HONG KONG TAX

JANUARY 2025

The Hong Kong government released the bill to implement the Global Anti-Base Erosion (GLOBE) Rules

The Inland Revenue (Amendment) (Minimum Tax for Multinational Enterprise Groups) Bill 2024 was gazetted on 27 December 2024 and is scheduled for first reading in the Legislative Council on 8 January 2025.

This bill, once passed into law, will amend the Inland Revenue Ordinance (IRO) to implement the international tax reform proposals under Pillar Two of The Organisation for Economic Co-operation and Development (OECD)'s initiatives to tackle base erosion and profit shifting risks (ie the GloBE rules and related provisions) by introducing a global minimum effective tax targeting certain large multinational enterprise (MNE) groups including implementing a domestic minimum top-up tax in Hong Kong (HKMTT) for fiscal year[1] beginning on or after 1 January 2025.

The broad objective of Pillar Two is to require large MNE groups with an annual consolidated revenue of €750 million or above in at least two of the four fiscal years immediately preceding the current fiscal year (ie in-scope MNE groups) to pay a global minimum tax of at least 15% in every jurisdiction in which they operate. This will reduce the incentive for large MNE groups to shift profits to low- or no-tax jurisdictions to evade tax, and decrease harmful competition among countries/regions to attract investment by lowering corporate tax rates.

By introducing the HKMTT, Hong Kong will have the right to collect top-up tax from the relevant group's entities in Hong Kong in the event that the pre-HKMTT effective tax rate of an in-scope MNE group in Hong Kong is lower than 15%, bringing the group's effective tax rate up to 15%. Without a HKMTT, other relevant jurisdictions have a right to collect top-up tax in respect of these low-taxed Hong Kong entities according to the GloBE rules. The HKMTT will safeguard Hong Kong's taxing rights and will simplify GloBE compliance for in-scope MNE groups.

1. Fiscal Year under the GloBE rules means an accounting period with respect to which the Ultimate Parent Entity of the MNE Group prepares its Consolidated Financial Statements.

Effective date

- Hong Kong minimum tax effective from fiscal year beginning on or after 1 January 2025

Tax impact

- GloBE rules incorporated into Hong Kong Inland Revenue Ordinance
- Effective tax rate at a minimum of 15% for in-scope multinational enterprise groups

The effect of the bill is to directly incorporate the OECD's GloBE rules, which set out the detailed terms of the global minimum tax, in the IRO with limited and necessary adaptations as far as practicable. Provisions on safe harbours, HKMTT and other GloBE-related provisions are also provided for based on the commentaries and administrative guidance issued by the OECD. Please refer to our newsletter issued in January 2024 (https://www.bdo.com.hk/getattachment/e9b6d05d-1175-4860-a93d-42953d996e30/(Final)-HKTax-Jan24(02).pdf?lang=en-GB) for details on the GloBE rules and HKMTT.

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