HONG KONG TAX | INTELLECTUAL PROPERTY · PROFITS TAX · TAX DEDUCTIONS

Hong Kong IP tax deductions: bill gazetted to cover group purchases and licence fees

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On 16 October 2026 Hong Kong gazetted a bill that allows profits tax deductions for IP bought from group companies, IP used by licensees outside Hong Kong and upfront licence fees, for contracts from 1 April 2026.

Country reference

- **Country:** Hong Kong
- **Authorities:** Inland Revenue Department; Commerce and Economic Development Bureau
- **Topic:** Profits tax deductions for capital spending on intellectual property
- **Key date:** Gazetted 16 October 2026; First and Second Reading in the Legislative Council on 28 October 2026
- **Law:** Inland Revenue (Amendment) (Tax Deductions for Intellectual Property Expenditure) Bill 2026

What changed

The government published the bill that turns a measure from the 2025-26 and 2026-27 Budgets into law. It relaxes the rules on deducting capital spending on IP rights, or on licences to use them. Our earlier note on the 2026 Policy Address flagged the plan; this is the legal text.

Three new deductions

- **IP bought from associates:** purchases of eligible IP rights from group companies can be deducted. The stated aim is to help multinationals centralise IP management in Hong Kong.
- **IP used outside Hong Kong:** purchases of IP rights used by a licensee outside Hong Kong can qualify, in proportion, where the licensing income is treated as Hong Kong sourced under the foreign-sourced income exemption regime and is chargeable to profits tax.
- **Upfront licence fees:** lump-sum fees paid to use eligible IP rights under a licensing arrangement.

Safeguards and timing

- A main purpose test applies to purchases from associates.
- A set calculation method applies where the seller is a Hong Kong associate.
- Claims above a threshold need a third-party independent valuation report. The press release does not state the threshold.
- The changes apply to contracts to buy or license eligible IP rights entered into on or after 1 April 2026, so they can reach back into the current year of assessment.

What to do now

- List IP purchases and licence agreements signed since 1 April 2026, especially intra-group ones.

- Groups planning to move IP into a Hong Kong company: model the deduction, the main purpose test and the valuation cost.
- Commission valuations at the time of the transaction, not at filing.
- Follow the bill through the Legislative Council from 28 October for the final definitions and threshold.

Our take

This removes a long-standing barrier to holding group IP in Hong Kong. For Gulf groups with Asian operations, Hong Kong now competes more directly with Singapore as an IP hub. The anti-abuse tests mean real substance and sound valuations are still needed.

Sources

- Inland Revenue Department: Tax Deductions for Intellectual Property Expenditure Bill 2026 gazetted (16 October 2026)
- Inland Revenue Department: What's New (October 2026)

Important. This summary is for general information and is not tax, legal or financial advice. It is based on public Inland Revenue Department publications and may be incomplete or out of date. The official legislation and guidance prevail; check the official text before acting.

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