

Tax and Accounting Implications of Latest Re-domiciliation and Reinvestment Policies



With You Today

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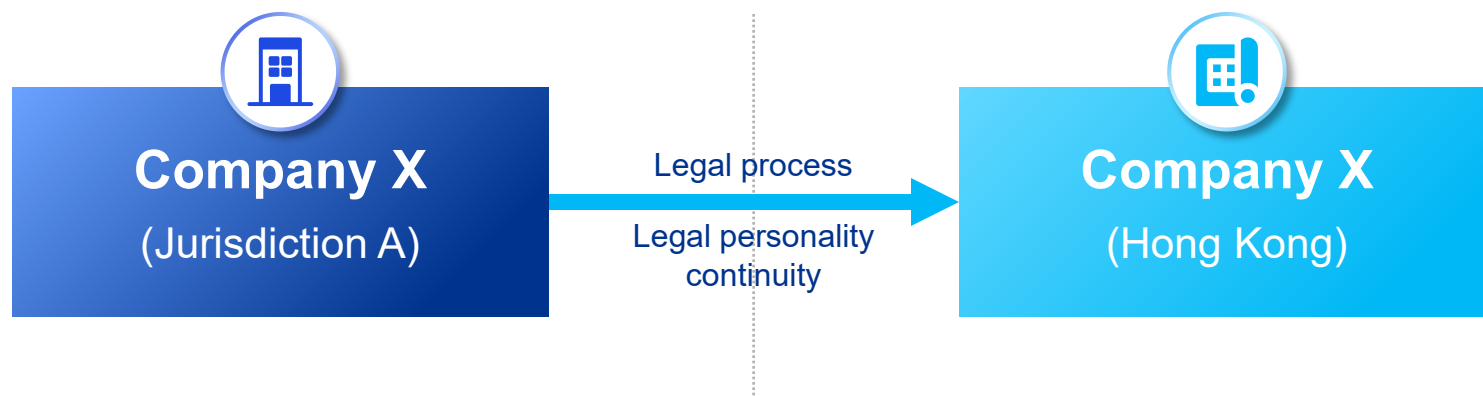
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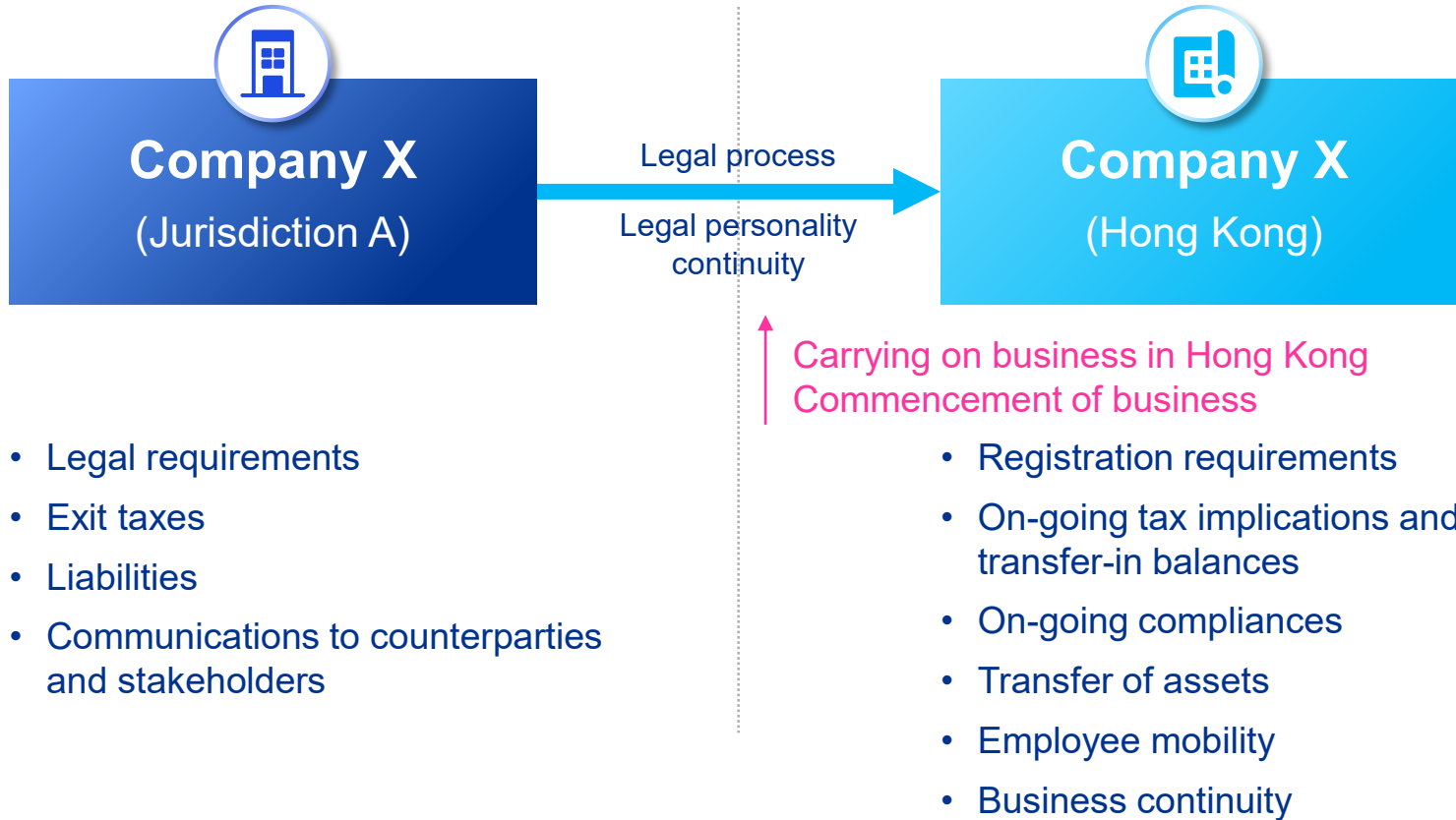
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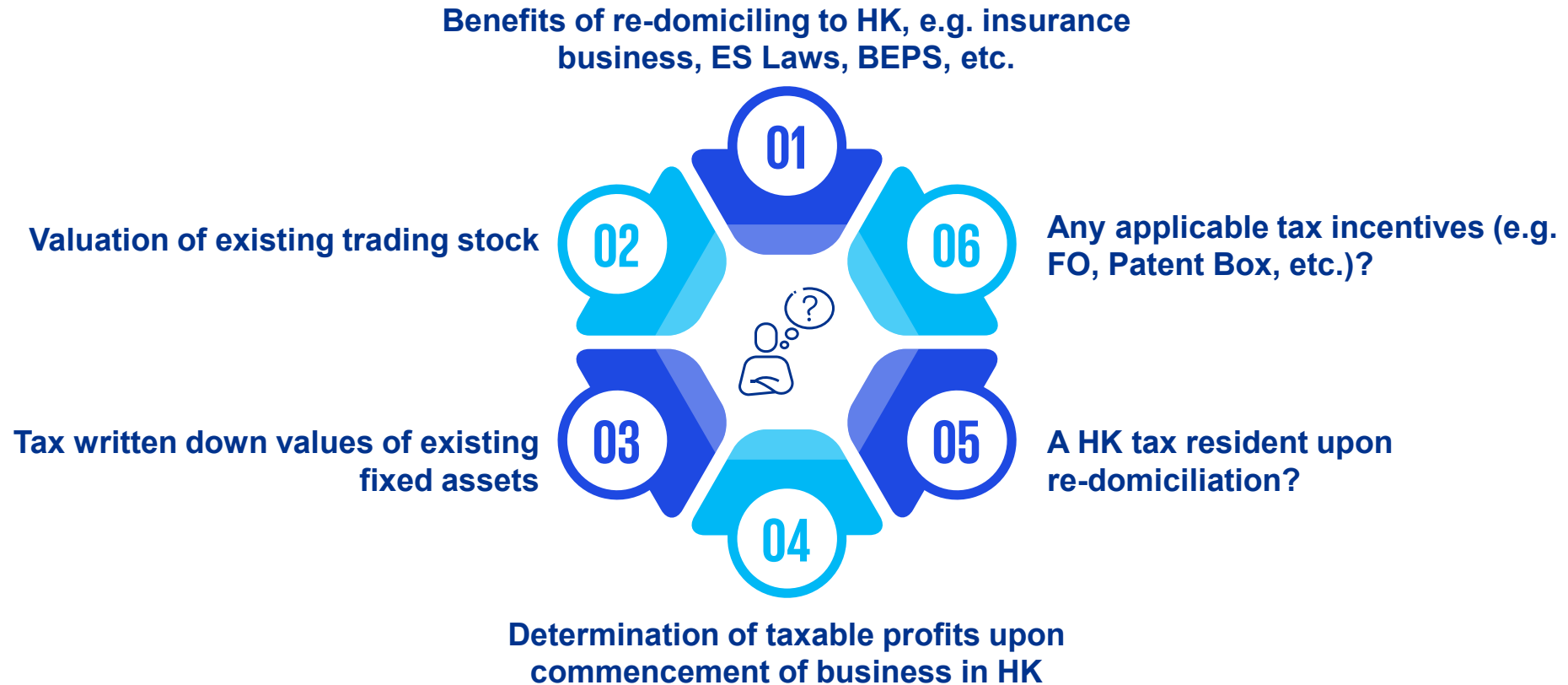
Re-domiciliation



Considerations



Tax Issues to Consider



Financial Reporting Considerations

Questions



Answers



Is a re-domiciled company required to prepare statutory financial statements under the Companies Ordinance (the “CO”)?

Yes



What financial reporting framework shall be used by a re-domiciled company when preparing its statutory financial statements under the CO?

Accounting standards issued by HKICPA, i.e.

- 1) HKFRS Accounting Standards;
- 2) HKFRS for Private Entities; or
- 3) SME-FRF & SME-FRS



If a re-domiciled company adopts HKFRS Accounting Standards for the first time in its first statutory financial statements after re-domiciliation, does HKFRS 1 apply?

Yes

Financial Reporting Considerations (con't)

Questions



How is the first financial year of a re-domiciled company determined under the CO?



When the re-domiciled company prepares its first set of statutory financial statements, is comparative information required?

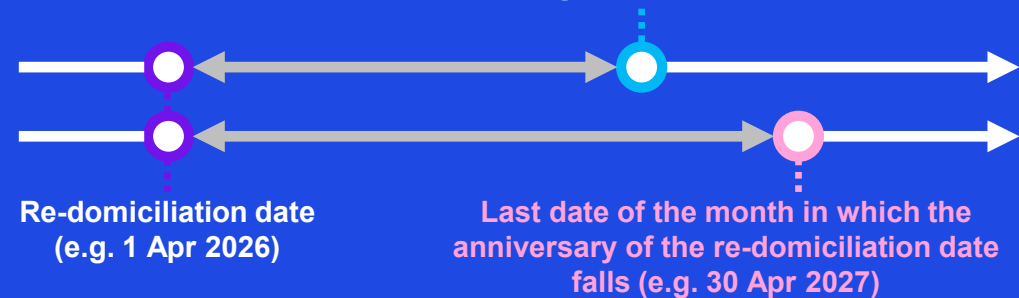


Answers



Begins on the re-domiciliation date and ends on its primary accounting reference date

Date specified by the directors within 18 months after the re-domiciliation date (e.g. 31 Dec 2026)



Yes

How to Present The Comparative Information?



Background

- Re-domiciliation date: 1 April 2026
- Year-end date in prior periods: 31 December
- The primary accounting reference date: 31 December 2026



Question: Which of the following approach would you adopt to prepare the first set of statutory financial statements, including the comparatives?

Approach A

Income statement	
From 1 Apr 2026 to 31 Dec 2026 (9 months)	From 1 Jan 2026 to 31 Mar 2026 (3 months)
Statement of financial position	
31 Dec 2026	31 Mar 2026

Approach B

Income statement	
From 1 Apr 2026 to 31 Dec 2026 (9 months)	From 1 Jan 2025 to 31 Dec 2025 (12 months)
Statement of financial position	
31 Dec 2026	31 Dec 2025

Approach C

Income statement		
From 1 Apr 2026 to 31 Dec 2026 (9 months)	From 1 Jan 2026 to 31 Dec 2026 (12 months)	From 1 Jan 2025 to 31 Dec 2025 (12 months)
Statement of financial position		
	31 Dec 2026	31 Dec 2025

Polling Question



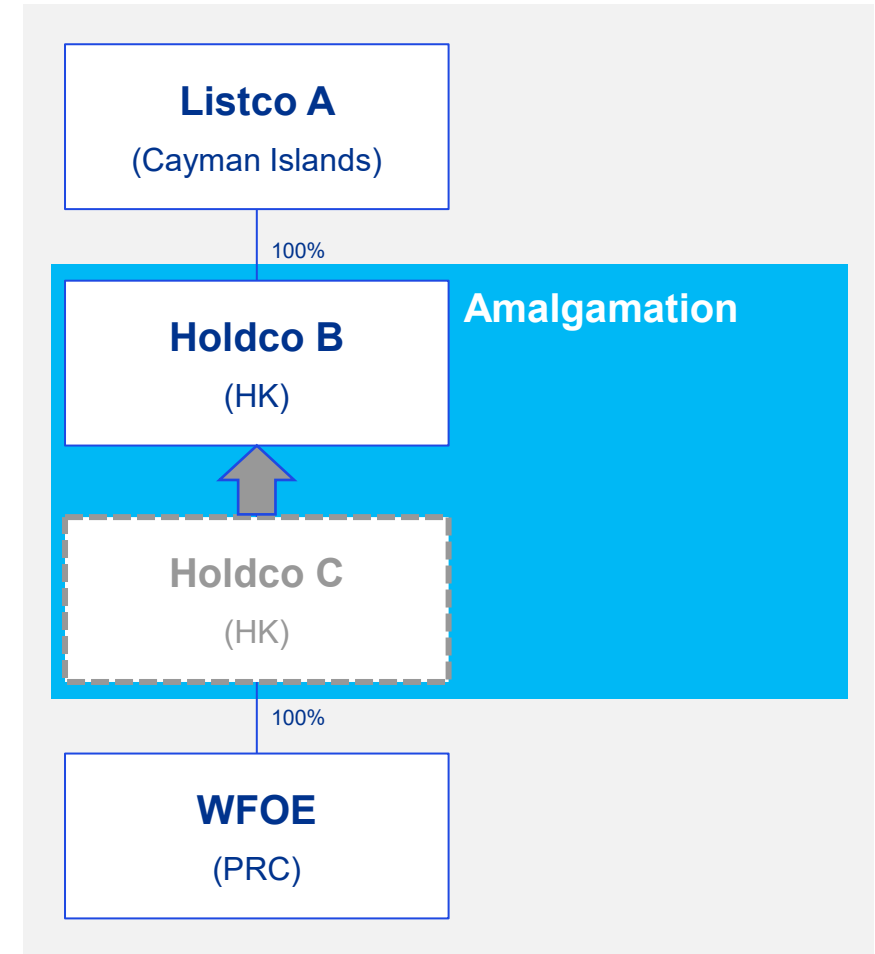
Which of the following approach would you adopt to prepare the first set of statutory financial statements, including the comparatives?

A Approach A

B Approach B

C Approach C

Entity Rationalisation



Chinese Mainland's Tax Incentives on Profit Reinvestment

Tax Deferral

Since January 2018, foreign investors using distributed profits of domestic enterprises for direct reinvestment have been temporarily exempted from withholding tax, with the tax deferred until the investment is actually disposed

Tax Credit

- Foreign investors making direct reinvestment with distributed profits of domestic enterprises may claim a tax credit equal to 10% of the investment amount (or the lower treaty rate, if applicable)
- Applicable period: January 2025 to December 2028



Qualified foreign investors may enjoy both incentives simultaneously

Tax Credit: Calculation and Application

Calculation

Year 1 Dividend Amount = RMB 10m (all re-invested)

Year 2 Dividend Amount = RMB 20m (all out of the PRC)

Assuming selected withholding tax rate = 10%

- Year 1 Tax Deferral Amount = RMB 1m
- Year 1 Tax Credit = RMB 1m
- Year 2 Withholding Tax payable = RMB 2m
- Final tax payable = RMB 2m – RMB 1m = RMB 1m
- Year 6 Withholding Tax payable = RMB 1m (equal to Year 1 Tax Deferral Amount)

Application

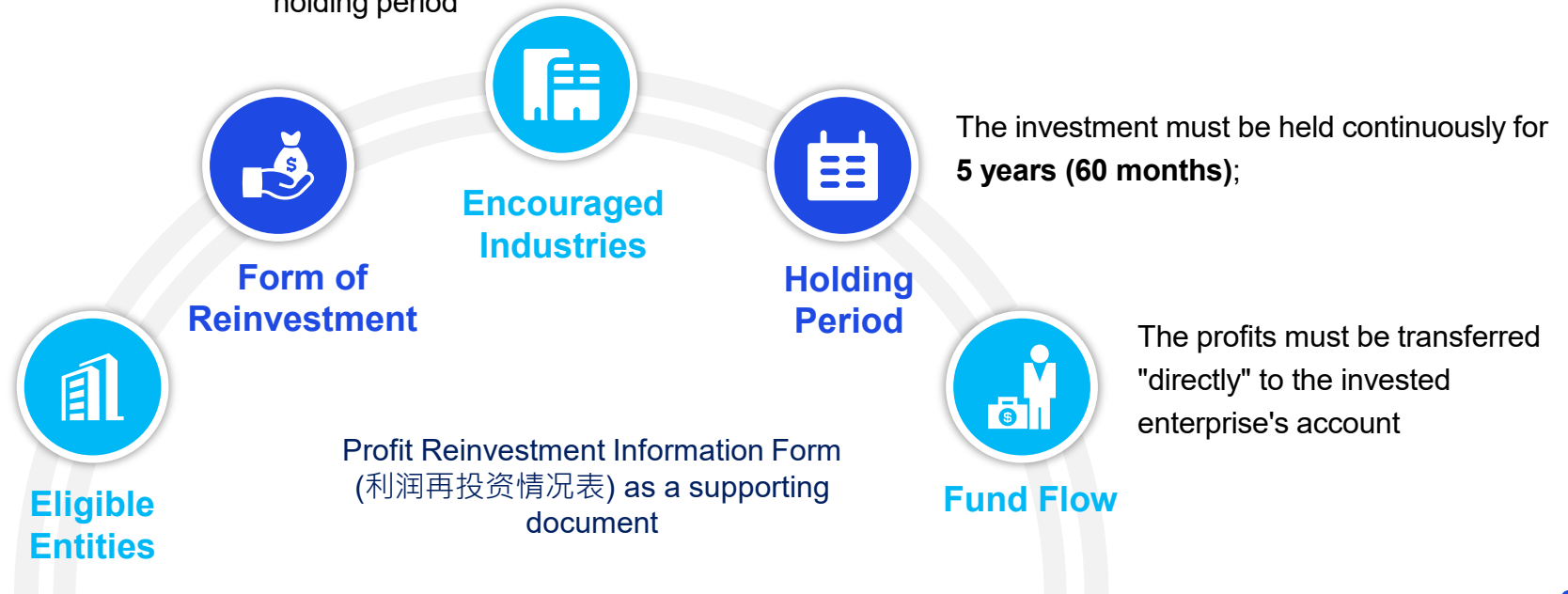
- Future WHT payable on income received from the same profit-distributing enterprise
- The income type includes dividends, interest, royalties, etc
- The income must be derived after the date of reinvestment

Tax Credit: Eligible Entities and Qualifying Conditions

- The industry of the invested enterprise must fall under the **nationwide encouraged categories** listed in the Catalogue of Industries for Encouraging Foreign Investment,
- Must continue to meet the requirements throughout the holding period

Direct re-investment, including:

- Increasing or converting into paid-in capital / capital reserve
- Establishing a new enterprise in China
- Acquiring equity in a domestic enterprise held by a non-related party



Accounting for Tax Credit

- On 25 January 2026, Foreign Investor A received a dividend of RMB 10m from subsidiary X in Chinese Mainland. Foreign Investor A reinvested the entire dividend amount in subsidiary X and completed the capital injection on 28 January 2026
- On 12 February 2026, Foreign Investor A obtained the “Profit Reinvestment Information Form” issued by the relevant authority
- Foreign Investor A is eligible for RMB 1m tax credit, out of which RMB 0.3m is used to offset the corporate income tax liabilities during the year ended 31 December 2026. It is expected that the remaining RMB 0.7m will be utilised in future periods



Which accounting standard applies?

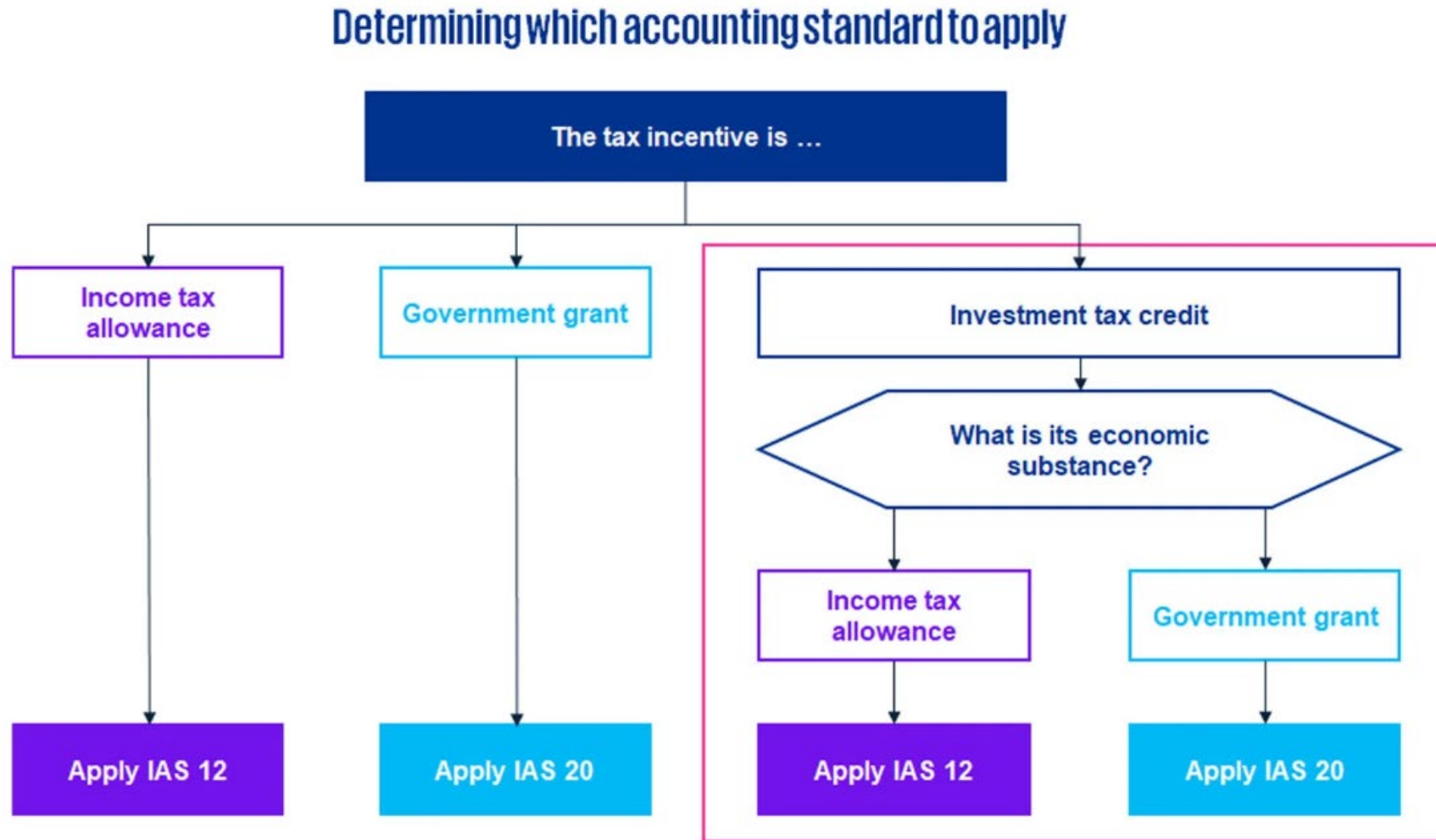


When to recognise the tax credit?



How the tax credit should be recognised?

Accounting for Tax Credit (con't)



Polling Question



What is the economic substance of the tax credit?

A Income tax allowance

B Government grant

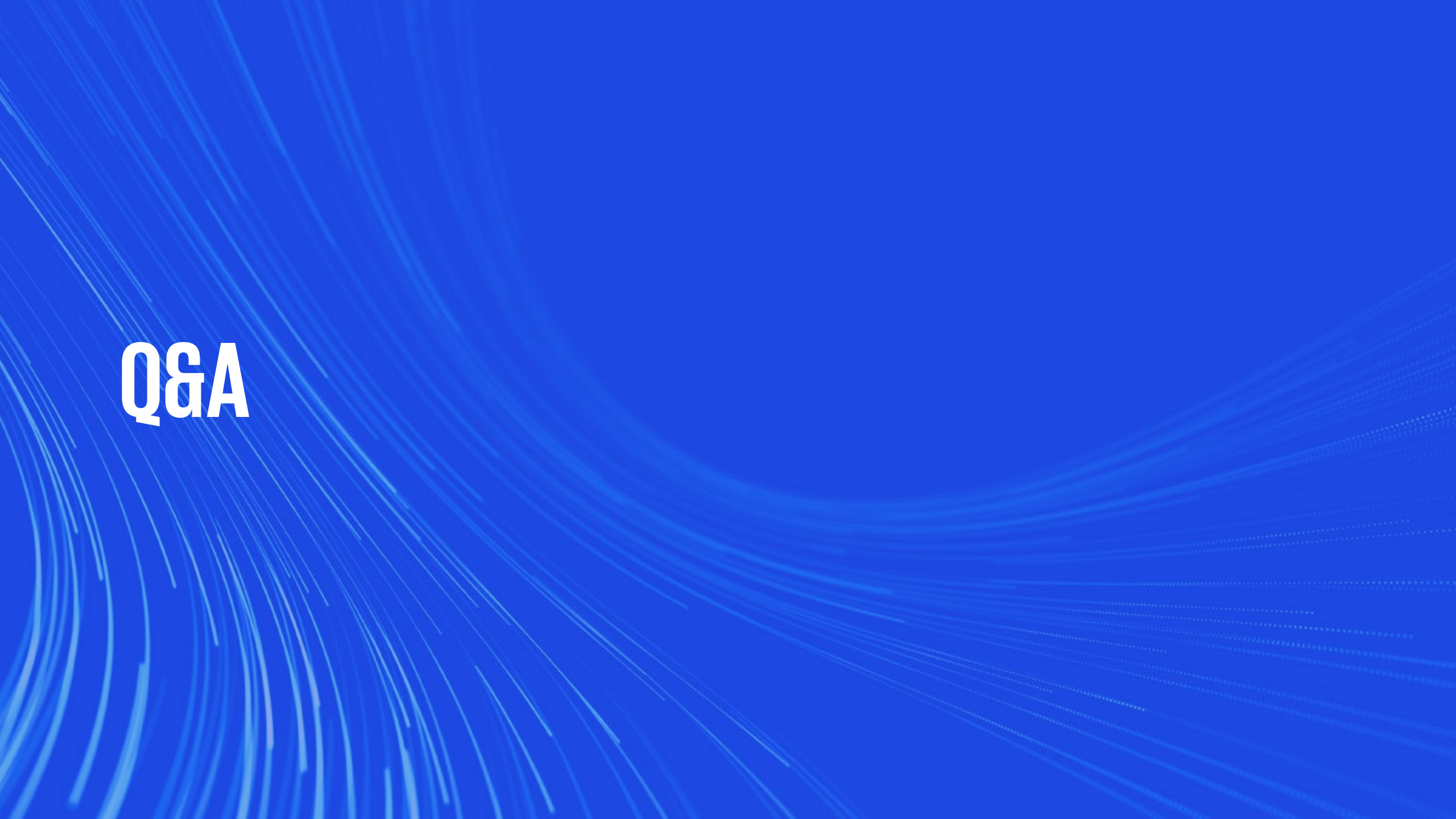
Accounting for Tax Credit (con't)

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	RMB	RMB
Dr. Current tax liabilities	0.3 million	
Dr. Deferred tax assets	0.7 million	
Cr. Income tax expenses		1.0 million

- In 2027, RMB 0.7m is used to offset the corporate income tax liabilities

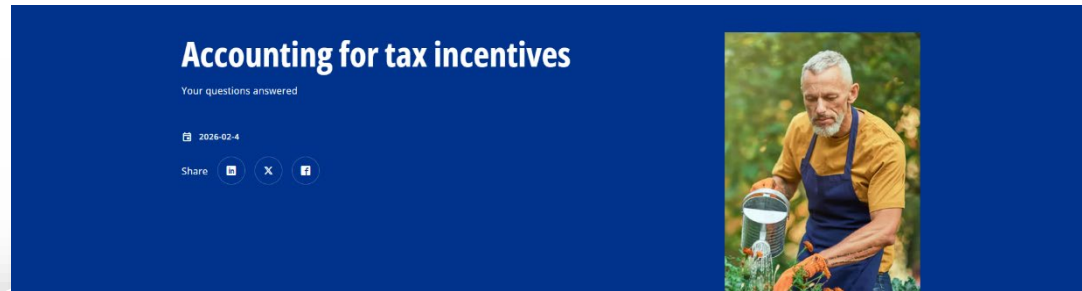
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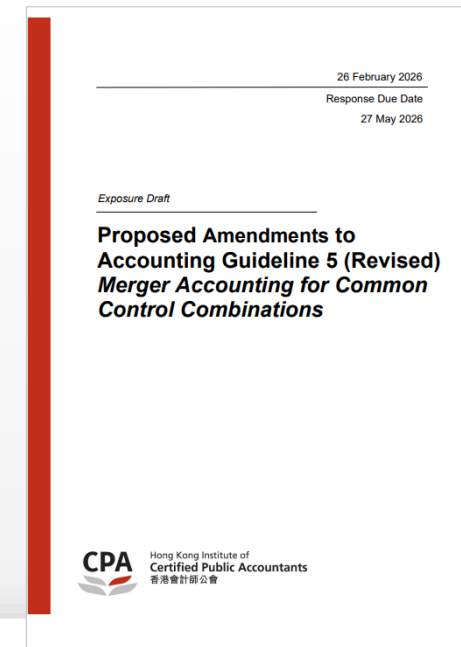
Q&A

Resources

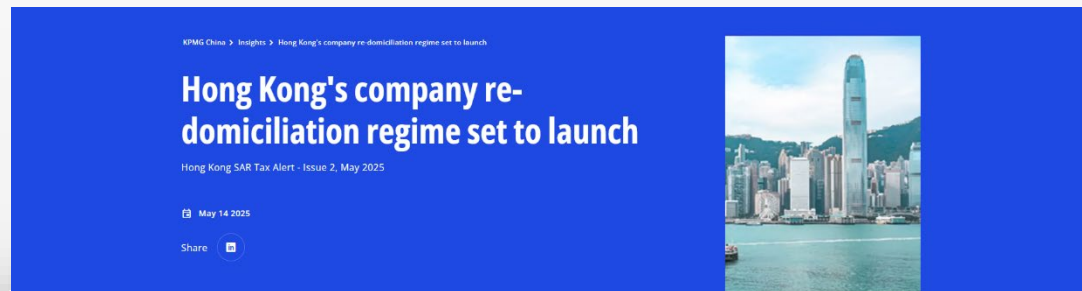
Accounting for Tax Incentives



Proposed Amendments to Accounting Guideline 5 (Revised) Merger Accounting for Common Control Combinations



Hong Kong's Company Re-domiciliation Regime Set to Launch



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