

HONG KONG TAX

MAY 2025

Company re-domiciliation regime in place in Hong Kong

Effective from 23 May 2025, Hong Kong's new inward company re-domiciliation regime¹ allows foreign companies to seamlessly transfer domicile to Hong Kong while preserving their legal identity and business continuity through registration under the Companies Ordinance.

The Inland Revenue Ordinance (IRO) is also amended to address the tax residency of re-domiciled company, transitional tax arrangements, and to allow unilateral tax credits under specified situation. Here are some of the critical Hong Kong tax implications which warrant attention:

Overview of the key tax aspects of company re-domiciliation to Hong Kong

1. Tax residency of re-domiciled companies

Under most of Hong Kong's comprehensive avoidance of double taxation agreements or arrangements (CDTAs), a resident of Hong Kong is defined to mean, among others:

- a company incorporated in Hong Kong or,
- if the company is incorporated outside Hong Kong, being normally managed or controlled in Hong Kong.

To provide clarity, the general interpretation provisions under section 2 of the IRO are amended such that references in the IRO to a 'company incorporated in Hong Kong' include a re-domiciled company and references to a 'company incorporated outside Hong Kong' exclude a re-domiciled company. Accordingly, re-domiciled companies are now explicitly treated as Hong Kong-incorporated for tax residency purposes under Hong Kong's CDTAs.

2. Transitional tax arrangements

Hong Kong does not impose tax on the basis of residency or domicile. A company carrying on any trade, profession or business in Hong Kong are chargeable to tax on its profits (excluding profits arising from the sale of capital assets) arising in or derived from Hong Kong from such trade, profession or business. Re-domiciliation by itself should not affect a company's Hong Kong profits tax position.

Clarity on certain key tax aspects are nevertheless provided for as follows²:

- **Expenses incurred pre-re-domiciliation:** Eligible for deductions if incurred in the production of assessable profits post-re-domiciliation and not previously claimed overseas provided the deduction criteria under the IRO are met.

Contents

- Overview of the key tax aspects of company re-domiciliation to Hong Kong
 1. Tax residency of re-domiciled companies
 2. Transitional tax arrangements in relation to expense deduction and allowances
 3. Unilateral tax credits
 4. Insurance business
 5. Stamp duty
- BDO comments

¹ Provided in the Companies Ordinance as amended by the Companies (Amendment) (No.2) Ordinance 2025 (<https://www.cr.gov.hk/en/publications/docs/es12025292114.pdf>)

² Section 17L of the Inland Revenue Ordinance

- **Trading stock acquired pre-re-domiciliation:** Deductible at the lower of cost or net realisable value at the date of re-domiciliation.
- **Intellectual property (IP) rights registration, R&D, or building refurbishment expenditures:** Expenditures incurred pre-re-domiciliation are deductible based on use post-re-domiciliation, as if they are incurred in the year of first use post-re-domiciliation.
- **Purchase cost for certain IP rights, prescribed fixed assets and environmental protection facilities:** Expenditures incurred pre-re-domiciliation are deductible based on use post-re-domiciliation, at the lower of net book value or market value at the re-domiciliation date.
- **Capital expenditures incurred on machinery or plant pre-re-domiciliation:** Eligible for depreciation allowances if they are used for Hong Kong business post-re-domiciliation based on the lower of net tax written down value (cost minus the notional allowances prior to re-domiciliation) or market value at the re-domiciliation date.

3. Unilateral tax credits

To mitigate double taxation, if a re-domiciled company has paid tax in its place of incorporation of substantially the same nature as profits tax in respect of its unrealised income or profit because of company re-domiciliation, and after re-domiciliation, Hong Kong profits tax is also payable on the actual income or profit derived by the re-domiciled company, unilateral tax credits are available to the company subject to certain limitations.

4. Insurance business

Specific rules apply to insurance businesses, addressing how deficits or surpluses arising from pre-re-domiciliation activities are managed for Hong Kong tax purposes.

5. Stamp duty

Since the re-domiciliation process will not entail any transfer of a company's asset or change in the beneficial ownership of a company's asset, no Hong Kong stamp duty liabilities will arise because of re-domiciliation as regards any Hong Kong stock or immovable property held by the company being re-domiciled.

The transfer of shares in a re-domiciled company is required to be registered in Hong Kong post-re-domiciliation. The shares will fall into the definition of Hong Kong stock and hence the transfer of such shares will be liable to Hong Kong stamp duty.



BDO comments

There are broadly three key incentives why re-domiciliation to Hong Kong may offer advantages:

- **Certainty of tax residency:** Tax residency is a key determinant which decides where tax reporting and tax payments are to be made, for global tax compliance including common reporting standards, Country-by-Country reporting, and the GloBE rules (BEPS 2.0 Pillar Two)³. Companies already managed and controlled in Hong Kong but incorporated overseas may benefit significantly by gaining formal residency, providing clearer tax treaty benefits. This could also eliminate compliance risk from delayed or missed updates on regulatory changes in other jurisdictions.
- **Cost efficiency:** Compliance burdens, regulatory and administrative costs can be reduced by centralising jurisdictional obligations in Hong Kong. Overseas incorporated companies already with operations in Hong Kong would be able to eliminate dual processes in ongoing corporate maintenance post-re-domiciliation.

³ Our newsletter on GloBE rules implementation in Hong Kong issued in January 2024: [https://www.bdo.com.hk/getattachment/e9b6d05d-1175-4860-a93d-42953d996e30/\(Final\)-HKTax-Jan24\(02\).pdf?lang=en-CB](https://www.bdo.com.hk/getattachment/e9b6d05d-1175-4860-a93d-42953d996e30/(Final)-HKTax-Jan24(02).pdf?lang=en-CB)

- **Strategic positioning:** Redomiciled companies can leverage Hong Kong's extensive CDTA network and be able to engage the Hong Kong Inland Revenue Department as its competent authority in the event of mutual agreement procedure to resolve disputes with counterparty tax authorities, such as transfer pricing adjustments.

Hong Kong business groups may explore the potential benefits of re-domiciling its non-Hong Kong incorporated companies (such as intermediate holding companies incorporated in the BVI and the Cayman Islands) to Hong Kong. Before proceeding, the legal, corporate and tax implications in all the relevant jurisdictions should be considered. Potential tax issues to be reviewed in evaluating company re-domiciliation could include:

- Indirect transfer if the company holds investments in jurisdictions which regard re-domiciliation as a change in beneficial owner;
- Exit taxes levied by the jurisdiction of incorporation; or
- Pillar Two issues such as jurisdictional effective tax rate, safe harbours and substance measurement.

Please contact your BDO tax experts for a tailored consultation.

BDO's support and assistance

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