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# Hong Kong staying ahead in ship finance with new ship leasing tax initiative

**Ship finance has undergone some major changes over the last 12 years and the once dominant European banks and traditional mortgage lending has increasingly been replaced by leasing. As a result, today some of the world's largest ship financiers are the Chinese ship leasing houses supporting both shipowners and the nation's shipbuilding industry.**

Making sure that it stays ahead with these developments Hong Kong has introduced new tax incentives for ship leasing.

On 19 June 2020, the Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Ordinance 2020 (the Ordinance), which introduces concessionary tax regimes for qualifying ship lessors and ship leasing managers, was passed.

The new tax regime applies to revenue received on or after 1 April 2020. Under the new scheme the tax rate on the qualifying profits of ship lessors carrying out operating lease and finance lease activities, including subleasing and sale and leaseback arrangement, will be 0%. On the other hand, the tax rate on the qualifying profits carrying out ship leasing management activities for ship lessors will be 0% and 8.25% for associated companies and non-associated companies, respectively.

Partnering with Invest Hong Kong and the Hong Kong Maritime and Port Board (HKMPB), Seatrade Maritime has sought to explore the benefits of the initiative through a public webinar and interviews with senior representatives from the maritime industry about the benefits the new concession will bring.

Kenneth Lam, Chairman & CEO of Credit Agricole Asia Shipfinance Limited, highlights in an interview how Section 23B of the Inland Revenue Ordinance has provided the shipping community with the certainty and stability it has required in tax matters for many years.

***"But times have changed, 23B has served us very well, but because of new regulations, and also different business models of shipping, we need certain improvements on the tax regime. So this ship leasing scheme is a perfect complement to what we have in 23B to provide the certainty so owners can continue to base their fleets in Hong Kong,"*** Lam explains.

In an interview ship manager, Bjorn Hojgaard, CEO of Anglo-Eastern Univan Group, sees a positive impact from the regulation for the wider shipping business community in Hong Kong. ***"I can see a situation where if especially Chinese leasing companies use Hong Kong as a home for financing and expansion of shipping, the Hong Kong based ship managers will be able to grow on the back of that expansion."***

Speaking during the webinar Bill Guo, Executive Director of Shipping Finance at ICBC Leasing, one of the world's top ship leasing companies, believes that Hong Kong is now set to become an even more "ideal place" for many Chinese leasing companies to conduct their activities.

***"With the new tax scheme, we can and could do more in Hong Kong, including setting up subsidiary companies. It is a good opportunity for Mainland Chinese companies to access more talented people in Hong Kong, as the majority of Chinese leasing companies are now based in Beijing, Shanghai and Shenzhen,"*** Guo says.

Also speaking during the webinar Rosita Lau, Partner at Ince & Co, highlights the initiative as a long-awaited piece of legislation that brings in good news for shipping in difficult times.

***"The new ship leasing tax concession ordinance is very clearly drafted and easy to follow. The tax concession provided under it is unprecedented in the shipping industry. Ship lessors and ship managers would find it easy to set up and run the qualifying ship leasing business and qualifying ship managing business in Hong Kong, or restructure their existing business to comply with the relevant requirements, and then enjoy the zero rate of tax for their profits,"*** Lau explains.

***"The concession would appeal in particular to Mainland Chinese ship lessors and connected ship management companies whose businesses have been fast developing and booming in the last 10 odd years since the 2008 international financial crisis which battered, inter alia, the global shipping industry, but who have to pay tax for their profits earned from their ship leasing business."***

So, what is Hong Kong aiming for all this to translate to? From the HKSAR Government's point of view, Benjamin Wong, Head of Maritime Cluster of Invest Hong Kong, concurs with the speakers and the interviewees, and believes that ship leasing not only facilitates ship ownership and financing, but also generates demand for other maritime business services. ***"The provision of tax incentives is expected to reinforce Hong Kong's competitiveness in attracting shipping-related companies to set up offices, hence fostering the growth of the city's shipping core and maritime cluster."*** Wong says.