

Hong Kong's Minimum Top-up Tax

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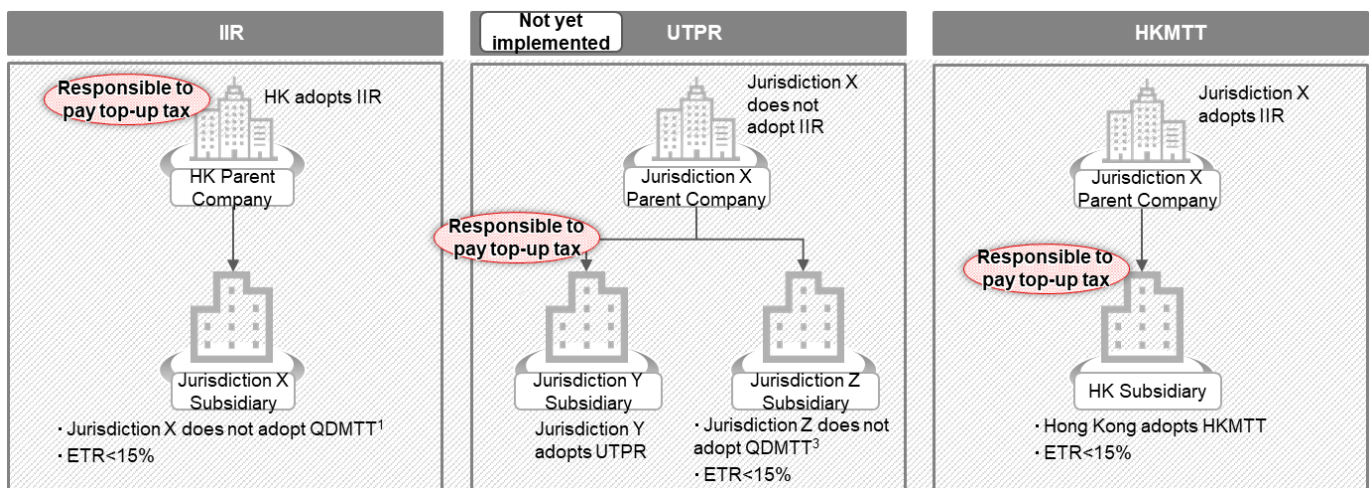
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Enacted on Jun 6, 2025, Hong Kong has implemented the Hong Kong Minimum Top-up Tax (HKMTT) under the new provisions (Part 4AA and Schedules 61-64) of Inland Revenue (Amendment) (Minimum Tax for Multinational Enterprise Groups) Ordinance 2025¹. This tax aligns with the OECD's BEPS 2.0 Pillar Two framework, which sets a global minimum effective tax rate of 15% for large multinational enterprise (MNE) groups. This initiative, adopted by over 130 jurisdictions in July 2021, addresses tax evasion and profit shifting exacerbated by digitalization. The HKMTT, effective for fiscal years beginning on or after January 1, 2025, is a significant policy shift for Hong Kong, traditionally known for its territorial tax system. This article will introduce the tax scheme and discuss its impact on Japanese companies in Hong Kong.

BACKGROUND AND LEGISLATIVE FRAMEWORK

The HKMTT is part of Hong Kong's commitment to the global minimum tax rate, as announced in the 2024-25 Budget², aligning with the OECD's GloBE Model Rules which reflect internationally agreed standards. The objective of HKMTT is to target MNE entities with annual group consolidated revenue of EUR 750 million or more in at least two of the four preceding fiscal years to pay at least 15% tax on their profits in Hong Kong. The legislative framework includes:



Source: illustrated by Business Solution & Advisory based on IRD website's charging mechanism

¹ [The Government of the Hong Kong Special Administrative Region Gazette](#)

² #238 of the [2024-25 Budget](#)

³ Under GloBE rules, jurisdictions may apply a Qualified Domestic Minimum Top-up Tax (QDMTT) if an MNE's ETR falls below the minimum. Hong Kong's version, the HKMTT, gives it first priority to collect the top-up tax before others apply IIR or UTPR.

- **Income Inclusion Rule (IIR):** The primary rule requires the parent entities of an MNE group to pay top-up tax if its foreign constituent entities (CE) are taxed below the minimum effective tax rate of 15%, effective from fiscal years beginning January 1, 2025.
- **Undertaxed Profits Rule (UTPR):** A backup rule to IIR, allowing other jurisdictions to collect top-up tax when it is not paid under the IIR. The implementation date will be specified by the Hong Kong Government at a later stage.
- **Hong Kong Minimum Top-up Tax (HKMTT):** With effective from fiscal years beginning January 1, 2025, it prioritizes top-up tax collection on both in-scope HK-headquartered and foreign-headquartered MNE groups with ETR below 15% in Hong Kong.

HIGHLIGHTS OF THE HKMTT

Content (Extract)	
Applicability	▪ MNE groups with annual consolidated revenue of EUR 750 million or more in at least two of the four preceding fiscal years ▪ Hong Kong tax resident
Hong Kong Resident Entity	An entity is a tax resident in Hong Kong if: ▪ where an entity is a company – the entity is incorporated in Hong Kong or, if incorporated outside Hong Kong, normally managed or controlled in Hong Kong; or ▪ in any other case – the entity is constituted under the laws of Hong Kong or, if otherwise constituted, normally managed or controlled in Hong Kong This definition applies retrospectively from January 1, 2024
Exclusion	▪ Investment entities ▪ Insurance investment entities
Minimum Tax Rate	▪ 15% (If the ETR of the Hong Kong entities is below 15%, the HKMTT will apply to top up the tax to that minimum level)
Calculation of ETR	▪ $ETR = \frac{\text{sum of adjusted covered taxes of all local CEs}}{\text{net GloBE income of all local CEs}} \times 100\%$
Calculation of Top-up Tax under the GloBE rules	▪ Top-up tax = (Excess Profits[^]) × (15% - ETR) – QDMTT (HKMTT in Hong Kong)⁴ [^]Excess Profits = Net GloBE income - substance-based income exclusion (SBIE*) *SBIE = 5% x eligible payroll costs + 5% x carrying value of eligible tangible assets (See below Qualified Domestic Minimum Top-up Tax (QDMTT) Safe Harbour)
Calculation of QDMTT	▪ QDMTT = (Excess Profits) × (15% - ETR)
Nature of Top-up Tax	▪ Profits tax ▪ No provisional top-up tax is charged
Payment of Top-up Tax	▪ Payment Deadline: One month after either the return filing deadline, or the date of the assessment notice — whichever is later ▪ IIR Top-up Tax: Charged to parent entities of in-scope MNE groups ▪ HKMTT Top-up Tax: Although the default allocation mechanism for top-up tax is based on each CE's share of GloBE income, groups can designate one or more Hong Kong CEs to pay. If any designated entity fails to pay, all Hong Kong CEs become jointly and severally liable for the full amount
Filing Channel	▪ The notification and top-up return must be filed electronically ▪ The mandatory e-filing requirement adopts the "once-in, always-in⁵" mechanism

⁴ To be recognized as a Qualified Domestic Minimum Top-up Tax (QDMTT), Hong Kong must implement its rules in a manner that produces outcomes consistent with the GloBE Model rules and OECD GloBE rules documents. This alignment is essential for obtaining qualified rule status through the OECD's peer review process, which promotes the effective and uniform application of the GloBE framework across jurisdictions.

⁵ Once an entity is required to e-file its profits tax return, it must continue to e-file every year after that — even if it no longer meets the original conditions. This rule also applies if the entity leaves its MNE group or if the group later falls outside the scope of the requirement.

Retention Period for Business Records	At least 9 years after the relevant transaction, action or operation is completed
Effective Date	Fiscal years beginning on or after January 1, 2025

SAFE HARBOUR RULES

To reduce compliance burdens, the OECD has developed four safe harbour rules, adopted in Hong Kong, that allow in-scope MNEs to avoid full GloBE calculations under certain conditions.

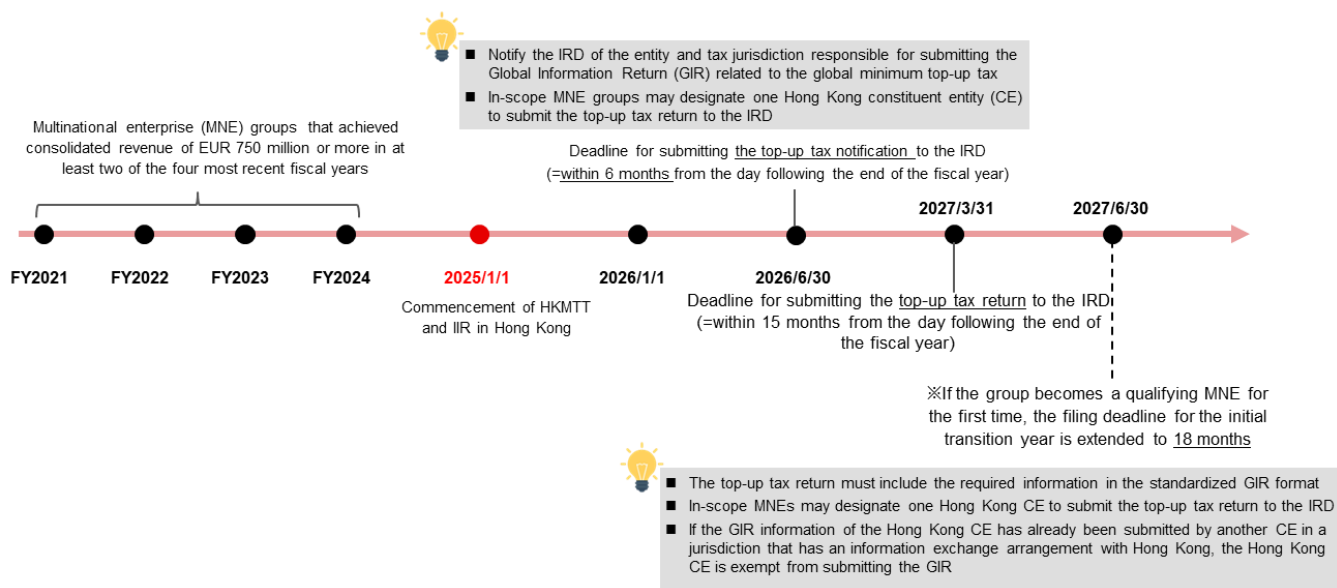
Safe Harbour	Purpose	Conditions
Transitional Country-by-Country Reporting (CbCR) Safe Harbour	To exempt certain jurisdictions from top-up tax calculations under the GloBE rules during the transition period (Valid only for fiscal years starting on or before December 31, 2026 and ending on or before June 30, 2028)	- Applies if any one of the following is met: ① De Minimis Test: MNE group's total revenue < EUR 10 million and profit before income tax < EUR 1 million ② Simplified ETR Test: Simplified ETR ≥ 16% (in 2025) or 17% (in 2026) ③ Routine Profits Test: MNE group's Profit or loss before income tax ≤ SBIE amount - Based on data from qualified CbC reports and financial statements "Once out, always out"⁶ rule applies
Transitional Undertaxed Profits Rule (UTPR) Safe Harbour	To exempt jurisdictions from applying the UTPR during the transition period (Valid only for fiscal years starting on or before 31 Dec 2025 and ending on or before 31 Dec 2026)	Corporate income tax rate of the ultimate parent entity jurisdiction ≥ 20%
Qualified Domestic Minimum Top-up Tax (QDMTT) Safe Harbour	To exempt jurisdictions with a qualified domestic minimum top-up tax from GloBE calculations	Jurisdictional top-up tax under GloBE rules is deemed zero if the jurisdiction has met the QDMTT standards under OECD peer review process
Simplified Calculation Safe Harbour for Non-Material Constituent Entities	Allow non-material CEs to use a simplified approach to determine GloBE income, GloBE revenue, and adjusted covered taxes, no detailed GloBE calculations is required	- Applies to non-material CE⁷s only - Top-up tax under the GloBE rules for a jurisdiction is deemed zero if any one of the following is met: ① De Minimis Test: MNE group's total revenue < EUR 10 million and profit before income tax < EUR 1 million ② ETR Test: Simplified ETR ≥ 15% ③ Routine Profits Test: Profit or loss before income tax ≤ SBIE amount

⁶ If an MNE Group has not applied the Transitional CbCR Safe Harbour with respect to a jurisdiction in a Fiscal Year in which it is subject to the GloBE Rules, the MNE Group cannot qualify for that safe harbour for that jurisdiction in a subsequent year

⁷ Non-material constituent entity means a CE of an MNE group for a fiscal year if: (1) the CE is not included in the consolidated financial statements of the ultimate parent entity solely due to its size or materiality, (2) the group's consolidated financial statements are externally audited and prepared in accordance with the GloBE rules, and (3) **if** the CE's revenue exceeds EUR 50 million, its financial statements used for country-by-country reporting must follow an acceptable or authorised financial accounting standard

TIMELINE

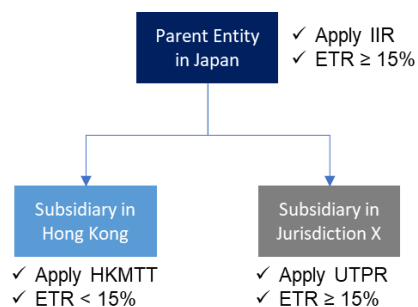
The HKMTT and IIR will apply to fiscal years beginning on or after January 1, 2025. Key milestones for companies whose consolidated fiscal year ends in Dec 31 are shown as follows:



ILLUSTRATIVE EXAMPLES

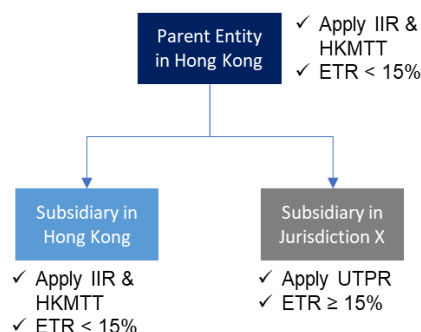
1. Scenarios illustrate which entity is responsible for the top-up tax under HKMTT

i. Parent entity outside Hong Kong



→HKMTT applies to the subsidiary in Hong Kong because its ETR is below 15%, and neither IIR nor UTPR applies to them from other jurisdictions.

ii. Parent entity in Hong Kong



→The parent entity is responsible for paying the top-up tax of all in-scope entities because HKMTT applies when the ETR of Hong Kong is below 15% (unless the group designates the subsidiary in Hong Kong to pay the top-up tax).

2. Example of a top-up amount computation under HKMTT

An MNE group is in-scope for HKMTT.

- ✓ SBIE amount of all local entities: HKD100
- ✓ Number of in-scope local entities: 3 (Company A, B & C)
- ✓ Company A is appointed as the designated paying entity.
- ✓ GloBE income/loss and adjusted covered taxes are shown as follows:

Entity	GloBE income/loss	Adjusted covered taxes
Company A	HKD500	HKD40
Company B	HKD200	HKD30
Company C	-HKD80	HKD0
Sum of GloBE income/loss and adjusted covered taxes	HKD620	HKD70

▪ Step-by-Step Computation

- i. $\text{ETR in Hong Kong} = \frac{\text{sum of adjusted covered taxes of all CEs}}{\text{net GloBE income of all CEs}} = \frac{70}{620} \approx 11.3\%$
- ii. $\text{Top-up Tax Amount} = (\text{Net GloBE income} - \text{SBIE}) \times (15\% - \text{ETR})$
 $= (620 - 100) \times (15\% - 11.3\%)$
 $= \text{HKD}12.29$

Since Company A is the designated paying entity, it will be chargeable with the top-up tax of HKD12.29.

COMMENTS

The implementation of the HKMTT reflects the city's commitment to international tax standards while preserving its role as a competitive and transparent business hub. For Japanese companies operating in Hong Kong, the new rules introduce additional compliance steps, but they do not fundamentally change the attractiveness of Hong Kong as a regional base. Indeed, if Hong Kong government had chosen not to implement the HKMTT, top-up tax on profits attributable to Hong Kong CEs could still have been imposed by other jurisdictions that have adopted the OECD's global minimum tax rules, thereby potentially limiting Hong Kong's taxing rights over those profits.

In fact, the implementation of the HKMTT does not alter Hong Kong's statutory profits tax rate, which remains at 16.5% - a level that is comparatively low by international standards. Jurisdictions with little or no corporate taxation, such as the BVI or Cayman Islands, are likely to be more significantly impacted by the global minimum tax rules. When these MNE groups reassess the group structures and consider alternative jurisdictions for re-domiciliation, groups may be less inclined to relocate to high-tax environments and instead seek jurisdictions with moderate tax rates. In this context, Hong Kong's relatively low tax rate may position it as a competitive option for attracting corporate re-domiciliation.

For MNE groups operating in Hong Kong that fall within the scope, it is highly recommended to review their group structures as well as tax positions to ensure they meet the new requirements. To prepare effectively, companies should pay attention to several key areas. The new reporting requirements - such as the Global Information Return (GIR) and top-up tax filings - will require timely and accurate data collection. Coordination across group entities and jurisdictions will be essential to ensure consistency in reporting and avoid duplication. Strategic planning may also be needed to assess the impact of the top-up tax on cash flow, profit allocation, and the use of tax incentives. Importantly, the record retention period for documents related to top-up tax calculations has been extended from the current minimum of 7 years to at least 9 years, requiring companies to review and update their data management practices.

As for asset-related considerations, companies holding long-term assets may wish to review how those assets are reflected in their accounting records. Gains from future asset disposals could be included in GloBE income, which may affect the ETR if such gains are not taxed locally. Given that the HKMTT will apply from 2025, companies may consider whether any accounting adjustments - such as revaluing long-held assets or reviewing ownership

structures—should be addressed in their 2024 financial statements to ensure alignment with applicable reporting standards.

The HKMTT represents a new and complex layer of tax regulation aligned with global standards. As implementation progresses, further guidance from the Hong Kong government may be issued to clarify practical and administrative aspects. We will continue to monitor developments closely and provide updates as needed.

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