal restrictions against cross-border data transfers outside Hong Kong.

Despite these important proposals, progress on PDPO reform has been slow due to the PCPD's focus on implementing the Personal Data (Privacy) (Amendment) Ordinance 2021, which specifically addresses doxxing activities. Nevertheless, these proposed amendments provide valuable insights into the future direction of data privacy law in Hong Kong, and business operators should pay close attention to their potential impact.

Hong Kong's first cybersecurity law

Hong Kong enacted its first dedicated cybersecurity law with the passage of the Protection of Critical Infrastructure (Computer Systems) Ordinance (the Ordinance), marking a significant shift toward formal and enforceable cyber governance. The Ordinance comes into effect on January 1, 2026, following its gazettal in March 2025 and subsequent commencement notice issued by the government.

The Ordinance focuses on entities designated as Critical Infrastructure Operators (CIOs), organizations whose services are essential to the functioning of Hong Kong and whose disruption could have serious implications for public safety, economic stability, or national security. Covered sectors include, among others, energy, banking and financial services, telecommunications, transportation, healthcare, information technology, and major public utilities.

Under the new framework, CIOs are subject to a range of statutory cybersecurity obligations, including:

- Implementing appropriate cyber risk management and security measures;
- Conducting regular system risk assessments and audits;
- Establishing incident response and contingency plans; and
- Reporting significant cybersecurity incidents to the designated regulator within prescribed timeframes.

The Ordinance also provides enforcement powers to authorities, including the ability to issue compliance directions and impose financial penalties for non compliance.

While the law adopts a targeted, infrastructure focused approach rather than imposing blanket cybersecurity obligations across all businesses, it is expected to raise cybersecurity expectations across supply chains, particularly for vendors and service providers supporting CIOs.

In light of this, companies should begin preparing by assessing whether they operate infrastructure that could be considered “critical” under the Ordinance, and whether such operations are likely to result in designation as a CIO. They should then evaluate the potential implications of that designation for their business operations, resourcing needs, and risk exposure. To stay ahead of the regulatory requirements, businesses are also encouraged to allocate compliance resources as early as possible.

What are some of the key compliance requirements?

Before going into the details of the compliance requirements, it is important to first get familiar with a few key definitions under the PDPO:

- Personal data means information that relates to a living individual and can be used to identify that individual. It must also exist in a form that is accessible or the processing of which is practicable.
- Data subject is the individual who is the subject of the personal data.
- Data user is a person who, either alone or jointly with other persons, controls the collection, holding, processing, or use of personal data.
- Data processor is a person who processes personal data on behalf of another person (a data user), instead of for their own purpose(s). Data processors are not directly regulated under the PDPO. Instead, data users are required to, by contractual or other means, ensure that their data processors meet the applicable requirements of the PDPO.

The collective objective of the Data Protection Principles is to ensure that personal data is collected on a fully informed basis and in a fair manner, with due consideration towards minimizing the amount of personal data collected. Once collected, the personal data should be processed in a secure manner and should only be kept for as long as necessary for the fulfillment of the purposes of using the data. Use of the data should be limited to or related to the original collection purpose. Data subjects are given the right to access and make correction to their data.

To be noted, the DPP do not regulate the conduct of data users in detail. It is when a data user fails to comply with the terms of an enforcement notice issued by the Privacy Commissioner for Personal Data after finding of a breach that the individual becomes liable to be punished under the PDPO. A data user will also commit an offence if they, having complied with an enforcement notice, intentionally performs the same act again or makes the same omission. Breach of a DPP can also form the basis of a civil suit against the data user by the aggrieved individual for compensation of damage suffered, regardless of whether an enforcement notice has been issued.

Purpose and manner of collection

DPP1 (that is, the first Data Protection Principle prescribed in the PDPO) provides that personal data shall only be collected for a lawful purpose directly related to a function or activity of the data user. The data collected should be necessary and adequate but not excessive for such purpose. The means of collection should be lawful and fair.

If the data user collects personal data from data subjects directly, they should inform the data subjects whether it is obligatory or voluntary to supply the data, the purpose of using their data, and the classes of person to whom their data may be transferred. The data user should also inform the data subjects of the right and means to request access to and correction of their data.

Accuracy and duration of retention

DPP2 requires data users to take all practicable steps to ensure that personal data is accurate and is not kept longer than is necessary for the fulfillment of the purpose for which the data is used. If data user engages a data processor for handling personal data of other persons, they should adopt contractual or other means to ensure that the data processor complies with the mentioned retention requirement.

Section 26 of the PDPO requires data users to take all practicable steps to erase personal data that is no longer required for the purpose for which the data is used, unless erasure is prohibited by law or is not in the public interest. A breach of Section 26 is an offence, punishable by a fine of up to HK\$10,000.

Use of data

DPP3 prohibits the use of personal data for any new purpose which is not or is unrelated to the original purpose when collecting the data, unless with the data subject's express and voluntary consent. A data subject can withdraw their consent previously given by written notice.

Regarding restrictions on use of personal data, Part 6A of the PDPO further requires that data users must obtain informed consent before using a data subject's personal data for direct marketing or transferring the data to a third party for direct marketing. The consent must be an explicit indication by the data subject and broadly covers an indication of no objection. In other words, silence cannot constitute consent. Besides, the consent must be an informed one.

Failure to comply with the direct marketing requirements is an offence and can result in a fine of HK\$500,000 and imprisonment for three years, or up to a fine of HK\$1,000,000 and imprisonment for five years if data was provided to a third party for gain.

Data security

DPP4 requires that data users take all practicable steps to protect the personal data they hold against unauthorized or accidental access, processing, erasure, loss, or use. Data users should have particular regard for the nature of the data, the potential harm if the abovementioned events happen, measures taken for ensuring the integrity, prudence and competence of persons having access to the data, etc. If the data user engages a data processor to process the personal data held, they must adopt contractual or other means to ensure that the data processor complies with the mentioned data security requirement.



Openness and transparency

DPP5 obliges data users to take all practicable steps to ensure openness of their personal data policies and practices, the kind of personal data held, and the main purposes for holding it.

Access and correction

DPP6 provides data subjects with the right to request access to and correction of their own personal data. A data user should give reasons when refusing a data subject's request to access or correct their personal data.

DPP6 is supplemented by detailed provisions in Part 5 of the PDPO, which cover the manner and timeframe for compliance with data access requests and data correction requests, the circumstances in which a data user may refuse such requests, etc. Data users are also required to maintain a logbook to record all refusals made.

Exemptions

While data privacy is an important right, the interests protected under PDPO have to be balanced against other important rights or public interest. PDPO provides a number of exemptions from some compliance requirements under particular circumstances.

Examples include crime prevention or prosecution, security and defense, statistics and research, news activity, protecting a data subject's health, etc. There is also an exemption if the use of personal data is required or authorized by law or court order or is required for exercising or defending legal rights in Hong Kong.

Nevertheless, data users are suggested not to routinely rely on exemptions. Instead, exemptions can only be considered on a case-by-case basis to defend a breach of the PDPO.



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