

HONG KONG TAX

JUNE 2025

Global minimum tax and Hong Kong minimum top-up tax for multinational enterprise groups

Overview

The Global Anti-Base Erosion (**GloBE**) rules under Pillar Two of the Organisation for Economic Cooperation and Development (OECD)'s Base Erosion and Profit Shifting (BEPS) 2.0ⁱ are incorporated into Hong Kong's Inland Revenue Ordinance (IRO), following the enactment of the Inland Revenue (Amendment) (Minimum Tax for Multinational Enterprise Groups) Ordinance 2025 on 6 June 2025.

This amendment introduces a **15% global minimum tax** in a form of top-up tax for large multinational enterprise (MNE) groups under the GloBE rules and a **Hong Kong minimum top-up tax (HKMTT)**.

The Pillar Two calculation, reporting and collection of the top-up tax through the GloBE rules and HKMTT will be done through specified mechanisms which are separate from the profits tax filing and payment processes.

Who is affected?

The GloBE rules apply to **in-scope MNE groups** that has **annual consolidated revenue \geq €750 millionⁱⁱ** in at least two of the four fiscal years immediately preceding the current fiscal yearⁱⁱⁱ.

An in-scope group's **Hong Kong ultimate parent entity (UPE)** or **Hong Kong constituent entities** of an MNE group with non-Hong Kong UPE will be subject to Pillar Two compliance in Hong Kong. Under the GloBE rules, an entity is located where it is a tax resident or was created. In this regard, a general definition of **Hong Kong resident entity** is introduced with retrospective effect from 1 January 2024 in the IRO to regard an entity as Hong Kong tax resident if it is:

- incorporated/constituted in Hong Kong; or
- normally managed or controlled in Hong Kong if it is incorporated/constituted outside Hong Kong.

A company re-domiciled to Hong Kong will be regarded as a Hong Kong resident entity from the date of re-domiciliation.

Top-up tax charging mechanism and calculation

The GloBE rules

If an MNE group is within the scope of the GloBE rules, the group must determine the location and income of each constituent entity, and compute the **effective tax rate (ETR)** on a jurisdictional basis. The GloBE income or loss and adjusted covered taxes of

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each constituent entity located in the same jurisdiction are added together to compute the ETR.

The **GloBE rules** apply two interlocking mechanisms:

- **Income Inclusion Rule (IIR)**: imposes top-up tax on the parent entity of an in-scope MNE group in respect of its constituent entities which are taxed at an **ETR** below 15% (ie low-taxed constituent entities) outside the jurisdiction where the parent entity is located.
- **Undertaxed Profits Rule (UTPR)**: applies where IIR does not.

The **top-up tax payable** by an in-scope MNE group for a low-tax jurisdiction is the product of:

- the **excess profits**: the result of the aggregate **GloBE income or loss** for all constituent entities in the low-tax jurisdiction less a **substance-based income exclusion** for the low-tax jurisdiction; and
- the **top-up tax percentage**: the difference between the **ETR** in the low-tax jurisdiction and the minimum rate of 15%.

HKMTT

With the HKMTT which operates consistently with the GloBE rules, Hong Kong will have the first priority to collect the top-up tax in respect of the low-taxed constituent entities in Hong Kong before the top-up tax is collected by another jurisdiction through IIR or UTPR. The top-up tax paid under HKMTT is creditable against the top-up tax liabilities otherwise arising under the GloBE rules.

The financial accounting net income or loss of a Hong Kong constituent entity of an MNE group for HKMTT purposes must be determined in accordance with a local accounting standard if all the three specified conditions are met.

Effective date

The **IIR top-up tax** and the **HKMTT** are payable in relation to a fiscal year beginning on or after 1 January 2025.

The **UTPR** will be implemented on a date to be specified by the government at a later stage.

Safe harbours

Hong Kong adopts all the safe harbours available under the GloBE rules to relieve in-scope MNE groups from full GloBE calculations when certain conditions are met:

- the **transitional Country-by-Country (CbCR) Safe Harbour**;
- the **transitional UTPR Safe Harbour**;
- the **qualified domestic minimum top-up tax Safe Harbour**; and

- the **Simplified Calculations Safe Harbour for non-material constituent entities**.

Subject to annual elections, an MNE group that qualifies for the **transitional CbCR Safe Harbour**^{iv} in Hong Kong for an initial fiscal year will be relieved from detailed GloBE calculations in respect of Hong Kong and its top-up tax in Hong Kong will be deemed to be zero for the relevant year in the transition period, but may still be subject to certain filing requirements pending the Inland Revenue Department (IRD)'s further guidance.

Tax compliance and administration

Mandatory e-filing of Pillar Two returns

In-scope MNE groups' Hong Kong constituent entities must electronically file:

- **top-up tax notification**; and
- **top-up tax return (containing a GloBE Information Return (GIR))**.

The **top-up tax notification** will notify the IRD that an MNE group has come within the scope of the global minimum tax and HKMTT, and to identify the entity and jurisdiction from which Hong Kong will receive the GIR and the Hong Kong entities for which the obligation to file the top-up tax return will be lifted when certain conditions are met.

The **top-up tax return** includes information required in the standardised GIR. If the GIR information is filed in a jurisdiction that will be able to exchange GIR information with Hong Kong, Hong Kong constituent entities will be relieved from the obligation to file the GIR information.

Key compliance dates

Top-up tax notification is required to be filed **within six months** from the last day of the reporting fiscal year.

Top-up tax return (including GIR information) is required to be filed **within 15 months** after the last day of the reporting fiscal year, extended to **18 months** for the first transition year of a constituent entity.

Assessment and demand for top-up tax will be issued based on the information declared upon the filing of the top-up tax return. No provisional top-up tax is charged. The payment due date is **one month after the expiry of the return filing deadline or the date of the notice of assessment**, whichever is the later.

Objection is allowed to be raised **within two months from the date of the notice of assessment**.

Additional assessment on top-up tax can be raised **within eight years** after the end of the year of assessment in which the relevant fiscal year ends, or **within 12 years for cases involving fraud or willful evasion**.

Reopening of top-up tax assessments can be requested

within eight years after the end of the year of assessment in which the relevant fiscal year ends **or six months after the issuance date of the notice of assessment**, whichever is the later, to correct omissions or errors and claim a refund of top-up tax overpaid.

Prosecution can be initiated against Hong Kong constituent entities or service providers **within eight years** after the day on which the offence was committed. Prosecution can only be initiated with the sanction of the Commissioner (ie section 84 requirement).

Record-keeping period is for at least **nine years** after the completion of the transactions, acts or operations relevant to the computation of top-up tax.

In-scope MNE groups will have to manage another set of key dates in the year-around tax compliance calendar in addition to pre-existing profits tax key dates (*See appendix*).

Designated local entity for Pillar Two compliance

An in-scope MNE group can designate one Hong Kong constituent entity (designated local entity) to file a top-up tax notification, a top-up tax return, and to pay the top-up tax under HKMTT and UTPR such that all other Hong Kong constituent entities of the group will be relieved from these obligations.

Penalties

Penalties will apply in the event of non-compliance, including late or incorrect filing of required top-up tax notifications and returns.

Anti-avoidance provision

In the context of the GloBE and HKMTT regimes, the modified section 61A of the IRO applies to any transaction entered into for the sole or dominant purpose of enabling a person to obtain a tax benefit in relation to a liability to pay top-up tax.

Interaction with mandatory e-filing of profits tax returns

Hong Kong entities of in-scope MNE groups, including constituent entity, standalone joint venture (JV), member of a JV group or stateless constituent entity as defined, as for fiscal year beginning on or after 1 January 2025 based on the UPE's accounting period, are mandated to e-file their profits tax returns for a year of assessment beginning on or after 1 April 2025 (ie from year of assessment 2025/26).

An MNE group's annual consolidated revenue may decrease rendering it to fall outside of the definition of an in-scope MNE group. Nevertheless, the requirement of mandatory e-filing of profits tax returns follows a '**once-in, always-in**' mechanism. As such, if an in-scope MNE group's Hong Kong entity is mandated to e-file its profits tax return for a year of assessment per the above initial application, the entity will be mandated to e-file its profits tax return for every subsequent year of assessment even if the entity subsequently leaves an in-scope MNE group or if the MNE group subsequently becomes out of scope.

In its 2024 annual meeting with the Hong Kong Institute of Certified Public Accountants, the IRD clarified that the mandatory e-filing requirement applies to taxpayers previously granted temporary filing exemptions (typically called the IRC 1812 cases). The IRD will issue letter to relevant MNE groups, requesting details regarding their Hong Kong entities to compile their lists of Hong Kong entities in-scope for this purpose.

BDO comments

Pillar Two is not just a tax compliance issue, it could be a strategic business imperative. Alignment of tax residence of constituent entities, safe harbours and jurisdictional ETR initial assessment and ongoing monitoring may involve broader discussions with business stakeholders for potential paradigm shifts. Please reach out to your BDO tax experts to schedule a consultation tailored to your group's structure and risk profile.

BDO's support and assistance

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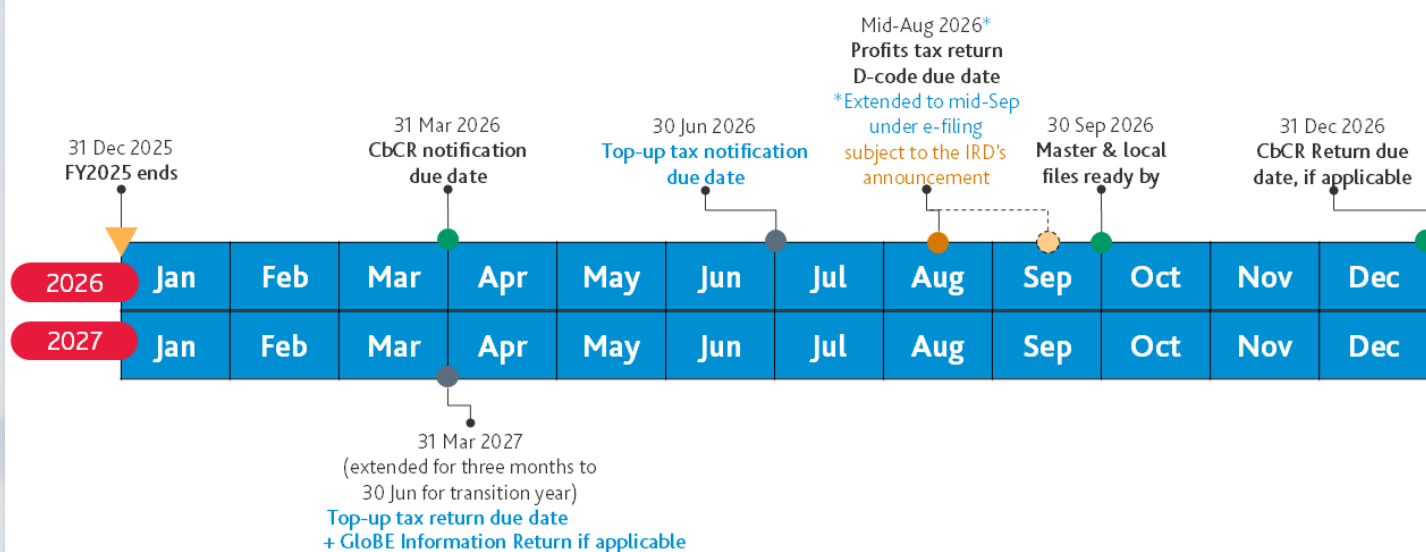
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APPENDIX

Hong Kong Corporate Tax Reporting Timeline for an MNE group with year end date of 31 Dec 2025



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Notes:

- i. Previous newsletters on Pillar Two of the OECD's BEPS 2.0:
[August 2022 - Hong Kong defers implementation of Pillar Two of BEPS 2.0](#)
[January 2024 - Hong Kong begins public consultation to implement the global minimum tax and Hong Kong minimum top-up tax](#)
[January 2025 - The Hong Kong government released the bill to implement the Global Anti-Base Erosion \(GLOBE\) Rules](#)
- ii. Where an MNE group prepares its consolidated financial statements in a currency other than Euros, the group should translate the amount of its consolidated revenue based on the average foreign exchange rate for the month of December of the calendar year prior to the commencement of the relevant fiscal year determined by the foreign exchange reference rates as quoted by the European Central Bank (ECB). Where the presentation currency is not quoted in the foreign exchange reference rates of the ECB, the group should translate the amount of its consolidated revenue based on the average foreign exchange rate for the month of December as quoted by the Hong Kong Monetary Authority.
- iii. Fiscal year refers to an accounting period with respect to which the ultimate parent entity of the MNE group prepares its consolidated financial statements.
- iv. Under the transitional CbCR Safe Harbour, an in-scope MNE group's top-up tax for a particular jurisdiction will be deemed to be zero if any of the three specified criteria in relation to total revenue, ETR or routine profits is met. It operates through the use of jurisdictional total revenue and profit or loss before income tax information contained in the MNE group's qualified Country-by-Country report and jurisdictional tax information contained in its qualified financial statements. It only applies to a transition period covering all the fiscal years beginning on or before 31 December 2026 and ending on or before 30 June 2028. This Safe Harbour adopts a 'once out, always out' approach, meaning that if an in-scope MNE group has not applied this Safe Harbour in respect of a jurisdiction in a previous fiscal year, the group cannot qualify for this Safe Harbour for that jurisdiction in a subsequent fiscal year.