

Ship Leasing with Zero Tax Concession Maritime Cluster Strengthens Hong Kong's Status as International Shipping and Financial Centre

The pandemic has disrupted global commercial activities and grounded international flights. However, the maritime trading of energy, commodities and daily necessities cannot be stopped. According to the statistics provided by the United Nations Conference on Trade and Development, the average annual growth rate of maritime trade is about 3% from 1980 to 2018.



Today, over 80% of the global freight volume is transported by sea. The demand for maritime trade is expected to be rising constantly and steadily. To foster the development of ship leasing business in Hong Kong, the HKSAR Government announced the Inland Revenue (Amendment) (Ship Leasing Tax Concessions) Ordinance 2020 ("Amendment Ordinance") in June this year, introducing the tax concessions policy, which helps strengthening the status of Hong Kong as an international shipping and financial centre.

World's Four Leading Ship Registration Centre

Kenneth Lam, Chairman and Chief Executive Officer of Credit Agricole Asia Shipfinance Limited, stresses that the Hong Kong shipping industry has always been required to maintain its competitiveness globally. He says, "Hong Kong pursues simple taxation systems, according to Section 23B of the Hong Kong Inland Revenue Ordinance, the profits gained from the international operation of the ships registered in Hong Kong have been exempted from profits tax since 1992. This territorial basis of taxation falls in line with the usual practice of leading international shipping centres." He cites data to confirm that Hong Kong is one of the four leading ship registration centres in the world after Panama, the Republic of Marshall Islands and the Republic of Liberia. Neighbouring country Singapore and the Mainland rank fifth and eighth respectively.

Given the steady development of the maritime industry, a vast number of international shipping centres have launched tax concessions policies, encouraging overseas shipping companies to establish their local offices. Maritime services providers such as financiers, lawyers, insurers, brokers, ship managers etc. have been following these shipping companies to form strong maritime clusters.. This being said, Lam points to the fact that the HKSAR Government has long been pursuing the Laissez Faire policy; in addition, tax concessions have been granted under Section 23B of the Hong Kong Inland Revenue Ordinance. As time goes by, however, some new business models, like ship leasing, have emerged in the shipping industry. Thus, it is necessary to ascertain the stability of the relevant tax concessions.

According to the Amendment Ordinance, the tax concessions policy includes a 0% tax rate on the compliance profits generated from the ship leasing activities in Hong Kong, and a preferential tax rate of 8.25% on the compliance profits generated from the ship leasing management business (the standard profits tax rate is 16.5%). Moreover, the provision of protection against abuse has been incorporated into this ordinance to safeguard the soundness of the taxation system and comply with the latest international taxation regulations (The Base Erosion and Profit Shifting Project of The Organisation for Economic Co-operation and Development).

Stable return of investment of the maritime industry

Kenneth Lam explains that Hong Kong tax rate has long been maintained at a low level, while the newly launched tax concessions assure that the tax exemption from the profits generated from the ship leasing business in Hong Kong is in line with other international shipping centres. Besides, Hong Kong, as an international financial centre, practices the common law. The City's natural port is also favourable in positioning itself as an international shipping and financial centre. "Leasing can be regarded as a form of financing which competes on the cost of capital. As an international financial centre, Hong Kong is well placed to assist leasing companies to raise the most cost effective financial products, from debt to equity. Furthermore, the vast majority of shipping related contracts and agreements are governed by English Law, which provides additional convenience to companies to develop their ship leasing business in Hong Kong."

He adds that Hong Kong has an edge on various aspects, such as geographical location, legal system and financial strengths, coupling with taxation policies, it is expected that the city will attract shipping companies, ship leasing management companies, as well as maritime corporations engaging in logistics and shipping finance to develop business in Hong Kong, strengthening the maritime cluster in the City. Aligning with the National 13th Five-Year Plan and the Greater Bay Area development, Hong Kong can create synergy with various business partners.

Lam quotes some figures, explaining that the global economy has encountered ups and downs, and even been hard hit by the financial tsunami in 2008 and the novel coronavirus in 2020. Despite all these, maritime trade has managed to maintain an annual growth rate of 3% over the past three decades. "The transportation of crude oil, petroleum products, gas, coal, iron ore and cereals cannot be suspended. Although this year saw the pandemic outbreak and flight suspensions, maritime services are still required for transporting anti-epidemic materials and daily necessities." He mentions that the maritime trade volume accounts for about 85% of the total freight volume, while the land and air freight volume is 14% and 1% respectively.

He asserts that while the maritime trade has demonstrated its resilience on the demand side, there is also optimism on the supply side, "historically speaking, the new ships on order usually accounts for 15% to 20% of the world fleet. Due to the economic downturn and pessimism caused by the pandemic outbreak, this newbuilding order book has dropped to a record low of 7 to-8%. It is believed that the number of orders will increase gradually over time due to a constant demand and the need to renew the world fleet owing to environmental objectives." Lam concludes that the long-term return on investment is deemed to be attractive to ship owners, ship leasing companies and related financial services providers due to the steady growth of maritime trade business. Hong Kong will capitalize on these fundamentals, enlarge its maritime cluster and strengthen its status as an international shipping and financial centre.