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Division 5, Financial Services Branch
Financial Services and the Treasury Bureau
24/F, Central Government Offices
2 Tim Mei Avenue
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**By Email:** ctc-consult@fstb.gov.hk

Dear Sir/Madam,

**CPA Australia's submission to the Proposed Enhancements to Tax Concession Regime for Corporate Treasury Centres in Hong Kong**

CPA Australia represents the diverse interests of more than 176,000 members in over 100 countries and regions worldwide, including more than 16,000 members in Hong Kong. We make this submission in response to consultation paper on Proposed Enhancements to Tax Concession Regime for Corporate Treasury Centres in Hong Kong on behalf of our members and in the broader public interest.

CPA Australia supports the Hong Kong Government's proposed enhancements to the Corporate Treasury Centre tax concession regime. The proposed tiered framework, including refinements to the existing regime and a pre-approval mechanism for enhanced benefits, is a positive step towards strengthening Hong Kong's competitiveness as a regional treasury hub.

However, we suggest the regime will require further refinement to fully address cross-border tax friction, modern treasury operating models and the impact of OECD Pillar Two rules. Key priorities should include improving foreign tax credit outcomes, replacing rigid anti-tax arbitrage and safe harbour rules with clearer objective tests, and ensuring the regime accommodates integrated regional headquarters, shared service models and technology-enabled treasury functions.

We recommend that the final legislative design provide greater flexibility through unilateral foreign tax credits, Pillar Two-neutral incentive options, streamlined pre-approval and renewal processes, transitional arrangements, modernised substance requirements and practical safe harbours. These changes would reduce compliance costs, improve tax certainty and better support Hong Kong to attract multinational corporate treasury activity while preserving the integrity of the tax system.

Please refer to the Appendix for our response to the questions raised in the consultation paper. If you have any questions about this submission, please contact Samantha Yim, Business Investment and International Advisor on: samantha.yim@cpaaustralia.com.au or Bill Leung, Tax Technical Advisor on: bill.leung@cpaaustralia.com.au.

Kind regards

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# Appendix

## Question 1

***Key comment***
The existing Corporate Treasury Centre (CTC) regime contains structural barriers, including limited foreign tax credit relief, restrictive interest deductibility rules, rigid anti-tax arbitrage settings and outdated governance tests. The Government should introduce unilateral foreign tax credits, gross-up mechanisms, objective transfer pricing safe harbours and more flexible Tier 1 management and control requirements.

***Detailed comments***
CPA Australia agree that the long-standing pain points set out in paragraph 1.6 represent severe structural barriers that are not conducive to CTC development. The strict "dedicated CTC" and "safe harbour" rules, the asymmetry in interest expense deductibility, the restrictive "subject to tax" conditions, and the overly rigid anti-tax arbitrage provisions have caused operational friction since the regime was first legislated in 2016.

While we commend the Government's proactive efforts to address these legacy barriers, we submit several issues that remain unresolved in the current proposal. In particular, the consultation paper does not adequately address cross-border withholding taxes, unilateral double-tax relief, corporate governance tests, and alignment with the OECD Pillar Two safe harbour provisions. We suggest these omissions require attention during the drafting of the enhancement bill.

**1. The lack of a unilateral foreign tax credit mechanism and concessional rate dilution**
The consultation paper relies strictly on Hong Kong's existing framework under Section 50 of the Inland Revenue Ordinance (IRO) alongside its current Double Taxation Agreement (DTA) network. Where a DTA is unavailable, foreign withholding taxes (WHT) paid on offshore interest income can only be claimed as an expense deduction under section 16(1)(c) rather than a direct foreign tax credit (FTC). This introduces two major structural flaws that lead to severe ross-border tax leakage for Hong Kong hubs:

- *Non-DTA Jurisdictions:* When a Hong Kong qualifying CTC (QCTC) manages global liquidity sweeps across non-DTA jurisdictions (such as the United States, Germany, Australia), foreign WHT incurred (ranging from 5 per cent to 20 per cent) cannot be credited against local profits tax. This leaves expense deduction under section 16(1)(c) as the only option, which degrades the economic value of the liquidity pool.

- *The Tax Credit Cap "Half-Rate" Mismatch:* Under section 50, foreign tax credits are strictly capped at the amount of Hong Kong profits tax payable on that corresponding foreign income. Under Tier 2, if an associated entity benefits from the 50 per cent interest income exemption (resulting in an effective local tax rate of 8.25 per cent), the statutory cap on the foreign tax credit in Hong Kong is automatically compressed to 8.25 per cent. Any foreign WHT paid overseas above 8.25 per cent is permanently trapped and unutilised, resulting in immediate tax leakage.

***Recommendation 1:*** *Introduce an explicit unilateral foreign tax credit provision for Tier 1 and pre-approved Tier 2 QCTCs receiving interest from non-DTA jurisdictions. This matches alternative regional hubs like Singapore, which permits unilateral tax credits for foreign taxes paid in non-DTA countries under its Finance and Treasury Centre framework.*

***Recommendation 2:*** *Legislate a "gross-up and look-through" mechanism for Tier 2 entities. This mechanism should allow the statutory cap for foreign tax credits to be calculated based on the*

*standard corporate tax rate of 16.5 per cent rather than the concessionary 8.25 per cent rate, preventing the artificial compression of double-tax relief caused by claiming a local incentive.*

**2. Replacing subjective anti-tax arbitrage and rigid EBITDA caps with transfer pricing safe harbours**

Preventing tax arbitrage remains central to the current proposal and serves as a primary catalyst for switching to the Tier 2 pre-approval structure. However, Hong Kong's proposed 30 per cent EBITDA cap under Tier 2 penalises asset-light, high-growth enterprises or highly leveraged treasury operations during their initial capital deployment phases. Meanwhile, Tier 1 retains the complex tracking required by section 16(2C).

In comparison, Singapore's FTC regime does not rely on subjective anti-tax arbitrage rules or rigid interest deduction limitations. Instead, Singapore achieves robust tax base protection through clear statutory WHT exemptions and arm's-length transfer pricing (TP) standards. To lower compliance friction and increase market agility, Hong Kong should shift toward an objective interest rate safe harbour model:

- ***Recommendation 3:*** *Adopt an objective TP safe harbour framework to replace both the 30 per cent EBITDA cap under Tier 2 and the complex tracking of section 16(2C) under Tier 1. An intercompany loan transaction should automatically qualify for full interest deductibility.*

**3. Introducing an elective 200 pe cent Treasury "OpEx super-deduction" for Pillar Two shielding**

While the proposed Tier 2 pre-approval mechanism offers valuable structural flexibility, the 8.25 per cent concessional profits tax rate faces issues under OECD Base Erosion and Profit Shifting (BEPS) 2.0 Pillar Two rules. Under Global Anti-Base Erosion (GloBE) principles, net-income-based rate reductions are excluded from the OECD's Substance-based Tax Incentive (SBTI) safe harbour. As a result, in-scope multinational enterprises (global annual revenue equal to or greater than €750 million) will face a 6.75 per cent local top-up tax clawback under the Hong Kong Minimum Top-up Tax (HKMTT), eroding the economic benefit of the concession.

***Recommendation 4:*** *Introduce a dual-option Tier 2 incentive framework. Allow pre-approved QCTCs to annually elect between Track A (the 8.25 per cent net income concession) for out-of-scope MNEs/SMEs and Track B (a 200 per cent OpEx super-deduction at the 16.5 per cent standard tax rate) for in-scope Pillar Two MNEs. Under Track B, local covered taxes equal the 16.5 per cent standard corporate rate, reducing local HKMTT top-up liabilities to nil while preserving the full economic value of the incentive via expenditure credits.*

**4. Relaxing the central management and control bottleneck for Tier 1**

The consultation paper proposes retaining the traditional Central Management and Control (CMC) requirement for Tier 1 while relaxing it to a "normal management or control" standard for Tier 2. Retaining the strict common-law CMC standard for Tier 1 creates an unnecessary operational bottleneck for regional MNEs. Traditional CMC requires proving that high-level strategic decisions and board meetings are systematically executed within Hong Kong. This clashes with modern operations where regional treasury committees participate in hybrid decision-making across multiple jurisdictions.

Furthermore, because Tier 1 entities must already satisfy robust statutory substantial activity requirements (employing at least two professional staff and incurring HK$2 million in local spend), forcing a strict CMC test adds compliance duplication without enhancing tax integrity.

***Recommendation 5:*** *Replace the rigid common law CMC requirement with a "normal management or control" standard for Tier 1. This achieves consistency across both tiers. Compliance should be evaluated based on day-to-day operational execution and the satisfaction of*

*local headcount and expenditure thresholds in Hong Kong, rather than the physical location of global board-level meetings.*

**5. Additional foundational refinements for legislative drafting**
To maximise market agility and provide clear transition pathways, the final bill should incorporate the following administrative safeguards:

***Recommendation 6:*** *Modernise the statutory definition of qualifying corporate treasury transactions under Tier 1 beyond standard intercompany loans to encompass fees, premiums, and costs arising from cross-border factoring, supply-chain financial bridging, and digital treasury settlement mechanisms.*

***Recommendation 7:*** *Adopt a "Headline Tax Rate" test for Tier 1 offshore lenders, similar to the mechanism used in Hong Kong's Foreign Source Income Exclusion (FSIE) regime. If the offshore receiving affiliate is resident in a jurisdiction with a statutory corporate tax rate of at least 15 per cent, the interest expense should be deductible in Hong Kong immediately, bypassing the need for annual audits of actual tax paid.*

***Recommendation 8:*** *Provide a mandatory 24-month transitional grandfathering period from the date the amendment bill is enacted. Existing treasury operations may elect to remain under the legacy rules while upgrading their internal enterprise resource planning (ERP) systems to comply with the new Tier 1 ring-fencing and documentation standards.*

## Question 2

***Key comment***
CPA Australia supports a tiered regime, but the framework should be more flexible and internationally competitive. The 75 per cent safe harbour rules should be replaced with accounting separation, an elective 15 per cent tax rate track should be available for Pillar Two neutrality, and a transitional scale-up pathway should be introduced between Tier 1 and Tier 2.

***Detailed comments***
We agree with the proposed introduction of a tiered regime for CTC tax concessions, comprising refinements to the existing regime (Tier 1) and a pre-approval mechanism for enhanced benefits (Tier 2). This structural upgrade has been widely welcomed by the business community. However, to maximise the competitiveness of this tiered framework and eliminate unnecessary operational friction, we submit the following structural enhancements for the legislative drafting phase:

**1. Abolishing the 75 per cent safe harbour rules to support integrated regional HQs**
Under section 14D of the IRO, a corporation carrying on non-treasury operations must meet strict annual safe harbour ratios (the 75 per cent asset ratio and 75 per cent income ratio) to qualify for concessions.

For multi-function regional headquarters (RHQs) in Hong Kong, treasury operations are often bundled alongside active commercial trading, logistics, or regional management within a single legal entity. A mixed-purpose entity routinely fails the 75 per cent threshold, forcing MNEs to establish artificial, separate legal entities purely to access Tier 1 benefits. This introduces burdensome corporate overheads and unnecessary legal fragmentation.

***Recommendation 9:*** *Abolish the 75 per cent safe harbour condition entirely for both Tier 1 and Tier 2. Instead of imposing a rigid asset/income percentage that creates "cliff effects" due to market volatility, the Government should permit mixed-function entities to claim concessionary treatment provided they maintain separate ledger accounts and ring-fenced financial records for their treasury*

*activities. This provides the IRD with verifiable transaction audit trails while fully accommodating integrated RHQ models.*

**2. Implementing an elective 15 per cent tax rate track for BEPS 2.0 neutrality**
Under the BEPS 2.0 Pillar Two framework, in-scope MNEs claiming the 8.25 per cent concessional rate face a 6.75 cent rate deficit against the global minimum rate. This triggers an automatic Hong Kong Minimum Top-up Tax (HKMTT) clawback, adding administrative and compliance overheads without generating net tax savings for the enterprise.

***Recommendation 10:*** Enact an elective 15 per cent profits tax rate track for QCTCs under both Tier 1 and Tier 2, mirroring Singapore's recent updates to its Financial Sector Incentive (FSI) framework:

Allow qualifying entities to make an annual, irrevocable election to be taxed at a 15 per cent profits tax rate instead of the 8.25 per cent half-rate.

Opting into the 15 per cent rate track must not disqualify the entity from non-rate regime flexibilities, such as interest expense deduction relief, pre-approval flexibilities, and streamlined parameters.

This mechanism lifts local covered taxes directly to the 15 per cent global minimum threshold, reducing the local HKMTT top-up tax to nil and eliminating redundant compliance accounting for both taxpayers and the IRD.

**3. Enhancing structural flexibilities to prevent operational bottlenecks**
To ensure the two tiers function as an agile, world-class ecosystem, the regime's operational rules must be applied dynamically:

- *Flexible gatekeeping discretion:* While the Tier 2 entry parameters (such as the HK$100 million group turnover threshold) provide clear scope, the IRD must maintain flexible administrative discretion for expanding MNEs establishing new regional hubs that require a 12to24 month runway to fully scale up. *(please see* our detailed implementation pathway in recommendation 28 under Question 6).

- *Pragmatic accounting separation:* The removal of the "dedicated CTC condition" under Tier 2 must rely on accounting separation rather than legal separation. The IRD should explicitly clarify that maintaining ring-fenced accounts and separate financial statements is sufficient to trace qualifying treasury flows, avoiding the need for separate physical bank infrastructure that would disrupt multi-entity liquidity pooling.

- *Alignment with global interest frameworks:* Replacing anti-tax arbitrage rules with a 30 per cent EBITDA cap under Tier 2 successfully aligns Hong Kong with international fixed-ratio interest limitation standards (e.g., OECD BEPS Action 4). Administrative guidance must detail how this computation interacts with HKMTT rules to eliminate valuation mismatches. *(please see* our technical drafting solutions in recommendations 25–26 under Question 5).

**4. Replacing the "static" two-tier setup with a fluid progression lane**
Treating Tier 1 and Tier 2 as completely isolated compartments creates an "all-or-nothing" transition cliff that penalises mid-market enterprises as they expand their operational scale.

***Recommendation 11:*** *Avoid a rigid, static separation between the tiers. The Government should introduce a dynamic, fluid framework featuring a transitional scale-up lane with lowered threshold amounts. This allows high-growth enterprises to smoothly bridge the gap between baseline Tier 1*

*compliance and elite Tier 2 status without facing administrative duplication or immediate compliance penalties.*

## Question 3

***Key comment***
The proposed Tier 1 refinements are welcome, but further clarification is needed to reduce compliance friction. The rules should include a safe harbour timeline for deferred deductions, practical look-through carve-outs, expanded coverage for modern treasury activities, recognition of technology-enabled substance and rolling-average safe harbour tests.

***Detailed comments***
CPA Australia agrees with the proposed Tier 1 refinements outlined in paragraph 2.2, particularly the introduction of the interest deferral matching rule and the expanded scope for interest deductions. These changes directly address long-standing friction points under the 2016 framework. However, to ensure these refinements achieve their intended economic impact without creating unintended administrative bottlenecks or compliance hurdles, several structural mechanisms within Tier 1 require technical clarification and refinement.

**1. The interest expense deferral rule (matching rule) and tax mismatches**
The proposal to defer a CTC local tax deduction until the offshore affiliate pays tax on that income is pragmatic, but it creates complex tax accounting mismatches. If an offshore affiliate operates in a jurisdiction with a different financial year or uses localised tax holidays, tracking the exact "matching year" will impose an ongoing administrative burden on taxpayers.

**2. Mechanics of deferred interest expense deductions**
While deferring tax deductions prevents permanent double non-taxation, tracking interest expenses across multiple tax years creates complex cash-flow timing mismatches for MNEs.

***Recommendation 12:*** *Rather than enforcing a strict deferral model in all cases, the Government should incorporate practical look-through carve-outs:*

- *If the overseas recipient is exempt from tax solely due to temporary loss carry-forwards, tax-incentivised regional hub status, or statutory group-relief provisions, the deduction in Hong Kong should be allowed in the year incurred, provided commercial arm's-length pricing is demonstrated.*

- *Alternatively, the IRD could adopt a "headline tax rate" approach (similar to the framework used in Hong Kong's FSIE regime). If the lender is located in a jurisdiction with a sufficient statutory tax rate, the interest should be deductible immediately, significantly reducing the administrative burden.*

**3. Expanding the scope of interest deductions to cover modern treasury activities**
The proposal broadens interest deductions to cover a wider range of active corporate treasury operations. However, modern corporate treasury teams do not just handle standard intra-group loans; they manage complex multi-currency liquidity pools, synthetic cash pooling, FX hedging, and supply chain trade finance. The statutory legal text must explicitly match these operational realities to prevent future tax disputes.

**4. Modernising "substantial activity requirements" for digitised hubs**
Introducing clearer benchmarks for what constitutes an active intra-group financing business increases tax certainty. However, tying Tier 1 definitions strictly to direct physical headcount overlooks the reality of digitalised global finance and automated shared services. A highly

productive treasury centre can run on lean internal staffing by utilising advanced enterprise resource planning (ERP) systems or centralising support units.

***Recommendation 13:*** *Modify the Tier 1 substantial activity requirements to recognise "technological substance" and outsourced corporate structures. Statutory provisions should explicitly affirm that core treasury functions managed via intra-group shared service centres (SSCs) located within Hong Kong satisfy the substantial activity requirement, provided adequate operational expenditures are maintained locally.*

**5. Statutory benchmarks and safe harbour uncertainty**
Tier 1 retains the "dedicated CTC condition" and the 75 per cent asset/income safe harbour test for non-pre-approved entities. This leaves companies vulnerable to unexpected market shifts.

***Recommendation 14:*** *The statutory definitions within* Departmental Interpretation and Practice Note (*DIPN 52) should be updated so that volatility driven by foreign exchange (FX) fluctuations, macroeconomic interest rate swings, or temporary extraordinary liquidity buffers does not cause a CTC to fail the 75 per cent test in a single financial year. Implementing a 3-year rolling average for the safe harbour ratio would provide operational stability for Tier 1 taxpayers. Per recommedation 9 above, the 75 per cent safe harbour test requirements should be completely removed.*

## Question 4

***Key comment***
CPA Australia supports Option (1), which retains the transaction frequency benchmark but applies it on an annual average basis. If a volume-based approach is adopted, it should use daily or monthly average outstanding balances, exclude foreign exchange volatility and avoid distorted gross transaction volume measures.

***Detailed comments***
Between the two options presented under paragraph 2.2(c)(ii) for clarifying the intra-group financing business threshold, we support Option (1) – retaining the transaction frequency benchmark but evaluating it on an "on average" basis over the tax year.

While the baseline benchmark set out in DIPN 52 requires a strict minimum of four borrowing or lending transactions each month, modifying this with an "on average" clause strikes the ideal balance between commercial flexibility and regulatory certainty.

However, if the Government pursues Option (2) to replace the count with a financial volume metric, we submit that the IRD must use a daily average balance methodology rather than cumulative gross volumes, while allowing CTCs the flexibility to elect the pathway that best fits their operational model.

**1. Why Option (1) (The "on average" count) is preferred**

- *Accommodating commercial seasonality:* Corporate financing needs are inherently seasonal for many businesses. A CTC may execute twenty major intra-group lending drawdowns in January to fund annual group capital expenditures, but perform only one or two transactions during quiet operational months like February or August.

- *Maintaining legislative intent and substance:* Adding "on average" provides the operational breathing room corporations need, i.e. allowing them to average out transactions over a 12-month financial year (totalling 48 transactions annually) without failing compliance due to a quiet month. This preserves an objective, simple substance test that stops passive shell companies from claiming the concession, without relying on IRD audits.

**2. Crucial risk analysis if Option (2) (volume-based) is implemented**
If the Government chooses to remove the transaction count under Option (2), the design of the

replacement metric is critical. CPA Australia does not agree with using cumulative gross transaction volumes and instead recommend an outstanding principal balance approach for the following reasons:

A. *Gross volume distorts automated treasury realities:* CTCs frequently execute short-term intra-group financing, such as automated overnight cash sweeps and zero-balance account (ZBA) pooling. Under a gross cumulative transaction volume model, an automated overnight sweep of HK$10 million back and forth across 30 days would register as an inflated HK$300 million to HK$600 million in cumulative turnover, even though the net economic exposure remains HK$10 million. Gross volume metrics create an artificial threshold spike for high-frequency, low-duration cash sweeps.

B. *Preventing volatility and unintended disqualification:* Evaluating daily average or outstanding principal balances reflects the true capital allocation and balance sheet commitment of the CTC. Conversely, a cumulative gross volume metric penalises entities that engage in routine, short-dated liquidity rebalancing or commercial paper rolling, while unfairly favouring static, long-term loan portfolios.

C. *Alignment with accounting and international norms:* Measuring balance sheet exposure via average outstanding balances aligns with financial reporting standards (where interest income and expenses are generated based on daily or monthly outstanding balances, not cumulative transactional flow). It also ensures consistency with existing DIPN 52 asset safe harbour tests.

***Recommendation 15:***
*To ensure the Tier 1 transaction threshold framework operates effectively without creating administrative friction, the Government should incorporate the following drafting safeguards:*

- *The IRD should allow taxpayers to calculate average principal balances based on daily end-of-day figures or, where daily tracking creates unnecessary overheads, simple monthly opening and closing averages.*

- *Statutory guidance should clarify that fluctuations in the Hong Kong dollar equivalent of foreign currency principal balances throughout the month will not inadvertently breach any threshold, provided the underlying foreign currency commitment remains constant.*

## Question 5

***Key comment***
CPA Australia supports the proposed Tier 2 benefits and flexibilities, however we believe further enhancements are needed to strengthen Hong Kong's competitiveness. These include a statutory withholding tax exemption, RMB treasury incentives, local tax consolidation, broader associated corporation rules for joint ventures, tax-adjusted EBITDA calculations, interest capacity carry-forwards and clear Pillar Two guidance.

***Detailed comments***
CPA Australia agrees with the additional tax benefits and flexibilities to be provided to pre-approved QCTCs and their associated corporations as set out in paragraph 2.5. While the relaxations of the anti-tax arbitrage rules and the "subject-to-tax condition" are vital structural improvements, they are fundamentally defensive, i.e. they correct historical friction points rather than providing an aggressive competitive edge.

**Key structural gaps in the proposed paragraph 2.5 benefits:**
- *Overlooking cross-border WHT friction:* Relaxing internal profits tax rules does not fully resolve cross-border friction. Hong Kong's DTA network still subjects certain outbound interest

payments to structural inefficiencies compared to Singapore's absolute WHT exemptions for finance and treasury centres.

- **Underutilising the offshore Renminbi (RMB) ecosystem:** As the world's largest offshore RMB hub, Hong Kong's tax concessions should explicitly support RMB-denominated treasury activities. This is a unique structural advantage that regional competitors cannot easily replicate.

- **Rigid "all-or-nothing" subsidiary rules:** The benefits apply smoothly to wholly owned subsidiaries but become legally ambiguous or restrictive when dealing with joint ventures (JVs) or minority-owned strategic associates within a corporate group's ecosystem.

To truly dominate the regional treasury market and capture modern liquidity structures, the Government should incorporate the following enhancements into the final bill:

**1. Macro-tax enhancements to boost regional competitiveness**

**A. Offshore RMB treasury hub incentives aligned with Pillar Two**

***Recommendation 16:*** *To leverage Hong Kong's competitive advantage without triggering BEPS 2.0 top-up taxes via a 0 per cent rate, introduce an enhanced tax credit or a 150 per cent super-deduction for operational expenses and transaction fees incurred on treasury activities denominated and cleared in RMB. This offers a powerful financial incentive for mainland State-Owned Enterprises (SOEs) and global MNEs to centralise RMB liquidity management in Hong Kong.*

**B. Broadening "associated corporations" to include strategic JVs**

***Recommendation 17:*** *Relax the equity ownership threshold defining an "associated corporation" from 50 per cent down to 20 per cent or 25 per cent specifically for joint ventures, provided the pre-approved QCTC exercises clear contractual management control over the JV's treasury and liquidity operations. This aligns with sectors like infrastructure, energy, and tech, where cross-border projects are routinely structured as strategic JVs. If the IRD is not prepared to completely uplift 75 per cent test for both Tiers 1 & 2, our recommendation is relaxation on the "associated corporation" definition purely for calculating QCTC 75% safe harbour purpose so that taxpayers who are in ordinary business transaction with its associates can more easily pass such test.*

**2. Technical and administrative adjustments for Bill drafting**

**A. Standardising EBITDA calculations and interest carry-forwards**

***Recommendation 18:*** *Explicitly clarify in the legislation that interest caps are applied against tax-adjusted EBITDA rather than accounting EBITDA, avoiding distortions from non-taxable paper gains. Furthermore, incorporate a three to five year carry-forward rule for unutilised interest capacity to prevent unfair tax penalties during temporary economic downturns or earnings drops.*

**B. Clear integration guidelines with OECD Pillar Two (GloBE and HKMTT)**

***Recommendation 19:*** *The IRD should provide clear computational guidance and interaction examples in the accompanying DIPN illustrating how Tier 2 benefits interact with GloBE Effective Tax Rate (ETR) calculations. This would allow corporate groups to elect out of specific concessions if needed to avoid redundant top-up tax administration.*

**C. Administrative continuity and grandfathering alignment**

***Recommendation 20:*** *To ensure the five-year pre-approval period operates with the necessary commercial speed and agility, the administrative renewal mechanism must not default to a full re-*

*application. We cross-reference and reiterate our position in Recommendation 40 (under Question 8), urging the implementation of a streamlined Annual Compliance Affirmation form.*

## Question 6

***Key comment***

The proposed objective conditions for Tier 2 pre-approval should better reflect modern, automated treasury operations. CPA Australia recommends a three-year ramp-up period, alternative scale metrics beyond turnover, recognition of shared service centre staff, clearer banking service requirements, ecosystem transaction volume metrics and an OpEx multiplier for local professional services.

***Detailed comments***

We agree with the proposed objective conditions for pre-approval under Tier 2, particularly the removal of the restrictive "dedicated CTC condition" and the "safe harbour rule". However, the remaining objective conditions rely too heavily on static metrics that do not reflect how modern, automated corporate treasury operations actually function.

**Key shortcomings in proposed objective conditions:**

- *Over-reliance on physical headcount:* Modern corporate treasury centres use automated algorithmic trading, central clearing systems, and AI-driven liquidity management. A lean team of highly skilled professionals can easily manage billions of dollars in liquidity. Setting a high, flat floor of full-time equivalent (FTEs) employees risks disqualifying highly productive, digital-first treasury hubs.

- *"Subject to tax" rigidities:* The strict application of anti-tax arbitrage rules and "subject to tax" conditions can create an administrative burden for MNEs operating across jurisdictions with mismatched tax years, complex holding structures, or localised tax holidays.

- *Lack of local ecosystem multiplier metrics:* The conditions focus almost exclusively on internal metrics (such as how much the CTC spends on its own operations) rather than the broader economic value the CTC injects into Hong Kong's financial ecosystem.

To ensure the framework accommodates fast-growing MNEs and modern treasury structures without creating unintended hurdles, the following technical adjustments should be incorporated into the Tier 2 objective conditions:

**A. Flexibility for ramp-up periods and exceptional gateway**

MNEs establishing a new regional CTC in Hong Kong often take 12 to 24 months to migrate group entities into their cash-pooling network or hit local headcount and spending targets.

***Recommendation 21:*** *The IRD should formalise a three-year grace period within the Tier 2 pre-approval mechanism. Pre-approval should be granted provisionally based on a projected business plan, provided the operational metrics (group turnover, associated entities, and OpEx thresholds) are fully met by Year three. The proposed "exceptional approval" discretion should explicitly include these multi-year ramp-up milestones to ensure alignment across the framework. We recommend the IRD to allow for meeting 50 per cent of the listed thresholds by the end of year one, and then 75 per cent by the end of year two.*

**B. Alternative size metrics beyond flat group turnover**

Treasury volume and liquidity management do not always scale linearly with group accounting revenue (such as pre-revenue tech/biotech conglomerates, private equity portfolio treasury hubs, or capital-intensive infrastructure firms).

***Recommendation 22:*** *Allow alternative financial scale tests alongside turnover, such as Group Total Assets (≥HK$500 million) or Average Daily Intercompany Balances/Gross Transactional Value Swept (≥HK$200 million).*

**C. Clarification on shared service centres and outsourced headcount**
Modern MNEs frequently leverage intra-group shared service entities or third-party professional treasury managers for back-office settlement and processing.

***Recommendation 23:*** *Clarify that the professional staff requirement can be satisfied via dedicated FTEs operating within an associated Hong Kong entity under an intra-group Service Level Agreement (SLA), rather than strictly requiring direct employment contracts under the legal CTC entity itself.*

**D. Definition of "use of banking services in Hong Kong"**
Global treasury structures use multi-currency overlay networks that link international banking platforms.

***Recommendation 24:*** *Guidance should clarify that holding primary operational accounts or maintaining clearing relationships with licensed banks in Hong Kong satisfies this condition, even if automated zero-balance sweeps interface with overseas liquidity accounts.*

**E. Introduce an alternative "ecosystem transactional volume" metric**
Automated, technology-driven treasury operations can manage vast amounts of capital with minimal staff, making traditional headcount metrics less relevant.

***Recommendation 25:*** *Allow a CTC to satisfy the Tier 2 objective substance requirement if it routes a minimum threshold of annual interbank clearing, foreign exchange transactions, or trade financing volume through licensed banking institutions in Hong Kong. This directly supports Hong Kong's banking and capital markets.*

**F. Implement a "qualifying local Operating Expenditure" (OpEx) multiplier**
The definition of local operating expenditure needs to reward companies that embed themselves deeply into Hong Kong's professional services network.

***Recommendation 26:*** *Broaden the definition of qualifying OpEx to include a weighted multiplier (e.g., 1.5x) for fees paid to Hong Kong-based third-party professional firms (such as local legal counsel, auditors, and specialised fintech/treasury software vendors). This ensures that a CTC's operations directly stimulate and sustain the wider Hong Kong professional services ecosystem.*

## Question 7

***Key comment***
CPA Australia supports exceptional pre-approval flexibility, provided it is supported by clear and predictable administration. The framework should include a provisional ramp-up track, practical guidance and case studies, a 60 to 90 day review benchmark, recognition of Hong Kong banking activity, fast-track treatment for strategic industries and an inter-agency review panel.

***Detailed comments***
We agree with providing the flexibility to grant pre-approval on an exceptional basis for the Tier 2 regime as set out in paragraph 2.7. Without administrative discretion, rigid objective thresholds (such as group turnover or the number of associated corporations) risk locking out high-value, fast-growing multinational enterprises (MNEs), new regional entrants, or specialised asset management hubs that generate substantial economic substance in Hong Kong but fall short on a single metric.

While Hong Kong's proposed "exceptional pre-approval" framework mirrors Singapore's approach, to match Singapore's competitiveness, the framework must ensure that the evaluation

process does not default to a rigid tax audit filter. The amendments to the IRO should be drafted to provide a clear statutory mechanism that accommodates flexible, qualitative commercial cases.

**1. Evaluation of proposed factors of consideration**
The factors of consideration outlined in paragraph 2.7 are sound in principle. However, terms like "growth potential" and "economic benefits" are subjective. To provide corporate groups with certainty during their planning phases and prevent the IRD from being bottlenecked by slow, arbitrary case-by-case reviews, the following factors require greater operational clarity:

**A. Strategic importance and economic contribution:**
The IRD should clarify that "economic benefits" will be evaluated holistically. The assessment should explicitly account for local banking transaction volumes, local professional fees paid (legal, accounting, advisory, etc), and capital flows routed through Hong Kong, rather than focusing strictly on internal corporate headcount or localised revenue.

**B. Commercial justification for not meeting baseline criteria:**
Acceptable commercial justifications should explicitly include structural factors such as:

- *Consolidated group architecture:* MNEs operating highly focused regional footprints with massive transaction volumes concentrated across fewer than six entities.

- *Industry-specific asset models:* Private equity portfolio treasury hubs, infrastructure investment vehicles, or specialised tech MNEs that hold substantial liquid assets but maintain a lean corporate entity count.

**2. Recommendations to enhance the exceptional pre-approval framework**
To prevent the "exceptional basis" mechanism from becoming an administrative bottleneck, the Government should incorporate the following structural safeguards into the legislative text:

**A. Time-bound "ramp-up" pre-approvals (the three-year glide path)**

***Recommendation 27:*** *Formalise a provisional "ramp-up" pre-approval track within the Tier 2 framework. Newly established CTCs or expanding MNE hubs that do not meet all Tier 2 quantitative metrics on day one, but present a credible three-year business plan, should be granted provisional Tier 2 status. If the metrics are not fully met by the end of year three due to market conditions, standard Tier 1 rules should apply prospectively, eliminating the risk of retrospective tax penalties for the corporation (absent fraud or misrepresentation).*

**B. Standardised advance ruling and consultation guidelines**

***Recommendation 28:*** *Publish explicit, practical guidance within a DIPN or an IRD circular detailing illustrative case studies of successful versus unsuccessful exceptional applications. Clear precedents reduce ambiguity for MNE tax directors when presenting location proposals to corporate boards.*

**C. Fixed service benchmarks for IRD review**

***Recommendation 29:*** *Establish a statutory target review timeframe of 60 to 90 days for processing exceptional pre-approval applications, on the basis the applicants have submitted all required information in full. And introduce a service pledge for the IRD to provide a written response within 21 working days of receiving each Tier 2 pre-approval application. Such a response may include an approval, requests for further information or clarification, or feedback on the application. Where additional information is subsequently provided by the applicant, the IRD should commit to providing a further written response within 21 working days of receipt of that information. This service standard should apply throughout the assessment process until a final determination is reached. Timely and predictable engagement would provide greater certainty for businesses,*

*reduce administrative delays, and strengthen Hong Kong's competitiveness as a regional treasury hub in comparison with jurisdictions such as Singapore.*

**D. Quantifying "commitment" to Hong Kong's banking sector**

***Recommendation 30:*** *Allow an applicant to satisfy the exceptional criteria by committing to route a minimum threshold of annual interbank clearing or foreign exchange transactions through licensed banks in Hong Kong. This guarantees direct economic value to Hong Kong's financial ecosystem, even if the corporation's physical local headcount remains low due to automation.*

**E. Fast-track protocol for strategic priority industries**

***Recommendation 31:*** *Establish an accelerated, fast-track pre-approval list for corporate groups operating in sectors aligned with Hong Kong's strategic goals, such as green finance/ESG hubs, Web3/digital assets, or advanced biotechnology. For these priority industries, the "economic benefits" factor should be presumed valid, significantly shortening the approval timeline.*

**F. Creation of an inter-agency advisory panel**

***Recommendation 32:*** *Establish a joint review panel comprising members from the FSTB, the Hong Kong Monetary Authority (HKMA), and InvestHK to evaluate exceptional applications. The IRO should empower the IRD to issue pre-approvals based on the holistic economic recommendations of this panel, shifting the evaluation from a narrow tax mindset to a business-friendly, macro-economic assessment.*

## Question 8

***Key comment***

CPA Australia supports the proposed five-year pre-approval period, but renewal should be streamlined and commercially practical. The regime should allow simplified compliance affirmations, rolling-average threshold calculations, a 12-month cure period, deemed extension during IRD review, tiered renewal pathways and liquidity volume as a proxy for substance.

***Detailed comments***

We agree with the proposed pre-approval period of five years and the baseline renewal thresholds. However, to ensure the renewal mechanism operates efficiently without creating unnecessary compliance burdens or operational bottlenecks, specific design choices regarding administrative processes and threshold flexibility deserve critical attention.

**1. Evaluation of the five-year pre-approval validity**

- *Commercial alignment:* Five years matches the standard strategic planning cycle of many major corporate groups and aligns with baseline commitment windows required for establishing regional operations.

- *Proportional oversight:* It gives the IRD periodic, structured review intervals without requiring annual re-applications that would overburden both taxpayers and tax authorities.

**2. Assessment of renewal thresholds and mechanics**

To make the renewal process as smooth and predictable as possible, the Government should incorporate the following structural mechanisms into the legislative drafting:

**Handling threshold fluctuations and economic cycles**

Corporate restructurings, global macroeconomic shifts, or temporary group divestments between years one to five might cause an MNE to temporarily drop slightly below an objective benchmark.

***Recommendation 33:*** *Adopt a three-year rolling average calculation for numerical thresholds (such as group turnover, number of associated entities, and local operating expenditure) at the point of renewal. Refer to Recommendation 34 below.*

***Recommendation 34:*** *Build a 12-month "cure period" into the framework. If a QCTC falls short of its FTE or OpEx thresholds due to external economic shocks or natural business seasonality in year five, it should be granted a one-year provisional extension to restore its substance metrics before Tier 2 benefits are revoked or downgraded.* ***For example, the following wording could be used*** *"In case the relevantconditions for the subject year falls below the listed thresholds, such thresholds are considered to be met if they were met:*

i. *at the end of the basis period for the year of assessment immediately preceding the subject year (first preceding year), or*

**ii.** *at the end of the basis period for the year of assessment immediately preceding the firstst preceding year."*

**C. Timelines and automatic deemed extension**

Delayed processing of renewal applications by the IRD could create a "tax status vacuum" where a CTC's five-year period expires while its application is still under review, disrupting group cross-border cash flows.

***Recommendation 35:*** *Explicitly legislate a deemed extension provision. If a renewal application is submitted at least three months prior to the expiry date, the Tier 2 pre-approval status should automatically extend until the IRD formally issues its decision.*

**D. Tiered and modernised substance framework**

To optimise long-term competitiveness, Hong Kong should consider a tiered and volume-indexed framework rather than static, flat physical asset rates.

**1. Implement tiered thresholds based on hub scale**

A flat threshold penalises medium-sized mainland enterprises or sub-regional hubs that still bring valuable transactional volume to Hong Kong's banking system.

***Recommendation 36:*** *Create two distinct pathways for renewal:*

- *Tier A (Global/mega hubs): Higher FTE and OpEx requirements, qualifying the QCTC for enhanced exemptions on qualifying treasury income designed to comply with BEPS 2.0 standards.*

- *Tier B (Regional/mid-market hubs): Lower FTE and OpEx requirements, qualifying the CTC for the standard 50 per cent profits tax concession (8.25 per cent).*

**2. Introduce "qualifying liquidity volume" as a substance proxy**

Modern treasury centres are highly automated and technology-driven, meaning they can manage billions of dollars with very few physical staff. Relying solely on physical headcount is an outdated metric for digital finance.

***Recommendation 37:*** *Allow QCTCs to meet renewal criteria by substituting a portion of the physical headcount requirement with a minimum volume of total pool funds managed, average daily loan balances, or interbank transactions cleared through Hong Kong-licensed banks.*

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