

## LEGISLATIVE COUNCIL BRIEF

### INLAND REVENUE (AMENDMENT) (PROFITS TAX CONCESSIONS FOR INSURANCE-RELATED BUSINESSES) BILL 2019

#### INTRODUCTION

A At the meeting of the Executive Council on 26 November 2019, the Council ADVISED and the Chief Executive ORDERED that the Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Bill 2019 (“the Bill”), at Annex A, be introduced into the Legislative Council (“LegCo”) to provide for the proposed tax relief in paragraphs 6 to 10 below.

#### JUSTIFICATIONS

2. Hong Kong’s insurance industry is an integral part of our financial services industry. As at end-2018, there were 161 authorized insurers, including 16 professional reinsurers, with an annual gross premium income of \$514.5 billion. In 2017, the value added of the insurance industry accounted for 3.7% of Gross Domestic Products in Hong Kong, whereas the number of people working in the insurance industry amounted to over 100,000.

3. Hong Kong is one of the major insurance hubs in the world, alongside London, New York, Switzerland, Bermuda, Singapore and Dubai. In the light of international competition, other insurance hubs have introduced different measures including tax incentives to enhance their own competitiveness. For instance, Singapore is now widely seen as a leading specialty insurance and reinsurance hub in Asia<sup>1</sup> on account of its tailor-made

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<sup>1</sup> For example, Singapore is an emerging marine insurance centre, with gross premiums in marine insurance amounting to HK\$7.15 billion in 2018, i.e. around three times the figure for Hong Kong.

business facilitation support and tax incentives. The United Kingdom and Switzerland will also reduce their corporate tax rate in 2020<sup>2</sup>.

4. At present, there are only tax incentives (at 50% of the profits tax rate) for captive insurance business and reinsurance business of professional reinsurers in Hong Kong. It is necessary for Hong Kong to introduce new measures to keep our business environment conducive to insurance business and help the insurance industry seize new opportunities, including those arising from the Belt and Road Initiative. Accordingly, the Chief Executive and the Financial Secretary announced in the 2018 Policy Address and the 2019-20 Budget Speech respectively that the Government would provide tax relief to promote the development of marine insurance and the underwriting of specialty risks (e.g. aviation, agriculture, catastrophe, political risk, war risk and trade credit) in Hong Kong. This policy initiative will also support and enhance the development of high value-added maritime services.

5. Having consulted the industry, and taking into account international taxation requirements, we **propose** to amend the Inland Revenue Ordinance (Cap. 112) (“IRO”) to further reduce profits tax rate by 50% (i.e. 8.25%) for –

- (a) all general reinsurance business of direct insurers (paragraphs 6 and 7 below);
- (b) selected general insurance business of direct insurers (paragraphs 8 and 9 below); and
- (c) selected insurance brokerage business (paragraph 10 below).

The proposed profits tax rate of 8.25% will make Hong Kong generally competitive vis-à-vis Singapore, which currently provides a concessionary tax rate of 8% for specialized business and 10% for marine insurance business and brokerage business.

## **LEGISLATIVE PROPOSALS**

### ***A. General reinsurance business***

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<sup>2</sup> The corporate tax rate of United Kingdom will be reduced from 19% to 17% starting from 1 April 2020, whereas that of Switzerland from an average of 17.06% to 12%-14% from 1 January 2020.

6. At present, professional reinsurers enjoy a tax concession at 50% of the profits tax rate in respect of their assessable profits derived from all general and long term reinsurance business. In addition to professional reinsurers, some direct insurers also have reinsurance business but they do not benefit from the above concession available only to professional reinsurers. Direct insurers comprise the following categories of insurers –

- (a) authorized insurers which may carry on both insurance and reinsurance business of those classes of business authorized by the Insurance Authority (“IA”);
- (b) Lloyd’s of London; and
- (c) an association of underwriters approved by the IA.

7. We **propose** to extend the tax concession currently available to professional reinsurers to cover all general reinsurance business of direct insurers (referred to as “specified insurers” in the Bill), so as to encourage them to start or expand their reinsurance business. This is also conducive to our policy objective of developing Hong Kong as a reinsurance hub.

### ***B. General insurance business***

8. In the existing classification of general business under the Insurance Ordinance (“IO”) (Cap. 41), there are 17 classes of general insurance business. However, 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 authorization to carry on the relevant classes of general insurance business under IO. We **propose** to introduce a tax concession at 50% of the profits tax rate for the assessable profits of direct insurers in respect of their general insurance business, except business covering any of the following five types of risk or liability –

- (a) health risk;
- (b) mortgage guarantee risk;
- (c) motor vehicle damage risk;
- (d) employees’ compensation liability; and
- (e) owners’ corporation third party liability.

The proposed exclusion is in line with the policy objective of helping Hong Kong’s insurance industry to compete and seize new business opportunities.

9. The proposed scope in paragraph 8 above covers all classes of general insurance business that are relevant to the underwriting of marine-related risks or specialty risks under the prevailing market practice. It also offers flexibility for direct insurers to underwrite specialty risks falling under different classes of general business under the IO having regard to evolving market circumstances in future.

### ***C. Insurance brokerage business***

10. Insurance brokers serve as professional advisors of their clients in seeking the most appropriate insurance solutions in the market. Insurance brokers play an important role in tendering advice on where the risks should be placed. Lower costs as a result of reduced tax rate will make Hong Kong a more attractive location for insurance brokers to station their business and source insurance covers here for their clients. We **propose** to introduce a tax concession at 50% of profits tax rate for licensed insurance broker companies in respect of their assessable profits derived from the business of placing (a) all general and long term reinsurance contracts with professional reinsurers; (b) all general reinsurance contracts with direct insurers; and (c) certain general insurance contracts with direct insurers, i.e. same as the proposed scope in paragraph 8 above.

### ***D. Administrative provisions***

11. We need to formulate administrative provisions to address enforcement issues arising from the provision of the new tax relief in paragraphs 6 to 10 above. The specific proposals are set out below.

#### *Anti-avoidance provision*

12. Direct insurers may take advantage of the new tax concessions for general reinsurance business in paragraphs 6 and 7 above by making artificial insurance exchange arrangements. For instance, direct insurers may buy general reinsurance from each other to cede part of their respective risks (which fall within the same type of risk) primarily for tax benefit rather than out of genuine risk management needs. In line with existing provisions under the IRO to combat tax avoidance<sup>3</sup>, we **propose** to add a main purpose test provision such that the assessable profits of a corporation derived from a

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<sup>3</sup> Similar provisions premised on main purpose test have been introduced under the IRO to deny tax deductions (e.g. section 14(c) of Schedule 45) or special tax treatments (e.g. section 15E, section 18H and section 50AAJ).

transaction or a series of transactions would not be chargeable to profits tax at half rate if the main purpose, or one of the main purposes, of the corporation in entering into the transaction or the series of transactions is to avoid or postpone the liability to pay tax or reduce the amount of liability.

### *Ascertainment of assessable profits*

13. At present, section 23A of the IRO provides for the ascertainment of assessable profits of non-life insurance corporations<sup>4</sup>. It offers a legal basis of ascertaining the assessable profits of the whole insurance business, rather than individual classes of insurance business. However, under the proposed new tax concessions in paragraphs 6 to 9 above, some insurance business of non-life insurance corporations<sup>5</sup> would not be entitled to the tax concessions. We therefore **propose** to add a new provision similar to section 23A of the IRO for ascertaining the assessable profits in respect of the general reinsurance business or specified general insurance business of a direct insurer that will be chargeable to profits tax at half rate under the proposed new tax incentives (hereinafter as “qualifying insurance business”). We also **propose** to empower the Commissioner of Inland Revenue to (a) exclude certain sums that are not used to support the qualifying insurance business in the computation of assessable profits of the qualifying insurance business and (b) apportion certain sums that are not solely attributable to the qualifying insurance business between the qualifying insurance business and other business.

## **OTHER OPTIONS**

14. Amending the IRO is the only way to implement the proposed tax relief measures to promote the development of marine insurance and the underwriting of specialty risks. There is no other option.

## **THE BILL**

15. The main provisions of the Bill are as follows –

- (a) **Clause 3** amends section 2 of the IRO to provide that Lloyd’s and associations of underwriters approved by the IA as

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<sup>4</sup> This section is not applicable to insurance brokerage business whose assessable profits are ascertained in the same way as other non-insurance business.

<sup>5</sup> They include non-life long term insurance and reinsurance business as well as general insurance business covering any of the five types of risk and liability in paragraph 8(a) to (e) above.

mentioned in section 6(1)(c) of the IO are taken to be corporations for the purposes of the IRO;

- (b) **Clause 4** adds a new section 14AB to the IRO to set out the definitions of terms that are used in the new provisions on profits tax concessions. Also, the definitions of authorized captive insurer and professional reinsurer in the existing section 14B of the IRO are moved to the new section 14AB;
- (c) **Clause 5** amends section 14B of the IRO to provide for profits tax concessions for general reinsurance business and certain types of general insurance business of direct insurers and certain types of insurance brokerage business of licensed insurance broker companies;
- (d) **Clause 6** amends section 19C of the IRO to provide for amendments consequential to replacing section 19CA of the IRO;
- (e) **Clause 7** replaces section 19CA of the IRO, which provides for treatment of losses in relation to concessionary trading receipts. The main purpose of the amendments in clause 7 is to take into account the amendments to section 14B of the IRO relating to profits tax concessions for general reinsurance business and certain types of general insurance business of insurance corporations;
- (f) **Clause 8** adds new sections 19CAB and 19CAC to the IRO to recast the existing section 19CA(1), (2) and (3) for better readability and organization;
- (g) **Clause 9** amends section 19CB of the IRO consequentially to reflect the amendments to section 19CA of the IRO;
- (h) **Clause 10** replaces section 23A of the IRO to recast it in a more readable style, in line with current drafting practice;
- (i) **Clause 11** replaces section 23AA of the IRO to recast it in a more readable style, in line with current drafting practice. In new section 23AA, the reference to sections 23 and 23A is amended consequentially to sections 23, 23A, 23AB and 23AC;

- (j) **Clause 12** adds new sections 23AB and 23AC to the IRO to provide for the ascertainment of assessable profits from insurance and reinsurance businesses for which profits tax concessions are proposed to be given;
- (k) **Clause 13** amends section 26AB of the IRO to change the cross-reference to section 14B of the IRO in view of the proposed amendments to section 14B of the IRO;
- (l) **Clause 14** amends section 63H(1D) of the IRO to change the cross-reference to section 14B(2) of the IRO;
- (m) **Clause 15** amends section 89 of the IRO to provide for transitional arrangements;
- (n) **Clause 16** amends Schedule 1 to the IRO consequentially to reflect the amendments to section 19CA of the IRO;
- (o) **Clause 17** adds a new Schedule 49 to the IRO to set out the specified risks and liabilities relevant to the new definition of specified general insurance business in the new section 14AB; and
- (p) The Schedule adds Division and Subdivision headings to Part 4 of the IRO to assist readers by making the way in which Part 4 of the IRO is arranged more transparent.

## LEGISLATIVE TIMETABLE

16. The legislative timetable is as follows –

Publication in the Gazette	6 December 2019
First Reading and commencement of Second Reading debate	18 December 2019
Resumption of Second Reading debate, committee stage and Third Reading	to be notified

## **IMPLICATIONS OF THE PROPOSAL**

17. The proposal is in conformity with the Basic Law, including the provisions concerning human rights. The proposal will not affect the binding effect of the existing provisions of the IRO and its subsidiary legislation. The proposal has no civil service, productivity, environmental, gender or family implications and no sustainability implications other than economic implications. The financial and economic implications of the proposal are set out at **Annex B**.

## **PUBLIC CONSULTATION**

18. The Financial Services and the Treasury Bureau (“FSTB”) and the IA have consulted the Industry Advisory Committees of the IA and the relevant industry organizations<sup>6</sup> in formulating the proposed tax relief measures. We also consulted the LegCo Panel on Financial Affairs in June 2019 and Members were generally supportive of the proposals.

## **PUBLICITY**

19. We will issue a press release upon the gazettal of the Bill, and arrange for a spokesman to answer media enquiries.

## **ENQUIRIES**

20. Enquiries may be directed to Ms Noel Tsang, Principal Assistant Secretary for Financial Services and the Treasury (Financial Services), at 2810 2201.

**Financial Services and the Treasury Bureau**  
**4 December 2019**

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<sup>6</sup> Including the Hong Kong Federation of Insurers, the Hong Kong Confederation of Insurance Brokers, the Professional Insurance Brokers Association and the Hong Kong Institute of Certified Public Accountants.



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## A BILL

### To

Amend the Inland Revenue Ordinance to provide for profits tax concessions for general reinsurance business and certain types of general insurance business of direct insurers and certain types of insurance brokerage business of licensed insurance broker companies; to correct a cross-reference in section 63H(1D) of the Ordinance; to make technical drafting amendments (including reorganizing Part 4 of the Ordinance into Divisions and Subdivisions with headings); and to provide for related matters.

Enacted by the Legislative Council.

#### 1. Short title and commencement

- (1) This Ordinance may be cited as the Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Ordinance 2019.
- (2) This Ordinance comes into operation on a day to be appointed by the Secretary for Financial Services and the Treasury by notice published in the Gazette.

#### 2. Inland Revenue Ordinance amended

- (1) The Inland Revenue Ordinance (Cap. 112) is amended as set out in sections 3 to 17.
- (2) Division and Subdivision headings are added to Part 4 of that Ordinance as set out in the Schedule.

3. **Section 2 amended (interpretation)**

(1) Section 2(1)—

**Repeal the definition of *corporation***

**Substitute**

***“corporation*** (法團)—

- (a) means any company that is either incorporated or registered under any enactment or charter in force in Hong Kong or elsewhere; and
- (b) includes—
  - (i) Lloyd’s; and
  - (ii) an approved association of underwriters; but
- (c) does not include a co-operative society or a trade union;”.

(2) Section 2(1)—

**Add in alphabetical order**

***“approved association of underwriters*** (獲認可的承保人組織) means an association of underwriters approved by the Insurance Authority as mentioned in section 6(1)(c) of the Insurance Ordinance (Cap. 41);

***Lloyd’s*** (勞合社) has the meaning given by section 2(1) of the Insurance Ordinance (Cap. 41);”.

4. **Section 14AB added**

Before section 14B—

**Add**

**“14AB. Qualifying insurance business and insurance brokerage business: interpretation**

(1) In this Subdivision—

***authorized captive insurer*** (獲授權專屬自保保險人) means a company that—

- (a) is a captive insurer within the meaning of section 2(7)(a) of the Insurance Ordinance (Cap. 41); and
- (b) is authorized under section 8 of that Ordinance to carry on in or from Hong Kong insurance business as a captive insurer;

***contract of insurance*** (保險合約) includes a contract referred to in column 3 of Part 3 of Schedule 1 to the Insurance Ordinance (Cap. 41) that is described in that column as a contract other than a contract of insurance;

**Note—**

For example, contracts for fidelity bonds referred to in that column of class 15.

***general insurance business*** (一般保險業務) means a business of a class specified in Part 3 of Schedule 1 to the Insurance Ordinance (Cap. 41);

***general reinsurance business*** (一般再保險業務) means a business of providing reinsurance of liabilities under a contract of insurance effected by an insurer or Lloyd’s in the course of—

- (a) carrying on a general insurance business; or
- (b) carrying on a business similar to a general insurance business under the law of a place outside Hong Kong;

***insurer*** (保險人) has the meaning given by section 2(1) of the Insurance Ordinance (Cap. 41);

**licensed insurance broker company** (持牌保險經紀公司) has the meaning given by section 2(1) of the Insurance Ordinance (Cap. 41);

**professional reinsurer** (專業再保險人) means a company authorized under section 8 of the Insurance Ordinance (Cap. 41) to carry on in or from Hong Kong reinsurance business only;

**qualifying regulated activity** (合資格受規管活動) means an act that—

- (a) is specified in Part 1 of Schedule 1A to the Insurance Ordinance (Cap. 41); and
- (b) relates to a contract of insurance effected by a professional reinsurer or a specified insurer in the course of carrying on a business specified in section 14B(1)(a) or (c);

**series of transactions** (一系列交易)—see subsections (2) and (3);

**specified general insurance business** (指明一般保險業務) means a business that—

- (a) is a general insurance business; but
- (b) is not a business of effecting and carrying out a contract of insurance that covers any of the risks and liabilities specified and described in Schedule 49;

**specified insurer** (指明保險人) means any of the following persons carrying on in or from Hong Kong a class of insurance business specified in Schedule 1 to the Insurance Ordinance (Cap. 41)—

- (a) a company authorized by the Insurance Authority under section 8 of the Insurance Ordinance (Cap.

41) to carry on the business, except a professional reinsurer and an authorized captive insurer;

- (b) Lloyd's;
- (c) an approved association of underwriters;

**transaction** (交易) includes any operation, scheme, arrangement, understanding and mutual practice (whether express or implied, and whether or not enforceable or intended to be enforceable by legal proceedings).

- (2) References in section 14B to a series of transactions include a number of transactions each entered into (whether or not one after the other) in pursuance of, or in relation to, the same matter.
- (3) For the purposes of section 14B(2A), a series of transactions is not prevented from being regarded as a series of transactions by means of which a corporation sells or purchases insurance or reinsurance to or from any person, even if one or more of the following applies—
  - (a) there is no transaction in the series to which the corporation and the person are parties;
  - (b) the parties to any arrangement or scheme in pursuance of which the transactions in the series are entered into do not include one or both of the corporation and the person;
  - (c) there is one or more transactions in the series to which neither the corporation nor the person is a party.
- (4) The Secretary for Financial Services and the Treasury may by notice published in the Gazette amend Schedule 49.

(5) A note located in the text of this section is provided for information only and has no legislative effect.”

5. **Section 14B amended (qualifying reinsurance business and captive insurance business)**

(1) Section 14B, heading—

**Repeal**

“Qualifying reinsurance business and captive insurance business”

**Substitute**

“Qualifying insurance business and insurance brokerage business: profits tax concessions”.

(2) Section 14B(1)(a)—

**Repeal**

“or”.

(3) Section 14B(1)(b)—

**Repeal the full stop**

**Substitute a semicolon.**

(4) After section 14B(1)(b)—

**Add**

“(c) the assessable profits of the corporation derived from any of the following businesses as a specified insurer—

(i) specified general insurance business;

(ii) general reinsurance business; or

(d) the assessable profits of the corporation derived from the business of carrying on a qualifying regulated activity as a licensed insurance broker company.”.

(5) Section 14B(2)(a)—

**Repeal**

“or (b)”

**Substitute**

“, (b), (c) or (d)”.

(6) After section 14B(2)—

**Add**

“(2A) Subsection (1)(c) does not apply to the assessable profits of a corporation derived from a transaction or a series of transaction if—

(a) the corporation enters into the transaction or the series of transactions with a person for the sale or purchase of insurance or reinsurance to or from the person or another person; and

(b) the main purpose, or one of the main purposes, of the corporation in entering into the transaction or the series of transactions is to avoid or postpone any liability to pay tax or reduce the amount of the liability.”.

(7) Section 14B—

**Repeal subsection (4).**

6. **Section 19C amended (treatment of losses after 1 April 1975)**

Section 19C(3A)—

**Repeal**

“19CA(2)(b)”

**Substitute**

“19CAB(3)”.

7. **Section 19CA substituted**

Section 19CA—

**Repeal the section**

**Substitute**

**“19CA. Treatment of unabsorbed losses under sections 19CAB and 19CAC: interpretation**

In this section and sections 19CAB and 19CAC—

*adjustment factor* (調整分數), in relation to a year of assessment, means the factor calculated in accordance with the formula—

$$\frac{A}{B}$$

- where:
- A means the rate specified in Schedule 1 or 8, as may be applicable, for that year of assessment; and
  - B in relation to any concessionary trading receipts, means the rate specified in the relevant concession provision for that year of assessment;

*chargeable concessionary trading receipts* (應課稅的獲特惠的營業收入), in relation to any person for any year of assessment, means—

- (a) if the assessable profits in respect of the concessionary trading receipts do not fall within the description in section 14B(1)(a), (b) or (c)—the amount of the concessionary trading receipts as—

- (i) reduced by the aggregate of—

- (A) the amount of any outgoings and expenses deductible under this Part to the extent to which they are incurred during the basis period for that year of assessment by the person in the production of the concessionary trading receipts; and
- (B) the amount of any allowances made under Part 6 for that year of assessment to the person to the extent to which the relevant assets are used during the basis period for that year of assessment in the production of the concessionary trading receipts; and

- (ii) increased by the amount of any balancing charge directed to be made on the person under Part 6 for that year of assessment to the extent to which the relevant assets are used in the production of the concessionary trading receipts; and

- (b) if the assessable profits in respect of the concessionary trading receipts fall within the description in section 14B(1)(a), (b) or (c)—the amount of the assessable profits ascertained in accordance with Subdivision 1 of Division 11;

*chargeable normal trading receipts* (應課稅的一般營業收入), in relation to any person for any year of assessment, means—

- (a) if the person has only normal trading receipts that are not in respect of a business of insurance for the

- year of assessment—the amount of the normal trading receipts as—
- (i) reduced by the aggregate of—
    - (A) the amount of any outgoings and expenses deductible under this Part to the extent to which they are incurred during the basis period for that year of assessment by the person in the production of the normal trading receipts; and
    - (B) the amount of any allowances made under Part 6 for that year of assessment to the person to the extent to which the relevant assets are used during the basis period for that year of assessment in the production of the normal trading receipts; and
  - (ii) increased by the amount of any balancing charge directed to be made on the person under Part 6 for that year of assessment to the extent to which the relevant assets are used in the production of the normal trading receipts;
- (b) if the person has only normal trading receipts in respect of a business of insurance for the year of assessment—the amount of the assessable profits of the business ascertained in accordance with Subdivision 1 of Division 11 (excluding sections 23AB and 23AC), as—
- (i) reduced by the chargeable concessionary trading receipts of the business, ascertained in accordance with section 23AB; or

- (ii) increased by the amount of the unabsorbed loss in respect of the concessionary trading receipts of the business, ascertained in accordance with sections 19D and 23AB; and
- (c) if the person has both the normal trading receipts described in paragraph (a) and the normal trading receipts described in paragraph (b) for the year of assessment—the aggregate of—
- (i) the chargeable normal trading receipts ascertained in accordance with paragraph (a) for the normal trading receipts described in the paragraph; and
  - (ii) the chargeable normal trading receipts ascertained in accordance with paragraph (b) for the normal trading receipts described in the paragraph;

**concession provision** (寬減條文) means—

- (a) section 14A(1);
- (b) section 14B(1);
- (c) section 14D(1);
- (d) section 14H(1); or
- (e) section 14J(1);

**concessionary trading receipts** (獲特惠的營業收入) means any trading receipts and other sums in respect of which assessable profits are chargeable to tax at the rate specified in a concession provision;

**normal trading receipts** (一般營業收入) means any trading receipts and other sums in respect of which assessable profits are chargeable to tax at the rate specified in Schedule 1 or 8;

*unabsorbed loss in respect of the concessionary trading receipts* (關乎獲特惠的營業收入的未吸納虧損), in relation to any person for any year of assessment, means—

- (a) if the assessable profits in respect of the concessionary trading receipts do not fall within the description in section 14B(1)(a), (b) or (c)—any loss ascertained by—
  - (i) adding to the amount of the concessionary trading receipts the amount of any balancing charge directed to be made on the person under Part 6 for that year of assessment to the extent to which the relevant assets are used in the production of the concessionary trading receipts; and
  - (ii) reducing from the resulting amount the aggregate of—
    - (A) the amount of any outgoings and expenses deductible under this Part to the extent to which they are incurred during the basis period for that year of assessment by the person in the production of the concessionary trading receipts; and
    - (B) the amount of any allowances made under Part 6 for that year of assessment to the person to the extent to which the relevant assets are used during the basis period for that year of assessment in the production of the concessionary trading receipts; and

- (b) if the assessable profits in respect of the concessionary trading receipts fall within the description in section 14B(1)(a), (b) or (c)—any loss ascertained in accordance with section 19D and Subdivision 1 of Division 11;

*unabsorbed loss in respect of the normal trading receipts* (關乎一般營業收入的未吸納虧損), in relation to any person for any year of assessment, means—

- (a) if the person has only normal trading receipts that are not in respect of a business of insurance for the year of assessment—any loss ascertained by—
  - (i) adding to the amount of the normal trading receipts the amount of any balancing charge directed to be made on the person under Part 6 for that year of assessment to the extent to which the relevant assets are used in the production of the normal trading receipts; and
  - (ii) reducing from the resulting amount the aggregate of—
    - (A) the amount of any outgoings and expenses deductible under this Part to the extent to which they are incurred during the basis period for that year of assessment by the person in the production of the normal trading receipts; and
    - (B) the amount of any allowances made under Part 6 for that year of assessment to the person to the extent to which the relevant assets are used during the basis period for that year of assessment in the



- production of the normal trading receipts;
- (b) if the person has only normal trading receipts in respect of a business of insurance for the year of assessment—any loss ascertained in accordance with section 19D and Subdivision 1 of Division 11 (excluding sections 23AB and 23AC), as—
    - (i) reduced by the amount of the unabsorbed loss in respect of the concessionary trading receipts of the business, ascertained in accordance with sections 19D and 23AB; or
    - (ii) increased by the chargeable concessionary trading receipts of the business, ascertained in accordance with section 23AB; and
  - (c) if the person has both the normal trading receipts described in paragraph (a) and the normal trading receipts described in paragraph (b) for the year of assessment—the aggregate of—
    - (i) any loss ascertained in accordance with paragraph (a) for the normal trading receipts described in the paragraph; and
    - (ii) any loss ascertained in accordance with paragraph (b) for the normal trading receipts described in the paragraph.”.

**8. Sections 19CAB and 19CAC added**

After section 19CA—

**Add**

**“19CAB. Treatment of unabsorbed losses: concessionary trading receipts**

- (1) This section applies if—
  - (a) a person has chargeable normal trading receipts for any year of assessment; and
  - (b) there is an unabsorbed loss in respect of the concessionary trading receipts of the person for that year of assessment.
- (2) If the amount of the unabsorbed loss does not exceed the amount arrived at by multiplying the chargeable normal trading receipts by the adjustment factor (*adjusted chargeable normal trading receipts amount*)—
  - (a) for the purpose of ascertaining the assessable profits of the person—the chargeable normal trading receipts are to be reduced by an amount arrived at by dividing the amount of the unabsorbed loss by the adjustment factor; and
  - (b) for other purposes—the amount of the unabsorbed loss is taken to be zero.
- (3) If the amount of the unabsorbed loss exceeds the adjusted chargeable normal trading receipts amount—
  - (a) for the purpose of ascertaining the loss sustained by the person—
    - (i) the amount of the unabsorbed loss is to be reduced by the adjusted chargeable normal trading receipts amount; and
    - (ii) the balance of the unabsorbed loss is to be dealt with in accordance with sections 19C and 19CB; and

- (b) for other purposes—the chargeable normal trading receipts are taken to be zero.

**19CAC. Treatment of unabsorbed losses: normal trading receipts**

- (1) This section applies if—
  - (a) a person has chargeable concessionary trading receipts for any year of assessment; and
  - (b) there is an unabsorbed loss in respect of the normal trading receipts of the person for that year of assessment.
- (2) If the amount of the unabsorbed loss does not exceed the amount arrived at by dividing the chargeable concessionary trading receipts by the adjustment factor (*adjusted chargeable concessionary trading receipts amount*)—
  - (a) for the purpose of ascertaining the assessable profits of the person—the chargeable concessionary trading receipts are to be reduced by an amount arrived at by multiplying the amount of the unabsorbed loss by the adjustment factor; and
  - (b) for other purposes—the amount of the unabsorbed loss is taken to be zero.
- (3) If the amount of the unabsorbed loss exceeds the adjusted chargeable concessionary trading receipts amount—
  - (a) for the purpose of ascertaining the loss sustained by the person—
    - (i) the amount of the unabsorbed loss is to be reduced by the adjusted chargeable concessionary trading receipts amount; and

- (ii) the balance of the unabsorbed loss is to be dealt with in accordance with sections 19C and 19CB; and

- (b) for other purposes—the chargeable concessionary trading receipts are taken to be zero.”.

**9. Section 19CB amended (set off: concessionary trading receipts)**

- (1) Section 19CB(4), English text, definition of *loss*—

**Repeal the full stop**

**Substitute a semicolon.**

- (2) Section 19CB(4)—

**Repeal the definition of *adjustment factor, concessionary trading receipts and normal trading receipts*.**

- (3) Section 19CB(4)—

**Add in alphabetical order**

“*adjustment factor* (調整分數) has the meaning given by section 19CA;

*concessionary trading receipts* (獲特惠的營業收入) has the meaning given by section 19CA;

*normal trading receipts* (一般營業收入) has the meaning given by section 19CA.”.

**10. Section 23A substituted**

Section 23A—

**Repeal the section**

**Substitute**

**“23A. Ascertainment of assessable profits: non-life insurance business**

- (1) The assessable profits for any year of assessment of an insurance corporation, whether mutual or proprietary, from a business of insurance other than life insurance (*non-life insurance business*), are ascertained in accordance with the formula—

$$P + X - Y$$

where:  $P = P_1 - P_2$

$$X = X_1 + X_2 + X_3$$

$$Y = Y_1 + Y_2 + Y_3 + Y_4 + Y_5$$

and where each variable set out in column 1 of the Table represents the amount of the item set out in column 2 of the Table opposite to it.

**Table**

Column 1	Column 2
$P_1$	gross premiums from non-life insurance business in Hong Kong
$P_2$	the aggregate of any premiums from non-life insurance business in Hong Kong returned to an insured and any premiums paid on corresponding reinsurance
$X_1$	interest or other income arising in or derived from Hong Kong
$X_2$	balancing charge directed to be made under Part 6
$X_3$	reserve for unexpired risks at the commencement of the basis period

Column 1

Column 2

$Y_1$	reserve for unexpired risks at the end of the basis period
$Y_2$	actual losses less any amount recoverable in respect of the losses under reinsurance
$Y_3$	agency expenses in Hong Kong
$Y_4$	allowances made under Part 6 to the extent to which the relevant assets are used in the production of the assessable profits
$Y_5$	a fair proportion of any expenses of the head office of the corporation

- (2) However, if the Commissioner is satisfied that it would be unreasonable to require a non-resident insurance corporation to furnish the particulars necessary for ascertaining the assessable profits according to subsection (1) because of the limited extent of the non-life insurance business transacted in Hong Kong by the corporation, subsection (3) applies.
- (3) The Commissioner may allow the assessable profits of the corporation from the non-life insurance business to be ascertained—
- by reference to the proportion of the total profits and income of the corporation corresponding to the proportion that its premiums from non-life insurance business in Hong Kong bears to its total premiums; or
  - on any other basis that appears to the Commissioner to be fair.
- (4) In this section—

*contract of insurance* (保險合約) has the meaning given by section 14AB(1);

*premiums from non-life insurance business in Hong Kong* (從香港非人壽保險業務所得的保費) includes—

- (a) all premiums on contracts of insurance, other than life insurance, made in Hong Kong; and
- (b) all premiums on contracts of insurance, other than life insurance, the proposals for which were made to a corporation in Hong Kong;

*reserve for unexpired risks at the commencement of the basis period* (評稅基期開始時的未過期風險儲備金) means any reserve that—

- (a) is outstanding for the unexpired risks of the non-life insurance business at the commencement of the basis period for which the assessable profits are ascertained; and
- (b) is calculated at the percentage adopted by the corporation in relation to its operations as a whole for those unexpired risks;

*reserve for unexpired risks at the end of the basis period* (評稅基期結束時的未過期風險儲備金) means any reserve that—

- (a) is set aside for the unexpired risks of the non-life insurance business at the end of the basis period for which the assessable profits are ascertained; and
- (b) is calculated at the percentage adopted by the corporation in relation to its operations as a whole for those unexpired risks.”.

**11. Section 23AA substituted**

Section 23AA—

**Repeal the section**

**Substitute**

**“23AA. Mutual insurance corporations**

- (1) For the purposes of this Part, a mutual insurance corporation is taken to carry on an insurance business.
- (2) The surplus from the insurance business is—
  - (a) to be ascertained in the way provided in sections 23, 23A, 23AB and 23AC for ascertaining assessable profits; and
  - (b) taken to be assessable profits chargeable to tax under section 14.”.

**12. Sections 23AB and 23AC added**

After section 23AA—

**Add**

**“23AB. Ascertainment of assessable profits: general reinsurance business or specified general insurance business of specified insurer**

- (1) The assessable profits for any year of assessment of a specified insurer from a qualifying insurance business are ascertained in accordance with the formula—

$$P + X - Y$$

where:  $P = P_1 - P_2$

$$X = X_1 + X_2 + X_3$$

$$Y = Y_1 + Y_2 + Y_3 + Y_4 + Y_5$$

and where each variable set out in column 1 of the Table represents the amount of the item set out in column 2 of the Table opposite to it.

**Table**

Column 1	Column 2
P <sub>1</sub>	gross premiums from the qualifying insurance business
P <sub>2</sub>	the aggregate of any premiums from the qualifying insurance business returned to an insured and any premiums paid on corresponding reinsurance
X <sub>1</sub>	interest or other income arising in or derived from Hong Kong attributable to the qualifying insurance business
X <sub>2</sub>	balancing charge to the extent to which the relevant assets are used in the production of the assessable profits, as directed to be made under Part 6
X <sub>3</sub>	reserve for unexpired risks at the commencement of the basis period
Y <sub>1</sub>	reserve for unexpired risks at the end of the basis period
Y <sub>2</sub>	actual losses incurred for the qualifying insurance business less any amount recoverable in respect of the losses under reinsurance
Y <sub>3</sub>	agency expenses in Hong Kong attributable to the qualifying insurance business

Column 1

Column 2

Y<sub>4</sub> allowances made under Part 6 to the extent to which the relevant assets are used in the production of the assessable profits

Y<sub>5</sub> a fair proportion of any expenses of the head office of the specified insurer attributable to the qualifying insurance business

(2) However, if the Commissioner is satisfied that it would be unreasonable to require a non-resident specified insurer to furnish the particulars necessary for ascertaining the assessable profits according to subsection (1) because of the limited extent of the qualifying insurance business transacted in Hong Kong by the specified insurer, subsection (3) applies.

(3) The Commissioner may allow the assessable profits from the qualifying insurance business of the specified insurer to be ascertained—

(a) by reference to the proportion of the total profits and income of the specified insurer corresponding to the proportion that its premiums from the qualifying insurance business bears to its total premiums; or

(b) on any other basis that appears to the Commissioner to be fair.

(4) In this section—

*contract of insurance* (保險合約) has the meaning given by section 14AB(1);

*general reinsurance business* (一般再保險業務) has the meaning given by section 14AB(1);

*premiums from the qualifying insurance business* (從有關合資格保險業務所得的保費) includes—

- (a) all premiums on contracts of insurance of the qualifying insurance business made in Hong Kong; and
- (b) all premiums on contracts of insurance of the qualifying insurance business the proposals for which were made to a specified insurer in Hong Kong;

*qualifying insurance business* (合資格保險業務) means any of the following businesses carried on by a specified insurer—

- (a) specified general insurance business;
- (b) general reinsurance business;

*reserve for unexpired risks at the commencement of the basis period* (評稅基期開始時的未過期風險儲備金) means any reserve that—

- (a) is outstanding for the unexpired risks of the qualifying insurance business at the commencement of the basis period for which the assessable profits are ascertained; and
- (b) is calculated at the percentage adopted by the specified insurer in relation to its operations as a whole for those unexpired risks;

*reserve for unexpired risks at the end of the basis period* (評稅基期結束時的未過期風險儲備金) means any reserve that—

- (a) is set aside for the unexpired risks of the qualifying insurance business at the end of the basis period for which the assessable profits are ascertained; and
- (b) is calculated at the percentage adopted by the specified insurer in relation to its operations as a whole for those unexpired risks;

*specified general insurance business* (指明一般保險業務) has the meaning given by section 14AB(1);  
*specified insurer* (指明保險人) has the meaning given by section 14AB(1).

**23AC. Ascertainment of assessable profits under section 23AB: Commissioner's powers to exclude or apportion certain sums**

- (1) For the purposes of section 23AB, if the Commissioner is of the opinion that any part of the investment fund or shareholders' fund of a specified insurer is not required to support a qualifying insurance business of the specified insurer, the Commissioner may exercise the power under subsection (3)(a).
- (2) For the purposes of this section or section 23AB, if the Commissioner is of the opinion that an item of allowance, balancing charge, expenditure, gain, income or profit falls to be apportioned between the qualifying insurance business and other businesses of the specified insurer, the Commissioner may exercise the power under subsection (3)(b).
- (3) The Commissioner may—
  - (a) for the purposes of subsection (1)—exclude from the total interest, profits or other income of the qualifying insurance business, a portion of the income, gains or profits derived from the funds referred to in that subsection, as the Commissioner considers reasonable in the circumstances; and
  - (b) for the purposes of subsection (2)—apportion an item referred to in that subsection as the

Commissioner considers reasonable in the circumstances.

(4) In this section—

*qualifying insurance business* (合資格保險業務) has the meaning given by section 23AB(4);

*specified insurer* (指明保險人) has the meaning given by section 14AB(1).”.

**13. Section 26AB amended (threshold requirements relating to concession condition provisions)**

Section 26AB(1)(a)—

**Repeal**

“or (b)”

**Substitute**

“, (b), (c) or (d)”.

**14. Section 63H amended (amount of provisional profits tax)**

Section 63H(1D)—

**Repeal**

“14B(2)(a)”

**Substitute**

“14B(2)(b)”.

**15. Section 89 amended (transitional provisions)**

After section 89(24)—

**Add**

“(25) Schedule 50 sets out transitional provisions that have effect for the purposes of the amendments to this

Ordinance made by the Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Ordinance 2019 ( of 2019).”.

**16. Schedule 1 amended (standard rate)**

Schedule 1—

**Repeal**

“19CA(4)]”

**Substitute**

“19CA]”.

**17. Schedules 49 and 50 added**

After Schedule 48—

**Add**

**“Schedule 49**

[s. 14AB]

**Specified Risks and Liabilities for Definition of  
Specified General Insurance Business in Section  
14AB**

Column 1 Item	Column 2 Risks and liabilities	Column 3 Description
1.	Health risk	The risk of loss to a person attributable to sickness or infirmity.
2.	Mortgage guarantee risk	The risk of loss to a mortgage loan provider arising from any default in payment by a mortgagor in respect of a mortgage loan for property.
3.	Motor vehicle damage risk	The risk of loss of or damage to vehicles used on land, including motor vehicles but excluding railway rolling stock, or the risk of damage arising out of or in connection with the use of motor vehicles on land, including third-party risks and carrier's liability.
4.	Employees' compensation liability	The liability of an employer to pay compensation for the injury by accident or for the death of an employee that arises out of and in the course of employment.

Column 1 Item	Column 2 Risks and liabilities	Column 3 Description
5.	Owners' corporation third-party liability	The liability of a corporation of the owners of flats in a multi-storey building, insofar as the liability relates to the common parts of the building or the property of the corporation, that is incurred by the corporation in respect of the death of, or bodily injury to, any person.

## Schedule 50

[s. 89(25)]

### Transitional Provisions for Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Ordinance 2019

- In this Schedule—  
*commencement date* (生效日期) means the date on which the Inland Revenue (Amendment) (Profits Tax Concessions for Insurance-related Businesses) Ordinance 2019 comes into operation.
- In computing the assessable profits of a corporation that fall within section 14B(1)(c) or (d), sums received by or accrued to



the corporation before the commencement date are not to be taken into account.”.

## Schedule

[s. 2]

### Addition of Division and Subdivision Headings to Part 4 of Inland Revenue Ordinance

1. **Part 4, Division 1 heading added**

Before section 14—

**Add**

**“Division 1—Charge of Profits Tax”.**

2. **Part 4, headings added**

Before section 14A—

**Add**

**“Division 2—Profits Tax Concessions**

**Subdivision 1—Qualifying Debt Instruments”.**

3. **Part 4, Division 2, Subdivision 2 heading added**

Before section 14AB—

**Add**

**“Subdivision 2—Qualifying Insurance Business and  
Insurance Brokerage Business”.**

**4. Part 4, Division 2, Subdivision 3 heading added**

Before section 14C—

**Add**

**“Subdivision 3—Qualifying Corporate Treasury Centre”.**

**5. Part 4, Division 2, Subdivision 4 heading added**

Before section 14G—

**Add**

**“Subdivision 4—Aircraft Leasing”.**

**6. Part 4, Division 3 heading added**

Before section 15—

**Add**

**“Division 3—Trading Receipts, Trading Stock, Stock  
Borrowing and Lending, etc.”.**

**7. Part 4, headings added**

Before section 16—

**Add**

**“Division 4—Deductions**

**Subdivision 1—Preliminary”.**

**8. Part 4, Division 4, Subdivision 2 heading added**

Before section 16A—

**Add**

**“Subdivision 2—Contributions to Approved Retirement  
Schemes”.**

**9. Part 4, Division 4, Subdivision 3 heading added**

Before section 16B—

**Add**

**“Subdivision 3—Expenditures on R&D Activities and  
Payments for Technical Education”.**

**10. Part 4, Division 4, Subdivision 4 heading added**

Before section 16D—

**Add**

**“Subdivision 4—Approved Charitable Donations”.**

**11. Part 4, Division 4, Subdivision 5 heading added**

Before section 16E—

**Add**

**“Subdivision 5—Purchase and Sale of Patent or  
Intellectual Property Rights”.**

**12. Part 4, Division 4, Subdivision 6 heading added**

Before section 16F—

**Add**

**“Subdivision 6—Expenditure on Building Refurbishment  
and Prescribed Fixed Assets”.**

**13. Part 4, Division 4, Subdivision 7 heading added**

Before section 16H—

**Add**

**“Subdivision 7—Expenditure on Environmental  
Protection Facilities”.**

**14. Part 4, Division 4, Subdivision 8 heading added**

Before section 17—

**Add**

**“Subdivision 8—Non-deductible Expenditure”.**

**15. Part 4, Division 5 heading added**

Before section 17A—

**Add**

**“Division 5—Treatment of Regulatory Capital  
Securities”.**

**16. Part 4, Division 6 heading added**

Before section 18—

**Add**

**“Division 6—Basis Period and Computation of  
Assessable Profits”.**

**17. Part 4, Division 7 heading added**

Before section 18G—

**Add**

**“Division 7—Treatment of Financial Instruments”.**

**18. Part 4, Division 8 heading added**

Before section 19—

**Add**

**“Division 8—Treatment of Losses”.**

**19. Part 4, headings added**

After section 19E—

**Add**

**“Division 9—Non-resident Persons, Funds, etc.**

**Subdivision 1—Agent of Non-resident Persons”.**

20. **Part 4, Division 9, Subdivision 2 heading added**  
Before section 20AB—  
**Add**

**“Subdivision 2—Non-resident Persons”.**

21. **Part 4, Division 9, Subdivision 3 heading added**  
After section 20AF—  
**Add**

**“Subdivision 3—Funds”.**

22. **Part 4, Division 9, Subdivision 4 heading added**  
Before section 20B—  
**Add**

**“Subdivision 4—Persons Chargeable in respect of Certain  
Profits of Non-resident Persons”.**

23. **Part 4, Division 9, Subdivision 5 heading added**  
Before section 21—  
**Add**

**“Subdivision 5—Assessable Profits of Certain Businesses  
of Non-resident Persons”.**

24. **Part 4, Division 10 heading added**  
Before section 22—  
**Add**

**“Division 10—Partnerships”.**

25. **Part 4, headings added**  
Before section 23—  
**Add**

**“Division 11—Assessable Profits of Certain  
Businesses**

**Subdivision 1—Insurance”.**

26. **Part 4, Division 11, Subdivision 2 heading added**  
Before section 23B—  
**Add**

**“Subdivision 2—Ship-owners and Aircraft-owners”.**

27. **Part 4, Division 11, Subdivision 3 heading added**  
Before section 24—  
**Add**

**“Subdivision 3—Clubs, Trade Associations, etc.”.**

**28. Part 4, Division 12 heading added**

Before section 25—

**Add**

**“Division 12—Miscellaneous Provisions”.**

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**Explanatory Memorandum**

The main object of this Bill is to amend the Inland Revenue Ordinance (Cap. 112) (*principal Ordinance*) to provide for profits tax concessions for general reinsurance business and certain types of general insurance business of direct insurers and certain types of insurance brokerage business of licensed insurance broker companies.

2. Clause 1 sets out the short title and provides for commencement.
3. Clause 3 amends section 2 of the principal Ordinance to provide that Lloyd’s and associations of underwriters approved by the Insurance Authority as mentioned in section 6(1)(c) of the Insurance Ordinance (Cap. 41) are taken to be corporations for the purposes of the principal Ordinance.
4. Clause 4 adds a new section 14AB to the principal Ordinance to set out the definitions of terms that are used in the new provisions on profits tax concessions. Also, the definitions of *authorized captive insurer* and *professional reinsurer* in the existing section 14B of the principal Ordinance are moved to the new section 14AB.
5. Clause 5 amends section 14B of the principal Ordinance to provide for profits tax concessions for general reinsurance business and certain types of general insurance business of direct insurers and certain types of insurance brokerage business of licensed insurance broker companies.
6. Clause 6 amends section 19C of the principal Ordinance to provide for amendments consequential to replacing section 19CA of the principal Ordinance.
7. Clause 7 replaces section 19CA of the principal Ordinance, which provides for treatment of losses in relation to concessionary trading receipts. The main purpose of the amendments in clause 7 is to take

into account the amendments to section 14B of the principal Ordinance relating to profits tax concessions for general reinsurance business and certain types of general insurance business of insurance corporations. The amendments in clause 7 are as follows—

- (a) the substantive amendment is to replace and amend some existing definitions in existing section 19CA(5) of the principal Ordinance (the definitions are proposed to be placed in new section 19CA) so that, if the assessable profits of the insurance business are chargeable to tax—
  - (i) at the concessionary rate under section 14B(1) of the principal Ordinance—the assessable profits and the unabsorbed loss will be ascertained in accordance with the relevant provisions in Subdivision 1 of Division 11 of Part 4 of the principal Ordinance; or
  - (ii) at the normal rate—the assessable profits and the unabsorbed loss will be ascertained in accordance with the relevant provisions in Subdivision 1 of Division 11 of Part 4 of the principal Ordinance (excluding sections 23AB and 23AC) subject to addition or deduction of any chargeable concessionary trading receipts and any unabsorbed loss in respect of the concessionary trading receipts; and
- (b) the other technical drafting amendments are to—
  - (i) repeal existing section 19CA(1), (2) and (3) that is to be moved to new sections 19CAB and 19CAC (added by clause 8); and
  - (ii) move the existing and unamended definitions to the new section 19CA.

8. Clause 8 adds new sections 19CAB and 19CAC to the principal Ordinance to recast the existing section 19CA(1), (2) and (3) for better readability and organization.
9. Clause 9 amends section 19CB of the principal Ordinance consequentially to reflect the amendments to section 19CA of the principal Ordinance.
10. Clause 10 replaces section 23A of the principal Ordinance to recast it in a more readable style, in line with current drafting practice.
11. Clause 11 replaces section 23AA of the principal Ordinance to recast it in a more readable style, in line with current drafting practice. In new section 23AA, the reference to sections 23 and 23A is amended consequentially to sections 23, 23A, 23AB and 23AC.
12. Clause 12 adds new sections 23AB and 23AC to the principal Ordinance to provide for the ascertainment of assessable profits from insurance and reinsurance businesses for which profits tax concessions are proposed to be given. Briefly—
  - (a) the new section 23AB provides for the ascertainment of the assessable profits mentioned in section 14B(1)(c) of the principal Ordinance in a way similar to that set out in section 23A of the principal Ordinance for assessable profits from non-life insurance business; and
  - (b) the new section 23AC empowers the Commissioner of Inland Revenue, for the purposes of the new section 23AB—
    - (i) to exclude certain sums in the computation of assessable profits mentioned in section 14B(1)(c) of the principal Ordinance; and
    - (ii) to apportion certain sums between businesses the assessable profits of which are chargeable to tax in

the way specified in section 14B(1)(c) of the principal Ordinance and other businesses.

13. Clause 13 amends section 26AB of the principal Ordinance to change the cross-reference to section 14B of the principal Ordinance in view of the proposed amendments to section 14B of the principal Ordinance.
14. Clause 14 amends section 63H(1D) of the principal Ordinance to change the cross-reference to section 14B(2) of the principal Ordinance.
15. Clause 15 amends section 89 of the principal Ordinance to provide for transitional arrangements.
16. Clause 16 amends Schedule 1 to the principal Ordinance consequentially to reflect the amendments to section 19CA of the principal Ordinance.
17. Clause 17 adds a new Schedule 49 to the principal Ordinance to set out the specified risks and liabilities relevant to the new definition of *specified general insurance business* in the new section 14AB.
18. The Schedule adds Division and Subdivision headings to Part 4 of the principal Ordinance to assist readers by making the way in which Part 4 of the principal Ordinance is arranged more transparent.

## **Financial and Economic Implications**

### **Financial Implications**

FSTB, the Inland Revenue Department (“IRD”) and the IA will absorb any additional resource requirements for implementing the proposed profits tax concessions from within their existing resources. It is difficult to estimate the revenue forgone arising from the proposed tax reliefs because (a) the incentive intends to encourage companies to establish or expand relevant insurance and reinsurance business which would otherwise not be conducted in Hong Kong; and (b) FSTB, IRD or the IA does not possess information about the profits or loss of insurers and brokers with breakdown by different lines of insurance business. That said, it is expected that the revenue forgone is unlikely to be significant and will be offset partly by increase in business activities in Hong Kong.

### **Economic Implications**

2. The proposed reduction in profits tax rate should be conducive to the development of marine insurance and the underwriting of specialty risks in Hong Kong, and help diversify Hong Kong’s risk management services. The new business opportunities would also generate demand for other professional services including accounting, actuarial and legal services. Taken as a whole, the proposal would help enhance Hong Kong’s status as an international financial centre.