Proposed tax incentives to promote Hong Kong’s insurance industry

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In brief

The HKSAR Government presented the “Legislative Proposals to Further the Development of the Insurance Sector” to the Panel on Financial Affairs of the Legislative Council on 3 June 2019. The Legislative Proposals contain new tax as well as regulatory measures to enhance the competitiveness of the insurance industry in Hong Kong. In this news flash, we summarise the tax measures proposed by the HKSAR Government (i.e. a concessionary profits tax rate of 8.25%) for general reinsurance business of direct insurers, certain classes of general insurance business and insurance brokerage business.

In detail

The insurance sector is an integral part of Hong Kong’s financial services industry. To enhance Hong Kong’s competitiveness as an international insurance hub and risk management centre, the 2018 Policy Address and the 2019/20 Budget Speech mentioned that the HKSAR Government would provide tax reliefs to promote the development of marine insurance and the underwriting of speciality risks (e.g. aviation, agriculture, catastrophe, political risk, war risk and trade credit, etc.) in Hong Kong.

Currently, there is a concessionary profits tax rate of 8.25% (i.e. 50% of the standard rate) for captive insurance business and reinsurance business of professional reinsurers in Hong Kong. The HKSAR Government proposes to extend such concession tax rate to:

- general reinsurance business of direct insurers;
- certain classes of general insurance business; and
- certain classes of insurance brokerage business.

Key features of the proposed tax concessions

General reinsurance business

At present, professional reinsurers already enjoy a concessionary tax rate of 8.25% for all classes of reinsurance business, whether long term or general. As some direct insurers (as opposed to professional reinsurers) also have reinsurance business, the Legislative Proposals propose to extend the tax concession currently available to professional reinsurers to cover general reinsurance business of direct insurers. Direct insurers comprise the following categories of insurers:

- a company authorised by the Insurance Authority to carry on any classes of insurance business;
- Lloyd’s (i.e. the society of underwriters known in the UK as Lloyd’s); and
- an association of underwriters approved by the Insurance Authority.
General insurance business

At present, there is no dedicated class for marine insurance business or specialty insurance business and insurers may underwrite any marine-related risks or specialty risks so long as they have obtained the authorisation to carry on the relevant classes of insurance business under the Insurance Ordinance. The Legislative Proposals propose to introduce a 8.25% concessionary tax rate for direct insurers in respect of their general insurance business, except the following five types of risk or liability of domestic nature: (1) health risk, (2) mortgage guarantee risk, (3) motor vehicle damage and liability, (4) employees’ compensation liability and (5) owners’ corporation third party liability.

The above proposed scope will cover all classes of general business that are relevant to the underwriting of marine-related risks or specialty risks under the prevailing market practice, and thus is in line with the policy objective of helping the insurance industry to seize new business opportunities in these two areas.

Insurance brokerage business

Insurance brokers play an important in tendering advice to their clients on where the risks should be placed. Lower costs as a result of a reduced tax rate will make Hong Kong a more attractive location for insurance brokers to conduct their businesses and source insurance covers in Hong Kong for their clients. The Legislative Proposals therefore propose to introduce an 8.25% concessionary tax rate for licensed insurance broker companies in respect of their business of placing:

- general and long term reinsurance contracts with professional reinsurers;
- general reinsurance contracts with direct insurers; and
- certain general insurance contracts with direct insurers (i.e. the proposed scope is the same as that for general insurance business mentioned above).

Administrative provisions

To address enforcement issues arising from the proposed new tax reliefs, the Legislative Proposals also propose to introduce the following administrative provisions:

- specific anti-avoidance provisions to deny tax concessions where direct insurers buy reinsurance among themselves to cede part of their respective risks primarily for tax benefit rather than out of genuine risk management needs;
- provisions for ascertaining the assessable profits of the qualifying insurance business that are chargeable to profits tax at half rate as opposed to those of other business that are subject to the full rate; and
- provisions to provide for treatment of losses in cases a person derives concessionary trading receipts and normal trading receipts from carrying on qualifying insurance business and other business.

The takeaway

We welcome the initiatives taken by the HKSAR Government to enhance the competitiveness of the profits tax regime for the insurance industry. It can attract more insurers and insurance brokers to establish their businesses in Hong Kong as well as creating a more competitive business environment in the region. It can also facilitate the insurance sector to capitalise on the new business opportunities arising from the Mainland China’s Belt and Road Initiative and the Greater Bay Area development. The HKSAR Government targets to introduce the relevant amendment bill into the Legislative Council in the 2019/20 legislative session. It is expected that once the bill is enacted, the new tax concessions will apply from 1 April 2020.

Endnote

1. The “Legislative Proposals to Further the Development of the Insurance Sector” can be accessed via this link: https://www.legco.gov.hk/yr18-19/english/panels/fa/papers/fa20190603cb1-1110-5-e.pdf
Let’s talk

For a deeper discussion of how this issue might affect your business, please contact your usual PwC contact or one of us:

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