



# ASSET MANAGEMENT TAX UPDATE

February 2021

## The 2021-2022 Budget: Further incentives for Asset and Wealth Management

### Summary



The 2021-2022 Hong Kong Budget announcement included further initiatives for the asset and wealth management industry:

- The Government will subsidise up to 70% of expenses paid to local professional service providers of Open-ended Fund Companies (“OFCs”) set up in or re-domiciled to Hong Kong in the coming three years, subject to a cap of HKD1 million per OFC.
- Further legislative proposals will be introduced in the second quarter of this year to allow foreign investment funds to redomicile to Hong Kong for registration of OFCs and Limited Partnership Funds (“LPFs”).
- Subsidies for qualifying Real Estate Investment Trusts (“REITs”) authorised by the Securities and Futures Commission and listed in Hong Kong in the coming three years. The subsidy will cover 70% of the expenses paid to local professional service providers for the listing of REITs, subject to a cap of HKD8 million per REIT.

### Overview

The Hong Kong Budget announced by Financial Secretary, the Honourable Paul MP Chan on 24 February 2021 included some welcomed incentives for the asset and wealth management industry of Hong Kong. The Government has announced subsidies of up to 70% of expenses paid to local professional service providers of OFCs set up in or re-domiciled to Hong Kong in the coming three years, subject to a cap of HKD1 million per OFC. Similarly, a subsidy of up to 70% of the expenses paid to local professional service providers will be offered for qualifying REITs that list in Hong Kong in the coming three years, subject to a cap of HKD8 million per REIT. The Securities and Futures Commission will announce further details regarding the subsidies in due course.

The Government also announced a legislative proposal in the second quarter of this year to allow foreign investment funds to redomicile to Hong Kong for registration of OFCs and LPFs.

The OFC is an open-ended collective investment scheme that is intended to operate as an investment fund vehicle managed by a professional investment manager. The OFC is set up in the form of a limited liability company but with the flexibility to create and cancel shares for investors' subscriptions and redemptions (which is not currently possible in the case of conventional companies). The LPF enables asset managers to raise capital through an onshore domestic limited partnership fund structure – an alternative to the typical Cayman Islands limited partnership model.

With 11 OFCs set up since the regime was introduced in 2018, and over 100 LPFs already set up since the LPF regime's introduction on 31 August 2020, the latest announcement of further incentives and stimulus should further promote the already popular OFC and LPF regimes. The trend once again is to attract talent and professional services to the region and incentivise new fund managers to establish operations in Hong Kong, redomicile funds from traditional fund jurisdictions such as the Cayman Islands, and to encouraging existing funds to expand their operations in Hong Kong.

The latest announcement comes on the heels of the introduction of the Inland Revenue (Amendment) (Tax Concessions for Carried Interest) Bill 2021, which confirms that eligible carried interest distributions are to be taxed at a 0% rate for qualifying persons who are subject to profits tax, and for qualifying employees subject to salaries tax.

In light of all of the recent tax developments in fund management, Hong Kong should have a regulatory and taxation fund regime that is compelling and one that entices Asia-focused funds to domicile themselves in Hong Kong. The Budget announcements further cement Hong Kong's status as Asia's leading international private equity and asset management hub and will further attract talent and professional services to the region.

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