HKVCA 私投募資
香港創業及私募投資協會
The Association for Private Capital in Asia

The Hon. Mr. Paul Chan, GBM, GBS, MH, JP
Financial Secretary,
Hong Kong Special Administrative Region
Tamar, Hong Kong

7 June 2023

Dear Mr. Financial Secretary,

We greatly appreciate your announcement in the 2023 Budget Speech of a review of the existing tax concession measures applicable to funds and carried interest. In your message you also reiterated the importance of cementing Hong Kong's position as a private equity and venture capital hub.

Accordingly, we outline below for your consideration several issues that are of immediate concern within the industry, and how they should be addressed if we hope to strengthen Hong Kong's position. We would be pleased to discuss with you any questions or comments you may have.

First, we would recommend that licensing and tax rules be linked. Once a private equity firm obtains a license from the SFC, it should automatically enjoy certain tax-related benefits, including unified fund tax exemption, concession tax rates for carried interest, and granting of tax resident certificates for SPVs and funds. Simplifying the process in one step would remove barriers and attract more fund managers to locate in Hong Kong. It is unfortunately true that many fund managers prefer Singapore because of the simplicity of its regime which links the two. Application for a license from the Monetary Authority of Singapore implies that the licensee is in-scope of certain fund tax exemptions. Many industry participants also view Singapore's process to be easy to understand and to know what to expect.

Moreover, if the SFC acts as gatekeeper (through the licensing regime), vetting registrants for asset management activities, it would significantly streamline the IRD's workflow where we understand many questions have arisen from the fact that IRD does not feel it is in the position to determine whether an entity is operating as a fund or not.

Second, the private credit and debt fund market has grown exponentially. Singapore, where its unified fund exemption (UFE) clearly exempts interest income as well as gains, has successfully seen private credit/debt fund houses establish their Asia headquarters there. In order to capture the growth in private credit, we highly recommend expanding the Hong Kong UFE to cover this particular asset class.

Third, the draft of DIPN64, which addresses the concession tax rate for carried interest, is discouraging fund managers. To encourage the private equity and venture capital industry in Hong Kong, we have to remove the condition of "carry routing through Hong Kong" as well as other restrictions, including the above 0% hurdle rate and the need for certification by the HKMA, etc. There are also concerns it won't apply to funds of funds (FoF), which are an important part of the ecosystem. In fact, it is fair to say their role is essential, so offering an incentive to FoFs benefits the overall development of the private equity and venture capital industry.

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Finally, we suggest that the government establish an interdepartmental task force focused on asset management. As there are often inconsistent expectations across departments, a special task force would be an effective way to resolve conflicts and prevent resulting confusion among participants. With consistent goals across relevant agencies, government can better streamline policies with more practical applications.

Your Sincerely,

Bonnie Lo
Chairwoman, HKVCA Technical Committee

About the HKVCA

The HKVCA is a member-based trade association was established in Hong Kong in 1987. It currently has 520 members, of whom 330 are Hong Kong based private equity managers. Our members work across the full spectrum of the industry, from venture capital, through growth capital and growth buyouts, to institutional fund investors, fund of funds and secondary investors. The HKVCA represents small teams investing in startups as well as the world's 10 largest private equity firms.