2025/26 Hong Kong Budget Commentary

Overview

On 26 February 2025, Mr. Paul M Chan, the Financial Secretary of Hong Kong, delivered his ninth budget speech to the Legislative Council.

In 2024, Hong Kong's economy continue to expand, though in a moderated pace, with its GDP grew by 2.5 percent in real terms over 2023. While the US entered into a rate-cutting cycle in the second half of the year, the Mainland also introduced various policy measures to stimulate the economy and stabilise expectations. Alongside measures rolled out by the Central Government to support Hong Kong and the efforts by the Hong Kong Government and various sectors, the atmosphere in the local asset market has improved.

Meanwhile, the overall inflation stayed moderate. The inflation rate for the year 2024 is 1.1%, which is lower than 1.7% in 2023. At the same time, the labour market stay tight in 2024. The unemployment rate for the year 2024 stands in a low level at 3.1%, which is slightly higher than 2.9% in 2023.

Looking ahead, the external environment at large remains unfavorable. In particular, the new term of the US administration would seriously affect the Hong Kong economy prospect. If the US government substantially increases tariffs, there will be serious disruptions to global trade and investment flows, and countermeasures by other economies will be triggered. Escalating trade conflicts would hit Hong Kong's exports, particularly re-exports from the Mainland to the US.

While for the retail and catering sectors, in early December 2024, after the Central Government resumed and expanded the multiple-entry Individual Visit Scheme for Shenzhen residents, the number of Mainland visitors to Hong Kong has notably increased, that would provide support for the retail and catering sectors.

The budget deficit of 2024/25 is HKD87.2 billion, which is HKD39.1 billion higher than the original deficit projection of HKD48.1 billion. In light of a continuously uncertain external environment, a complex and changing global political and economic landscape, and the structural adjustments taking place in Hong Kong's economy, Hong Kong must manage public finances more prudently. As such, the budget has proposed the following relief measures:-

Highlights

	Proposed fiscal/ tax measures
1	Reduce profits tax, salaries tax and tax under personal assessment for 2024/25 by 100 percent, subject to a ceiling of HKD1,500
2	Waive rates for residential properties and non-residential properties for the first quarter of 2025/26, subject to a ceiling of HKD500
3	Raising the maximum value of properties chargeable to a stamp duty of HKD100 from HKD3 million to HKD4 million with immediate effect
4	Formulating proposals on the preferential tax regimes for funds, single family offices and carried interest this year, including expanding the scope of "fund" under the tax exemption regime, increasing the types of qualifying transactions eligible for tax concessions for funds and single family offices, enhancing the tax concession arrangement on the distribution of carried interest by private equity funds, etc.

	Policies for long-term development
1	Launching the two-year Pilot Manufacturing and Production Line Upgrade Support Scheme by providing funding of up to HKD250,000 each on a one-to-two matching basis to enterprises operating production lines in Hong Kong to support their formulation of smart production strategies and introduction of advanced technologies into existing production lines
2	Development of Northern Metropolis, not only providing considerable output in residential units and industrial land, it also provides lands for the use of I&T, high-end professional services and modern logistics, tertiary education and culture, sports and tourism

Amendment Bill on Global Minimum Tax and Hong Kong Minimum Top-up Tax Gazetted

After the consultation conducted in 2024, on 27 December 2024, the Hong Kong Government has published the Inland Revenue (Amendment) (Minimum Tax for Multinational Enterprise Groups) Bill 2024 ("the Bill") in the Gazette seeking to implement the international tax reform framework, Base Erosion and Profit Shifting (BEPS) 2.0, promulgated by the Organisation for Economic Co-operation and Development ("OECD"), and put in place the global minimum tax and the Hong Kong minimum top-up tax ("HKMTT").

Global anti-base erosion ("GloBE") rules

Pillar Two of BEPS 2.0 will apply to multinational enterprise ("MNE") groups with a global consolidated annual revenue of or above EUR750 million in at least two of the previous four fiscal years. GloBE rules ensure that these sizable MNEs pay a minimum tax of 15% in respect of the profits derived from every jurisdiction they operate in by imposing a top-up tax through the following two interlocking rules:

- Income Inclusion Rule (IIR) – the primary rule which 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 effective tax rate (ETR) below 15% (i.e. low-taxed constituent entities) outside the jurisdiction where the parent entity is located.

  Date of implementation: The IIR top-up tax is payable in relation to a fiscal year beginning on or after 1 January 2025.

- Undertaxed Profits Rule (UTPR) – a backstop to IIR which ensures that all top-up tax is charged where any of such tax is not brought into charge under IIR.

  Date of implementation: The UTPR is to be implemented on a date to be specified by the Secretary for Financial Services and the Treasury at a later stage.

Charging mechanism of HKMTT

As permitted under the GloBE rules, Hong Kong also implements its own qualified domestic minimum top-up tax, namely HKMTT, such that Hong Kong has the first priority to collect the top-up tax in respect of the low-taxed constituent entities in its own jurisdiction, for which the ETR is below the minimum rate. The HKMTT imposed will be directly creditable against liabilities otherwise arising under the IIR and the UTPR collected by another jurisdiction.

Date of implementation: The HKMTT is payable in relation to a fiscal year beginning on or after 1 January 2025.

For more information on de minimis exclusion and other key transitional rules and safe harbours, please refer to the article issued by us on 28 February 2024:-
[Hong Kong to Implement Global Minimum Tax and Hong Kong Minimum Top-up Tax]

Tax compliance

The top-up tax under the GloBE rules and HKMTT are deemed as profits tax, so as to allow for the adaptation of the relevant tax administration mechanisms currently available under the Inland Revenue Ordinance ("IRO") and the comprehensive double tax agreements concluded with other jurisdictions to also be applied to the top-up tax. Other important updates on the administration of top-up tax are set out as below:-

Filing of notification and top-up tax return

An in-scope MNE group will be required to file an annual notification within 6 months and a top-up tax return for the purpose of the GloBE rules and HKMTT no later than 15 months after the last day of the reporting fiscal year. The filing deadline of the top-up tax return will be extended to 18 months for the first transition year. The MNE Group may designate one Hong Kong constituent entity to furnish the top-up tax notification and return, otherwise each Hong Kong constituent entities of the MNE Group will be required by default to comply with the top-up tax filing requirement. To facilitate the filing compliance, the Inland Revenue Department ("the IRD") will develop an electronic platform for submission of notification and return, sending and receiving messages, etc.

Time limit for additional assessment and objection

The time limit for raising an additional assessment for top-up tax is within 6 years after the later of (i) the end of the fiscal year; (ii) the time when the non-assessment or under-assessment for the fiscal year has come to the assessor's knowledge. While the objection period to a top-up tax assessment is 2 months after the date of the notice of assessment.

Modification to business records to be kept

A Hong Kong constituent entity of an MNE group must keep sufficient records of transactions, acts or operations relevant to the computation of top-up tax liability of the MNE group and retain such records at least until the expiry of 12 years after the completion of the transactions to which they relate.

Main purpose test

The main purpose test is introduced and is only applied in consistency with the GloBE rules documents. If a person enters into any arrangements for the main purpose of avoiding the relevant obligations such as filing and payment of top-up tax, those arrangements will be treated as if they had never been entered into.

Recommendation

As the GloBE rules and HKMTT are scheduled to implement in Hong Kong in 2025/26, the IRD is going to provide further guidelines to taxpayers explaining the GloBE rules and HKMTT in this year if the Bill is passed. Therefore, in-scope MNE groups should keep your eyes on the latest development of the Bill and to consult your tax advisor to ensure proper information are ready for the complying the requirements of the Bill in 2025/26.

e-filing of Profits Tax Return (BIR51)

To keep pace with the global trend of digital transformation of tax administration, the IRD has committed to implement the electronic filing of profits tax returns in Hong Kong. Taxpayers would be required to e-file their profits tax returns together with supporting documents (including financial statements and tax computations) in inline eXtensible Business Reporting Language ("iXBRL") format on a mandatory basis by phases. The IRD has developed Taxonomy Package and iXBRL Data Preparation Tools for the taxpayer for generating the required iXBRL data files for e-filing purposes. Those tools are available for download free of charge, the taxpayer can find the latest version of conversion tools from the IRD website.

Time line of implementation of e-filing

Currently, the e-filing of profits tax returns is rolled out on a voluntary basis, although all supplementary forms are required to be submitted electronically, irrespective of the mode of filing the profits tax returns. The partial mandatory e-filing was for the purpose of familiarizing the taxpayers with the iXBRL tax filing requirements and encouraging early adoption of e-filing of profits tax returns.

The IRD plans to issue a gazette notice under section 51AAB of the IRO to require Hong Kong constituent entities of in-scope MNE groups (i.e. MNE groups whose annual consolidated group revenue reaches at least EUR 750 million) to e-file their profits tax returns together with supporting documents for a year of assessment beginning on or after 1 April 2025 (i.e. year of assessment 2025/26), regardless of where the ultimate parent entity (UPE) is located.

After the mandatory e-filing of the entities of in-scope MNE group, the IRD is also considering large businesses with turnover above a certain threshold to be the next batch of taxpayers required to e-file their profits tax returns in 2028. Full-scale implementation of mandatory e-filing is targeted to be achieved by 2030.

Modes of profits tax filing for the year of assessment 2024/25 and 2025/26

Year of assessment 2024/25

Same as the profits tax filing arrangement for the year of assessment 2023/24, all taxpayer can file their profits tax return for the year of assessment 2024/25 by one of the three modes summarized in the table below:

	Filing mode	Profits tax return	Supplementary forms	Supporting documents (Note 1)
1.	Paper	Paper	XML (Note 2)	Paper
2.	Full-Electronic	Electronic	XML	iXBRL
3.	Semi-Electronic	Paper (Note 3)	XML	iXBRL

Note 1: Audited financial statements and profits tax computation, etc.
Note 2: PDF format of supplementary forms to be exported to data files in XML format. If the profits tax return is filed in paper form, a paper Control List generated by system is required to be printed for signature and submission.
Note 3: Simplified profits tax return to be printed for submission in paper form.

Year of assessment 2025/26

The IRD plans to require in-scope MNE entities to e-file their tax returns together with supporting documents (including the profits tax computation and audited financial statements, etc.) either by Full-Electronic mode or Semi-Electronic mode mandatorily starting from the year of assessment 2025/26.

For the remaining companies, the filing mode of profits tax return will remain the same as the year of assessment 2024/25 (i.e. either one of the above three methods).

Recommendation

In order to minimize the possible errors or confusions during the e-filing process, the in-scope MNE entities should beware of the issue and consult their tax consultants for further information and details.

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The Aoba & Hopkins Group consists of CPA firms and full service consulting firms located in Hong Kong, Guangzhou and Beijing that have been providing quality and efficient professional services to our valued clients aboard and at home since 1989.

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