HKVCA
Hong Kong Venture Capital and Private Equity Association
香港創業及私募投資協會
The Association for Private Capital in Asia

11th June, 2024

Mr. John Lee, GBM, SBS, PDSM, PMSM
Chief Executive
Hong Kong Government
Central Government Offices,
2 Tim Mei Avenue, Tamar, Hong Kong

Dear Mr. Lee,

The Hong Kong Venture Capital and Private Equity Association (HKVCA) represents a majority of the Private Equity firms based in Asia, in particular to Hong Kong, and shares the government's desire to cement Hong Kong's position as the leading asset and wealth management centre in Asia. We believe the enhancement of the existing tax regime is an important and pressing requirement needed for Hong Kong to retain its leading position.

We are writing to express our deep concern about the urgent need for Hong Kong to enact reforms to its taxation of private equity and private credit funds. We have been raising this issue with government department over the last several years.

As you are aware, Hong Kong has long been Asia's leading hub for private equity, but we are rapidly losing ground to Singapore with respect to the preferred location for managing the investment holding vehicles that are used by such funds. This is because Singapore's taxation framework for private equity funds has proven more effective, making it the preferred jurisdiction for investment holding structures.

Over the past few years, nearly all regional and global private equity and private credit funds have established their investment holding platforms in Singapore. This has resulted in many fund groups managing hundreds of investment holding SPVs from Singapore. Consequently, there is a significant amount of operational support that has been established in Singapore to manage these investments at the expense of Hong Kong. Hong Kong should be actively seeking to attract this business back through new rules, thereby reclaiming a critical segment of the market and bolstering our local economy.

We understand that the Inland Revenue Department (IRD) has concerns regarding potential abuse in granting an exemption to private credit funds for interest income. However, it is important to note that Singapore currently offers a clear exemption for such funds, and there has been no evidence of abuse or avoidance by traditional bank lenders using the fund incentives in that location. This is simply due to the different risk and return profiles between private credit funds and traditional banks that mitigate these concerns.

In the Budgets for 2022/23 and 2022/24, the Financial Secretary, Paul Chan, announced a review of these issues, but we have yet to see any tangible progress. The financial services industry is evolving quickly, and Hong Kong needs to adapt at a faster pace to remain competitive.

Implementing these changes would bring substantial benefits to Hong Kong. The real economic advantage lies in the increased activity generated from managing these funds within Hong Kong. Presently, nearly all investment platforms are being established in Singapore, which means Hong Kong is missing out on a significant amount of economic activity. It is not just the Funds themselves and their AUM – it is the entire infrastructure that supports the Fund business including legal, accounting and administrative support services that follow.

As another way to say, this should be tax neutral in regards to taxability of interest to the Revenue as credit funds would otherwise be structured outside of HK to ensure that there is not an additional layer of tax that means the fund is not competitive. Meanwhile, having a clear exemption allows investment professionals to work from HK without the risk of tripping HK taxation for the fund thus allowing HK to attract and retain senior investment professionals.

Finally, it is crucially important for Hong Kong's future success that it maintains its status as a global financial centre and a global asset management hub. Ensuring competitive and attractive tax policies for private equity and private credit funds is essential to achieving this goal.

We are at a critical juncture. By moving swiftly to implement these reforms, Hong Kong can maintain its status as a premier financial hub and capture the economic benefits of this fast-growing market. Delaying further will only result in continued loss of market share to Singapore.

Thank you for your attention to this crucial matter. We would welcome the opportunity to meet with you.

Sincerely,

Rebecca Xu
Chairwoman
HKVCA

About the Hong Kong Venture Capital and Private Equity Association (HKVCA)
The HKVCA is a member-based trade association established in Hong Kong in 1987. It currently has over 520 members of whom 350 are private equity managers across the full spectrum of the industry, from venture capital, growth capital and growth buyouts to institutional fund investors, fund of funds and secondary investors. The HKVCA represents small teams investing in start-ups as well as the world's 10 largest private equity firms.

For more information about the HKVCA, please visit: www.hkvca.com.hk