New Tax Regimes for Hong Kong Funds, Family Offices and Carried Interest

The Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Bill 2026

Introduction: Hong Kong's New Fund and Family Office Tax Bill 2026

On 12 June 2026, the Government of the Hong Kong Special Administrative Region gazetted the Inland Revenue (Amendment) (Preferential Tax Regimes for Funds, Family-owned Investment Holding Vehicles and Carried Interest) Bill 2026 (the **Bill**), to amend the *Inland Revenue Ordinance* (Cap. 112) (the **IRO**) to enhance three related preferential tax regimes that underpin Hong Kong's asset and wealth management industry: the unified profits tax exemption regime for privately-offered funds (the **UFR**), the profits tax concession regime for family-owned investment holding vehicles (**FIHVs**) managed by eligible single family offices (**SFOs**), and the profits tax and salaries tax concession regime for carried interest. The Bill was introduced into the Legislative Council (**LegCo**) for First Reading on 24 June 2026.

Hong Kong is the world's largest cross-boundary wealth management centre and Asia's largest hedge fund hub, with assets under management reaching HK$35.1 trillion at the end of 2024, and ranks first globally in the investment management category of the Global Financial Centres Index. The National 15th Five-Year Plan expressly supports Hong Kong in strengthening its role as an international asset and wealth management centre, and the Government has stated that it remains committed to reinforcing Hong Kong's competitiveness in this area through a favourable tax environment. Since 2019, three sets of preferential tax regimes have been introduced for this purpose: the UFR (2019), the carried interest tax concession regime (2021), and the FIHV tax concession regime (2023).

Following an industry consultation conducted from November 2024 to January 2025, the Financial Services and the Treasury Bureau (**FSTB**), working with the Hong Kong Monetary Authority (**HKMA**), the Securities and Futures Commission (**SFC**) and the Inland Revenue Department (**IRD**), has proposed a package of enhancements intended to widen the scope of the three regimes, remove sources of tax uncertainty, and align Hong Kong's offering more closely with the practical needs of the funds and family office industry, while introducing corresponding tax reporting and economic substance safeguards. The overarching policy objective is to attract more funds and family offices to establish and operate in Hong Kong, thereby creating further opportunities for the asset and wealth management industry.

Unified Fund Exemption Regime (UFR): Key Proposed Amendments to the Inland Revenue Ordinance

Expanded Definition of "Fund" under Section 20AM of the Inland Revenue Ordinance

Under the current UFR, the definition of "fund" is modelled on the definition of "collective investment scheme" under the *Securities and Futures Ordinance* (Cap. 571), which requires pooling of contributions. "Funds-of-one" generally fall outside this definition and are therefore not eligible for the UFR. The Bill expands the definition of fund to bring the following additional structures within scope, subject to anti-avoidance safeguards:

- pension funds;
- endowment funds, covering charitable entities exempt from tax under section 88 of the IRO;
- a fund with a governmental entity, a central bank or an international organisation as its sole investor; and
- an arrangement with only one investor where the value of qualifying investments managed is not less than HK$240 million, provided the investor does not have day-to-day control over the management of the property.

These newly scoped-in funds, together with sovereign wealth funds (collectively, **excepted funds**), will not be required to be managed by a **specified person** (that is, a corporation or authorized financial institution licensed or registered under the *Securities and Futures Ordinance* for a regulated activity), reflecting the fact that these funds are recognised on the basis of their particular structure rather than their manager's regulatory status. The Bill also clarifies, for the avoidance of doubt, that transacting in or deriving profits from qualifying investments does not of itself render an entity a **business undertaking for general commercial or industrial purposes** (which would otherwise disqualify it as a fund). *(Clause 3 of the Bill, amending section 20AM of the IRO)*

Wider Scope of Qualifying Investments under Schedule 16C of the Inland Revenue Ordinance

The Bill expands the classes of assets specified in Schedule 16C to the IRO (**qualifying investments**) to include: immovable property situated outside Hong Kong; emission derivatives, emission allowances and carbon credits; insurance-linked securities; equity interests in non-corporate private entities (such as business trusts, private trusts, partnerships, limited liability companies and Japanese Tokumei Kumiai structures); loans (including private credit investments); digital assets; precious metals; and specified commodities connected with and incidental to the trading of OTC derivative products or futures contracts.

Precious metals other than gold and silver traded on the Hong Kong Gold Exchange are subject to a cap such that they must not exceed 20% of the total investment portfolio, in order to guard against tax abuse given the dual character of precious metals as both financial investment products and physical commodities. Commodities scoped in to cater for physical settlement of derivative contracts are subject to a separate cap of 15% of the total trade volume of those commodities and related commodity derivatives traded in the relevant basis period. Digital assets are defined by reference to the definition of "virtual asset" in section 53ZRA(1) of the *Anti-Money Laundering and Counter-Terrorist Financing Ordinance* (Cap. 615), subject to a look-through exclusion for tokens providing an interest in underlying assets other than Hong Kong dollars or qualifying investments. *(Clause 24 of the Bill, amending Schedule 16C to the IRO)*

Removal of the 5% Incidental Transactions Threshold and New Exclusion List

Currently, profits tax exemption is available for profits from transactions in qualifying investments" (**qualifying transactions**) and transactions incidental to qualifying transactions (**incidental transactions**), but only where trading receipts from incidental transactions do not exceed 5% of total trading receipts from qualifying and incidental transactions. The Bill removes this 5% threshold, so that all profits derived by a fund or its special purpose entity (**SPE**) from qualifying investments (for example, interest income) will in principle qualify for exemption, subject to the fulfilment of other conditions. The conditions are that: the fund's qualifying investments are primarily managed in Hong Kong by or through a specified person; or the fund is an excepted fund or a qualified investment fund. As a corresponding safeguard, a new exclusion list is introduced, specifying categories of income (such as income from private companies engaged in trading or development of Hong Kong immovable property) that will not qualify for exemption; this list may be updated by the Commissioner of Inland Revenue by notice in the Gazette. *(Clauses 5 and 6 of the Bill, amending sections 20AN and 20AO of the IRO, and clause 30, adding new Schedule 16L and new sections 20AN(3A) and 20AO(2A) to the IRO)*

Enhanced Tax Treatment of Special Purpose Entities (SPEs)

At present, an SPE's tax exemption is proportionate to the fund's percentage ownership of the SPE. In recognition that co-investment structures commonly involve varying beneficial interests, the Bill provides that an SPE will be granted full tax exemption regardless of the extent of the fund's ownership, subject to the same anti-round tripping provisions applicable to funds. Where those provisions are triggered in respect of a co-investor, that co-investor will instead be taxed directly on its share of the SPE's profits derived from qualifying investments. The scope of an SPE's permitted activities is also expanded to cover the acquisition, holding, administration and disposal of investee private companies and/or another SPE, and activities incidental to those activities. *(clause 6 of the Bill, amending section 20AO of the IRO)*

Revised Tests for Fund Investments in Private Companies

The UFR applies an immovable property test, a holding period test, a control test and a short-term asset test to a fund or SPE's investments in shares, stocks, debentures, loan stocks, funds, bonds or notes of a private company, in order to prevent tax abuse. Reflecting the extension of qualifying investments to loans and to equity interests in non-corporate private entities, the Bill adjusts the scope of these four tests to cover equity investments and interests in both private companies and non-corporate private entities. *(clauses 7 and 8 of the Bill, amending sections 20AP and 20AQ of the IRO)*

Relaxed Anti-Round Tripping Rules for Hong Kong Resident Investors

To facilitate investment by Hong Kong resident investors in UFR funds, the Bill relaxes the existing anti-round tripping provisions, drawing on the exclusions already available under the FIHV tax concession regime. The following categories of resident investor are excluded from the application of the anti-round tripping provisions: (a) a resident natural person; (b) a resident person that is an exempted fund under the UFR; (c) a resident person who is not chargeable to profits tax, or whose profits from qualifying investments would not have been assessable had the assets been held directly (an **exempted person**); and (d) a resident interposed entity, provided that it is not a business undertaking for general commercial or industrial purposes, does not carry on any trade or business in Hong Kong, and is at least 95% beneficially owned by resident individuals, exempted funds, exempted persons or non-residents.

Given the extension of qualifying investments to loans, the Bill also introduces specific anti-round tripping provisions targeting financial institutions, insurance companies and persons carrying on a money lending or intragroup financing business in respect of profits derived by a fund from loans. Broadly, where such an institution holds 20% or more of the beneficial interest in a fund (or any percentage where the fund is an associate), or has control or significant influence over the fund, it will be deemed to have derived assessable profits in respect of the fund's loan profits. *(Clauses 12, 13 and 14 of the Bill, amending sections 20AW, 20AX and 20AY of the IRO)*

New Tax Reporting Requirements for Funds under the UFR

To support effective administration of the UFR and compliance with international standards on tax transparency, the Bill introduces a tax reporting mechanism applicable to funds (and their SPEs) benefiting from the enhanced UFR. A **specified person** responsible for the management or administration of a fund must file an initial notification with the Commissioner of Inland Revenue within a prescribed period, and must file an annual notification for each year of assessment upon request. The Bill also provides for a designated electronic system for filing, record-keeping obligations, and the ability to engage a service provider to fulfil filing obligations on the specified person's behalf. Aggregate, rather than fund-by-fund, reporting is used for key financial and economic substance data across the funds and SPEs managed by a given fund manager, and a transitional filing arrangement will apply for the first year of implementation (2025/26). *(Clause 15 of the Bill, adding new sections 20AZ, 20AZA, 20AZB, 20AZC, 20AZD and 20AZE to the IRO)*

Corresponding offences for failure to comply with the reporting requirements are introduced, covering both the specified person and any service provider engaged to file on its behalf; engaging a service provider does not of itself constitute a reasonable excuse for non-compliance. *(Clause 19 of the Bill, amending section 80 of the IRO, and clause 20, adding new section 80Y to the IRO)*

New Economic Substance Requirements for Hong Kong Funds

Consistent with international standards against harmful tax practices, the Bill introduces economic substance requirements for funds benefiting from the enhanced UFR, modelled on the existing requirements under the FIHV regime. To satisfy these requirements, a fund must, in the opinion of the Commissioner of Inland Revenue, maintain an adequate average number of qualified employees (in any event not fewer than two), and incur adequate total annual operating expenditure in Hong Kong (in any event not less than HK$2 million). *(Clause 4 of the Bill, adding new section 20AMA to the IRO)*

Family-Owned Investment Holding Vehicle (FIHV) Tax Regime: Key Proposed Amendments

As the FIHV tax concession regime is closely modelled on the UFR, the Bill introduces largely parallel enhancements to that regime, covering: the calculation of the aggregate value of qualifying investments managed by an eligible SFO (currently subject to a minimum threshold of HK$240 million); the expanded scope of qualifying investments; the scope of profits eligible for the profits tax concession, including the corresponding exclusion list; the treatment of family-owned special purpose entities (**FSPEs**), including full concession regardless of ownership percentage; the tests applicable to an FIHV or FSPE's transactions in private companies; and the specific anti-round tripping provisions in respect of loan profits. *(Clause 26 of the Bill, amending Schedule 16E to the IRO, together with consequential clauses 16, 17, 22, 23, 28 and 29, amending sections 40AD and 40AV and Schedules 15C, 15D, 16J and 16K to the IRO)*

Carried Interest Tax Concession Regime: Key Proposed Amendments

Salaries Tax Exemption for Fund Managers on Eligible Carried Interest

The carried interest tax concession regime, introduced in May 2021, operates at two levels. At the fund level, eligible carried interest distributed by an eligible private equity fund (or other qualifying payer) is exempt from profits tax. At the individual level, qualifying employees, being individuals employed by the qualifying person (or its associated or closely related entity in Hong Kong) who provide investment management services in Hong Kong, are exempt from salaries tax on eligible carried interest that they receive or that accrues to them. It is this second, individual-level exemption that press commentary on the Bill has sometimes described as a waiver of salaries tax on fund managers' performance-linked bonuses. Strictly speaking, carried interest is not a discretionary bonus but a contractual share of a fund's profits that is linked to the fund's investment performance and is typically only paid once a hurdle rate of return has been met (a requirement which, as noted below, the Bill proposes to relax in certain cases).

The enhancements described in this section, in particular the broadening of qualifying transactions and the definition of "qualifying person" below, and the removal of the requirement that carried interest be paid through the qualifying person, are directed at widening the range of fund managers and distribution structures that can benefit from both the profits tax exemption at fund level and the salaries tax exemption at individual level. *(Clause 25 of the Bill, amending Schedule 16D to the IRO)*

Removal of HKMA Certification Requirement for Carried Interest

Under the current regime, a fund must be certified by the HKMA in order to become a qualifying payer of eligible carried interest. The Bill removes this certification requirement in order to streamline the implementation process. *(Clause 25 of the Bill, amending section 2 of Schedule 16D to the IRO)*

Expanded Scope of Qualifying Payer and Associate Definitions

Currently, carried interest eligible for profits tax concession must be received from a "qualifying payer", which includes the relevant private equity fund and its associated corporation or partnership. To better align the regime with market practice, the Bill expands the concept of "associate" so that entities within the same group, regardless of legal form, are treated as qualifying payers, and broadens the reference from "associate" to "closely related entity". *(Clause 25 of the Bill, amending Schedule 16D to the IRO)*

Removal of the Hurdle Rate Requirement for Carried Interest

Certain start-up or angel funds do not distribute carried interest by reference to a specific hurdle rate in their constitutive documents, creating uncertainty as to whether such distributions qualify as eligible carried interest. The Bill removes the reference to a hurdle rate in the definition of eligible carried interest, providing greater tax certainty for these funds. *(Clause 25 of the Bill, amending section 3 of Schedule 16D to the IRO)*

Broader Qualifying Transactions and Qualifying Person Definition

The Bill expands the scope of transactions giving rise to eligible carried interest beyond typical private equity investments, so that fund managers of all types of tax-exempt funds (and their employees) may benefit from the concession. The relevant sources of profit which may give rise to eligible carried interest now include: profits exempt from tax under the UFR; profits not chargeable to tax in Hong Kong for reasons other than the UFR exemption (for example, offshore income); and a fund's other taxable profits. The definition of "qualifying person" is correspondingly refined to cover unlicensed fund managers of excepted funds under the expanded UFR. *(Clause 25 of the Bill, amending Schedule 16D to the IRO)*

Greater Flexibility in Paying Eligible Carried Interest

The Bill removes the existing requirement that eligible carried interest be "paid through the qualifying person", and extends the tax exemption to carried interest received through a carry vehicle or by a personal investment entity on behalf of qualifying employees, in order to accommodate a wider range of distribution arrangements used in practice. *(Clause 25 of the Bill, amending Schedule 16D to the IRO)*

Legislative Timetable and Effective Date of the Inland Revenue (Amendment) Bill 2026

The Bill was gazetted on 12 June 2026 and received its First Reading, together with the commencement of the Second Reading debate, on 24 June 2026. Once enacted, the amendments to the IRO will apply to a year of assessment beginning on or after 1 April 2025. *(Clause 31 of the Bill, adding new Schedule 6 to the IRO)*

Implications for Hong Kong Funds and Family Offices

The Bill represents a further, and in some respects significant, evolution of Hong Kong's suite of preferential tax regimes for the funds and family office industry, building on the framework introduced between 2019 and 2023. The widening of the fund definition to capture funds-of-one, pension funds and endowment funds, together with the broadened list of qualifying investments (in particular the express inclusion of private credit, digital assets and precious metals), is likely to be well received by institutional investors, family offices and private credit managers who have found the current regimes too narrowly drawn. Equally, the removal of the 5% incidental transactions threshold and the more generous treatment of SPEs should reduce structuring friction for co-investment arrangements that are increasingly common in private markets transactions.

At the same time, the introduction of a formal tax reporting mechanism, with associated offences for non-compliance, together with express economic substance thresholds, signals that these enhancements come with a corresponding increase in compliance obligations. Funds, family offices and their advisers should begin reviewing their structures, investment scope and compliance arrangements against the proposed amendments ahead of the Bill's enactment, particularly given that the amendments, once passed, are intended to apply retrospectively to years of assessment beginning on or after 1 April 2025.

Charltons will continue to monitor the Bill's progress through LegCo and will issue further updates as the legislative process advances.

This newsletter is for information purposes only

Its contents do not constitute legal advice and it should not be regarded as a substitute for detailed advice in individual cases. Transmission of this information is not intended to create and receipt does not constitute a lawyer-client relationship between Charltons and the user or browser. Charltons is not responsible for any third party content which can be accessed through the website.

If you do not wish to receive this newsletter please let us know by emailing us at **unsubscribe@charltonslaw.com**

CHARLTONS
易周律师行

Hong Kong Office

Dominion Centre 12th Floor
43-59 Queen's Road East Hong Kong

enquiries@charltonslaw.com

www.charltonslaw.com
Tel: + (852) 2905 7888
Fax: + (852) 2854 9596