News Flash
Private Services

New Hong Kong Capital Investment Entrant Scheme – opportunities and challenges

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In brief

Following the introduction of the Admission Schemes for Talent, Professionals and Entrepreneurs in 2022, the Chief Executive of the Hong Kong Special Administrative Region (HKSAR) announced in the 2023 Policy Address delivered on 25 October that the new **Capital Investment Entrant Scheme** (CIES) would be re-launched to allow eligible investors to apply for entry into Hong Kong. Details of the CIES were released on 19 December 2023, which aims at enhancing Hong Kong's advantages in asset and wealth management and financial services[1]. This news flash provides an overview of the new CIES to help interested investors to understand the scheme and consider their eligibility accordingly.

In detail

Background

The HKSAR Government has been actively developing Hong Kong into a global leading family office hub. In particular, the introduction of the profits tax concession for eligible family-owned investment holding vehicles managed by eligible single family offices in mid-2023 aimed to provide a favourable platform for family offices to set up in Hong Kong and to bolster Hong Kong's financial market and asset and wealth management industry.

Besides the tax concession, the new CIES is another one of the eight policy measures aimed at developing a vibrant ecosystem for family offices in Hong Kong, which will be conducive to attracting more asset owners to set up their family offices in Hong Kong and generating increased demand for financial and related professional services. The combined financial and economic benefit will further consolidate Hong Kong's position as an international financial centre.

The new CIES is a special investment entry programme for capital investors to obtain permission to stay in Hong Kong by investing in qualified asset classes. Having released the detailed requirements of the new CIES, the HKSAR Government targets to officially launch the new CIES and invite applications in mid-2024.

In recent years, the HKSAR Government has already promoted several schemes to attract overseas talents to Hong Kong, including optimising existing policies, such as the Quality Migrant Admission Scheme and the new Top Talent Pass Scheme, which have received positive responses from talents around the world.

The eligibility requirements of the new CIES are different from those of the existing talent schemes. The new CIES focuses on the qualifying capital requirements and has its own unique advantages in terms of renewal of visa/entry permits and the period of stay.

Key criteria of the new CIES

1. Requirements on the applicant:
   (i) Aged 18 or above;
   (ii) Must have net assets of not less than HK$30 million (or equivalent in foreign currencies) to which he/she is absolutely beneficially entitled throughout the two years preceding the application;
   (iii) Main applicant should be a foreign national, Chinese national who has permanent resident status in a foreign country, Macau SAR resident or Chinese resident of Taiwan; and
   (iv) No adverse record and meets normal immigration and security requirements.

2. Investment threshold:
   Invest not less than HK$30 million in permissible investment assets[2].

3. Investment requirements:
   Within six months after the application is approved in principle by the Director of Immigration and a visa/entry permit for entering Hong Kong as a visitor is granted, invest not less than HK$30 million in permissible investment assets.

4. Asset classes:
   (i) A minimum of HK$27 million in permissible financial assets (traded in Hong Kong Dollar or Renminbi) and non-residential real estate:
      - Equities, debt securities, certificates of deposits and subordinated debt;
      - Eligible collective investment schemes (recognised by the Securities and Futures Commission);
      - Limited partnership funds (registered in Hong Kong); and
      - Non-residential real estate (subject to a cap of HK$10 million).
   (ii) HK$3 million into a new CIES investment portfolio, which will be set up and managed by The Hong Kong Investment Corporation Limited. The CIES investment portfolio will make investments in companies or projects in support of the innovation and technology industries and other strategic industries which are conducive to the long-term economic development of Hong Kong.

   The applicant will obtain 'formal approval' and permission to stay after fulfilling the investment requirements and can apply for a Hong Kong resident identity card. The suspension mechanism for payment of Buyer's Stamp Duty and new residential stamp duty will cover successful applicants under the new CIES[3].

5. Dependants:
   Spouse or the other party to a partnership entered into in accordance with the local law, and unmarried dependent children under 18 years of age are allowed to be brought by the applicant as dependants.

6. Period of stay:
   - Will be granted permission to stay for not more than two years. An extension of stay can be applied for under a 3+3 model;
   - May apply to become a Hong Kong permanent resident upon a period of continuous ordinary residence in Hong Kong of not less than seven years;
   - Apply for an unconditional stay in Hong Kong, if the applicant has invested in Hong Kong under the new CIES for a period of seven years but does not fulfil the requirement of having ordinarily resided in Hong Kong for a continuous period of seven years;

- It should be noted that the investments must be maintained in Hong Kong. The invested funds cannot be withdrawn for other purposes. No additional investments are required upon renewal of visa/entry permits. Applicants will be free to dispose of the invested assets under the new CIES scheme after their application for permanent resident status or an unconditional stay is approved.

7. Responsible Government authorities
   - Invest Hong Kong will be responsible for assessing whether the applications fulfil the net asset and investment requirements;
   - The Immigration Department will be responsible for assessing the applications for visa/entry permits, and extensions of stay.

Advantages of the new CIES

The new CIES has the following advantages:

- There is no age limit or academic requirements on the applicants, which is more relaxed than the existing talent schemes;
- There is only a continuous investment requirement in Hong Kong and no requirement on the number of days of residence or work in Hong Kong. The requirements on extension of stay are simplified. However, applicants are still required to pay attention to the requirement of ordinarily residing in Hong Kong for a continuous period of not less than seven years if they wish to become a Hong Kong permanent resident;
- Hong Kong adopts a territorial source principle of taxation and salaries tax is charged at progressive rates ranging from 2% to 17% (after allowances), or at a flat rate of 15%, whichever calculation produces the lower tax liability. Investment income and capital gains are generally not subject to tax, and there is no sales tax, gift tax or inheritance tax in Hong Kong. Appropriate investment structure and wealth planning will facilitate tax compliance and enhance tax efficiency of investments;
- The new CIES will help applicants to diversify their investments, rationalise their planning and optimise their personal and family wealth and succession arrangement;
- Applicants may have a chance to obtain Hong Kong residence status, which may enhance the after-tax returns of his/her personal and family investments in the future.

The takeaway

There are many types of entry/visa schemes in Hong Kong but their eligibility criteria, application difficulty, processing time and renewal requirements vary. We recommend that interested applicants select a scheme based on their own academic background, work experience, past achievements, family status and development plans in Hong Kong, etc.

The new CIES is an important initiative to promote the development of family offices in Hong Kong, which will facilitate the entry of qualified investors. With the profits tax concession for family-owned investment holding vehicles managed by eligible single family offices now in place, the profits tax implications of undertaking asset management activities can be optimised through appropriate planning.

After obtaining Hong Kong permanent resident status through the new CIES, applicants should consider how this would impact their tax resident status and subsequent compliance matters, as well as the tax compliance requirements under another jurisdiction (e.g. Chinese mainland) and Hong Kong to avoid or minimise potential double taxation. Professional advice should be sought where necessary.

The new CIES is expected to be formally launched in mid-2024 and applications will start to be accepted then. At the time of publishing this news flash, interested investors still have half a year to consider before the new CIES is officially launched. However, as the requirements of the new CIES could become more stringent in the future, we recommend that investors who are interested in the new CIES to prepare for the application now as part of their future investment structure planning.

PwC Private in Southern China can provide clients with one-stop professional services in planning and arranging the new CIES application. After the application is approved, we can also provide tax consultancy in the Chinese mainland and Hong Kong, as well as services on planning and setting up of family offices in Hong Kong.

Endnote

1. The HKSAR Government's announcement of the new CIES can be accessed via this link: https://www.info.gov.hk/gia/general/202312/19/P2023121900385.htm

2. Details of the permissible investment assets under the new CIES can be found via this link: https://gia.info.gov.hk/general/202312/19/P2023121900385_442644_1_1702988180672.pdf

3. Under the recently introduced suspension mechanism, eligible individuals who purchase a residential property in Hong Kong on or after 25 October 2023 may apply for suspension of stamp duty payment in respect of the Buyer's Stamp Duty and new residential stamp duty. The talent still has to pay the ad valorem stamp duty at Scale 2 rates.

Let's talk

For a deeper discussion of how this impacts your business, please contact:

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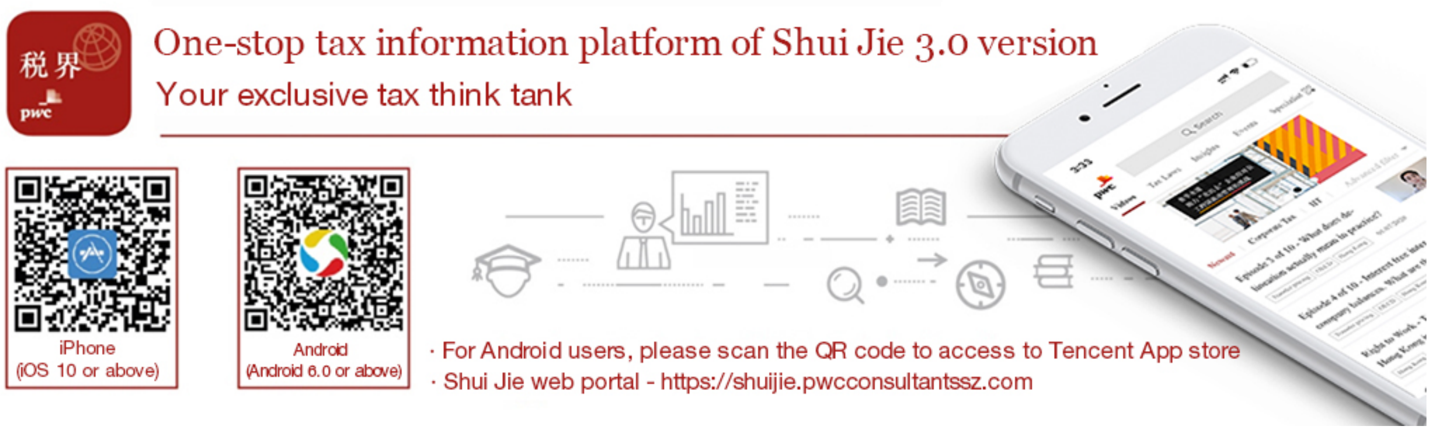

In the context of this News Flash, China, Mainland China or the PRC refers to the People's Republic of China but excludes Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Region.

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