



CORPORATE TREASURY CENTRES

Hong Kong: Asia's Premier Location of Corporate Treasury Centres

Since 1 April 2016, qualifying Corporate Treasury Centres (CTCs) enjoy 8.25 percent profits tax rate for specified treasury activities and deduction of interest expenses in calculating profits tax for the intra-group financing business of corporations.

What is CTC?

A CTC is an in-house bank within a multinational corporation, focusing on the optimal procurement and usage of capital for the group's operations. The major functions include intragroup borrowing and lending, cash-and-liquidity management, processing payments to vendors or suppliers, supporting the raising of capital by the corporate group, and risk management.

Why Set Up a CTC?

A CTC can lower cost and improve operational efficiency of a corporate group by reducing the cost of capital through: optimising external and internal funding; reducing idle cash and interest cost by regional cash pooling; reducing transaction and banking costs by standardising multi-currency transactions and payment systems; reducing foreign exchange risks by centralising foreign-exchange management; and, improving working capital efficiency by centralising the management of accounts payable and receivable.

Why Set Up a CTC in Hong Kong?

Hong Kong is Asia's premier location for setting up a CTC

An International Financial Centre

Hong Kong offers an extensive banking network, supplying a wide range of sophisticated banking products; deep capital markets; robust financial infrastructure; and effective professional services crucial for corporations to establish their regional CTCs and expand their business presence in Asia.

Proximity to the Mainland and its status as the premier offshore Renminbi ("RMB") centre

With the largest offshore pool of RMB deposits; deep offshore RMB debt market; RMB real time gross settlement system operating from Hong Kong Time 08:30 to 05:00 of the next day; and RMB trade settlement handled by banks in Hong Kong was RMB 3,927 billion in 2017.



Tax Incentives

1. Allow a corporate borrower carrying on in Hong Kong an **intra-group financing business** deduction of interest payable on money borrowed from an **associated corporation** under specified conditions.
 - **Intra-group financing business:** in relation to a corporation, means the business of the borrowing of money from and lending of money to its associated corporations
 - **Associated corporation:** in relation to a corporation, means (a) another corporation over which the corporation has control; (b) another corporation that has control over the corporation; or (c) another corporation that is under the control of the same person as is the corporation. A person has control over a corporation if the person has the power to secure (for examples, by means of holding of shares; possession of voting power; by virtue of powers conferred by the articles of association regulating a corporation) that the affairs of another corporation are conducted in accordance with the wishes of that person
2. The tax rate on qualifying profits of a qualifying CTC derived from qualifying corporate treasury activities is 50 percent of the prevailing profits tax rate for corporations (i.e. 16.5 percent x 50 percent = 8.25 percent).
 - **A qualifying CTC:** should be a standalone corporate entity with 75 percent or above of its profits and assets related to qualifying corporate treasury activities
 - **Qualifying corporate treasury activities:** are prescribed in “the Ordinance” and encompass a wide range of services or transactions including cash pooling, liquidity management, payment processing, corporate finance and risk management
 - **Qualifying profits:** are profits derived from the following businesses:
 - lending money, in the ordinary course of its intra-group financing business, to an associated corporation;
 - providing corporate treasury services to an associated corporation; or
 - entering into corporate treasury transactions that are related to the business of an associated corporation
 - Corporates can elect for the half-rate regime in writing as part of the tax filing process and do not need to apply for setting up a qualifying corporate treasury centre in advance

Useful Links

The Ordinance and the relevant Departmental Interpretation and Practice Notes are available on the following webpages of the Inland Revenue Department of the Hong Kong Special Administrative Region



Departmental Interpretation and Practice Notes



The Ordinance



The Amendment Ordinance

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