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POLICY STATEMENT ON DEVELOPING FAMILY OFFICE BUSINESSES IN HONG KONG

On 24 March 2023, the Financial Services and the Treasury Bureau issued the Policy Statement on Developing Family Office Businesses in Hong Kong. The Statement sets out the Government's policy stance and measures for developing a vibrant ecosystem for global family offices and asset owners in Hong Kong. In this Tax Flash, we will look at some of the key policy measures.

Developing family office businesses requires a combination of strategic planning, market research, and a deep understanding of the needs and preferences of ultra-high-net-worth families in the region. Family offices typically offer a range of comprehensive financial services to ultra-high-net-worth individuals and families, including investment management, tax and estate planning, philanthropy, wealth transfer, and other specialized services tailored to each family's unique needs and objectives. With a view to creating a conducive and competitive environment for the businesses of global family offices, the Government introduced the following policy measures:

a) New Capital Investment Entrant Scheme

To further enrich our talent pool and attract new capital to Hong Kong, a new Capital Investment Entrant Scheme will be introduced. The investment threshold for the new scheme will be increased to a multiple of the original requirement¹. Permissible investment assets² include:

¹ The investment threshold for the old scheme is HK\$10 million.

² Assets denominated in RMB will also be considered.

- Equities listed in Hong Kong;
- Debts issued or fully guaranteed by (i) companies listed in Hong Kong; (ii) the Government; or (iii) other corporations, agencies or bodies wholly or partly owned by the Government;
- Subordinated debts issued by authorised institutions; and
- Eligible collective investment schemes (including investment-linked assurance schemes).

Successful applicants can reside and pursue development in Hong Kong along with his/her spouse and dependant unmarried children.

b) Tax Concessions - Asset and Wealth Management Industry

The Inland Revenue (Amendment) (Tax Concessions for Family-owned Investment Holding Vehicles) Bill 2022 was gazetted and introduced into the Legislative Council in December 2022. Under the proposed regime, profits tax exemption will be provided to family-owned investment holding vehicles (“FIHVs”) managed by single family offices in Hong Kong. Qualifying transactions include investments in securities, futures contracts, foreign exchange contracts, deposits, exchange-traded commodities, OTC derivative products, and investment in private companies, etc. Subject to the Legislative Council’s passage, the above tax concession arrangements will apply to any year of assessment commencing on or after 1 April 2022.

Going forward, the Government will also review the existing preferential tax regimes for funds and carried interest to create a more facilitative tax environment for the asset and wealth management industry.

c) Providing Market Facilitation Measures

The Securities and Futures Commission has recently issued a few quick reference guides to address frequently asked questions about licensing requirements, with one specifically catering for family offices³. A dedicated communication channel maintained by its licensing team for family office related enquiries has also been set up. For investor protection, a set of more risk-based measures will be introduced to streamline intermediaries’ suitability assessment and disclosure process for sophisticated or ultra-high-net worth individual clients.

d) The Hong Kong Academy for Wealth Legacy

A new Hong Kong Academy for Wealth Legacy under the Financial Services Development Council will be set up to offer talent development services to industry practitioners and next-generation wealth owners. It will be supported by partnerships with the industry, professional service providers, universities, and the dedicated FamilyOfficeHK⁴ team under Invest Hong Kong (InvestHK). The Academy will also develop partnerships with global peer organisations, building a network to achieve synergies and delivering best values to the wealth management sector.

³ <https://www.sfc.hk/en/Regulatory-functions/Intermediaries/Licensing/Quick-licensing-guide>

⁴ <https://www.familyoffices.hk/>

e) Promoting Art Storage Facilities at the Hong Kong International Airport

The Airport Authority Hong Kong is actively studying the establishment of storage, display and appreciation facilities for art and treasures at the Hong Kong International Airport.

Hong Kong is one of the world's largest art markets by auction sales, with a leading position in Asia. The new facilities at the Airport will consolidate Hong Kong's position as a leading art exhibition and trading centre in Asia, and global family offices with capital allocation in art will increasingly benefit from the thriving art ecosystem in Hong Kong.

f) Developing Hong Kong into a Philanthropic Centre

To further develop Hong Kong into a philanthropic centre for global family offices and philanthropists to deploy charitable capital benefiting Hong Kong, the Mainland and the overseas, the processing of applications for recognition of tax exemption status of charities will be enhanced. For tax exemptions offered to FIHVs managed by single family offices in Hong Kong, the Government will enhance the legislative proposal by expanding the extent of beneficial interest that an exempted charity may hold in FIHVs. This will facilitate wealth owners in admitting exempted charities as beneficiaries of FIHVs and at the same time benefitting from the proposed tax concessions.

g) Expanding the role of FamilyOfficeHK team

The FamilyOfficeHK team will expand its role to also cover services like facilitating philanthropic endeavors of wealth owners and assisting in education related matters. It will also convene and launch a new Network of Family Office Service Providers, covering private banks, accounting and legal firms, trusts and other professional services firms, which provide comprehensive services to family offices.

OUR COMMENTARY

Notwithstanding the COVID-19 pandemic during the past few years, the regional pool of wealth, particularly Chinese, has continued to expand, creating more demand for sophisticated asset and wealth management services. Family office business is a fast-growing segment and plays a vital role in the ecosystem to provide comprehensive financial, investment, and advisory services for affluent individuals and the family concerned.

Developing family office businesses is a complex process that requires a lot of hard work and dedication. However, being one of the world's premier ultra-high net worth cities, Hong Kong is well-positioned to attract family offices to operate and grow in the region. With the right strategy, team, and mindset, it is possible to build a successful business that meets the unique needs of ultra-high-net-worth families in the region.

In the 2022 Policy Address, the Chief Executive sets the target of facilitating no less than 200 family offices to establish or expand their operations in Hong Kong by end-2025. We are hoping to see in the near future family offices create more high-quality job opportunities and bring more investments into Hong Kong.

RSM Tax Advisory (Hong Kong) Limited

RSM Hong Kong's dedicated and experienced tax specialists can:

- Advise on tax efficient holding and operational structures for new cross-border investment, including the formation of Hong Kong and Chinese business entities
- Review existing cross-border investment structures, advise on identified deficiencies, quantify any potential exposure from such deficiencies, and further advise on restructuring approach and procedures
- Assist clients to discuss and clarify matters with tax officials, including transfer pricing and advance rulings
- Act as client representative in tax audits and tax investigations
- Provide transaction support services on mergers and acquisitions, including tax due diligence, deal structure advice, tax health checks, related human resources arrangements and other tax compliance and consultation services
- Provide tax expert witness services at Courts
- Act as tax advisor on transfer pricing and tax compliance reviews for IPO applications
- Advise on human resources and structuring employment arrangements in a tax-efficient manner
- Advise on tax equalisation schemes
- Provide tax compliance services for individual and corporate clients in Hong Kong and China

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Mr. Eric Chen
T +852 2583 1259
E ericchen@rsmhk.com

Mr. Samuel Chan
T +852 2583 1242
E samuelchan@rsmhk.com

Ms. Lilian Poon
T +852 2583 1241
E lilianpoon@rsmhk.com

Mr. Patrick Ho
T +852 2583 1258
E patrickho@rsmhk.com

Ms. Joanna Lee
T +852 2583 1317
E joannalee@rsmhk.com

Mr. Caesar Wong
T +852 2508 2851
E caesarwong@rsmhk.com

Ms. Catherine Tsang
T +852 2583 1256
E catherinetsang@rsmhk.com

Mr. Alan Chow
T +852 2583 1378
E alanchow@rsmhk.com

Ms. Catherine Wong
T +852 2583 1396
E catherinewong@rsmhk.com

Ms. Shirley Lo
T +852 2583 1211
E shirleylo@rsmhk.com

RSM Tax Advisory (Hong Kong) Limited

29th Floor, Lee Garden Two,
28 Yun Ping Road,
Causeway Bay, Hong Kong

T +852 2598 5123
F +852 2598 7230
E tax@rsmhk.com

www.rsmhk.com

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