

# Aircraft Leasing Preferential Tax Regime



On the enactment of the Inland Revenue (Amendment) in July 2017, sections 14G to 14N of the Inland Revenue Ordinance (“IRO”) were introduced to provide tax concessions to qualifying aircraft lessors and qualifying aircraft leasing managers in Hong Kong. In general, qualifying aircraft lessors are entitled to a tax concession under which only 20% of the tax base is assessed to compensate for their non-entitlement to depreciation allowance on the aircraft. The profits derived by qualifying aircraft lessors and qualifying aircraft leasing managers from qualifying activities are charged at 8.25%, i.e. one-half of corporate profits tax rate.

## Amendment of the IRO and the Enhancement of the Tax Regime

In view of the market changes and taking into account the international tax reform spearheaded by the Organisation for Economic Co-operation and Development (“OECD”) on base erosion and profit shifting (commonly known as BEPS 2.0), the Government amended the IRO on 21 February 2023 to enhance the existing aircraft leasing preferential tax regime. The legislative amendments will take retrospective effect from the year of assessment 2023/24.

## Certificate of Resident Status

If the qualifying aircraft lessors and qualifying aircraft leasing managers require proof of resident status for the purposes of claiming tax benefits under the Comprehensive Double Taxation Agreements / Arrangement (“DTA”), please complete the appropriate form IR1313A (with the Mainland of China as DTA partner) or IR1313B (with other DTA partners) and furnish the form to the Inland Revenue Department (IRD).

## Interpretation and Practice

Details of the IRD’s views and practice on the tax concessions for qualifying aircraft lessors and qualifying aircraft leasing managers introduced under the 2017 Amendment Ordinance are set out in Departmental Interpretation and Practice Notes No. 54 – Taxation of Aircraft Leasing Activities.

<https://www.ird.gov.hk/eng/pdf/dipn54.pdf>



**InvestHK**

The Government of the Hong Kong Special Administrative Region  
of the People's Republic of China

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QUALIFIED AIRCRAFT LESSORS		QUALIFIED AIRCRAFT LEASING MANAGERS
<b>Eligibility</b>	<ul style="list-style-type: none"> <li>• Separate entity approach (SPV)</li> <li>• Not an aircraft operator</li> <li>• Has conducted one or more qualifying aircraft leasing activities in Hong Kong</li> <li>• Not engaged in any activity other than qualifying aircraft leasing activities in Hong Kong</li> </ul> <p>* Section 14H of the Inland Revenue Ordinance</p>	<ul style="list-style-type: none"> <li>• Separate entity approach (SPV)</li> <li>• Has only conducted qualifying aircraft leasing management activities</li> <li>• Meets the specified safe harbour rule; or</li> <li>• Has obtained the Commissioner's determination</li> </ul> <p>* Section 14J of the Inland Revenue Ordinance</p>
<b>Tax Concession</b>	<ul style="list-style-type: none"> <li>• Removal of 20% tax base</li> <li>• Concessionary tax rate of 8.25%, election has to be made in writing and is irrevocable</li> </ul>	
<b>Tax deduction on aircraft acquisition costs</b>	<ul style="list-style-type: none"> <li>• Full acquisition cost will be deducted in the year which the aircraft is acquired</li> </ul>	N/A
<b>Interest expense to overseas non-financial institution / associate for acquisition of aircraft</b>	<ul style="list-style-type: none"> <li>• Allowable if the loan is wholly and exclusively used to finance the acquisition of aircraft</li> <li>• Additional condition has to be satisfied if the financier is the aircraft lessor's associate</li> </ul>	N/A
<b>Qualifying lease / Major qualifying leasing management activities</b>	<ul style="list-style-type: none"> <li>• Apply to operating lease (dry and wet leases), operating sublease and funding leases without restriction of the lease term</li> <li>• Lease of aircraft to any other person</li> </ul>	<ul style="list-style-type: none"> <li>• Managing a qualifying aircraft lessor</li> <li>• Providing finance or in obtaining the ownership of an aircraft</li> <li>• Managing and marketing of leases</li> <li>• Arranging for the procurement or leasing of aircraft</li> <li>• Arranging for the operation, maintenance, repair, insurance, storage, scrapping or modification of aircraft</li> <li>• Arranging for the evaluation, appraisal, provision or inspection of aircraft</li> <li>• Arranging for the assessment of the aviation and aircraft market conditions</li> <li>• Providing services in relation to an aircraft leasing activity for or to a qualifying aircraft lessor</li> </ul>
<b>Threshold requirement</b> ✓ Full time qualified employees ✓ Annual operating expenditure	<ul style="list-style-type: none"> <li>• 1</li> <li>• HK\$2 mill</li> </ul>	<ul style="list-style-type: none"> <li>• 2</li> <li>• HK\$1 mill</li> </ul>

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