



**GOVERNMENT STAKEHOLDER CONSULTATION ON
PROPOSALS ON INTELLECTUAL PROPERTY TAX DEDUCTION
("CONSULTATION PAPER")**

LAW SOCIETY SUBMISSIONS

1. The Law Society of Hong Kong welcomes the opportunity to comment on the Consultation Paper.
2. We are generally supportive of the proposals, which align with Hong Kong's objective of promoting the creation, management and commercialisation of intellectual property ("IP") and strengthening its position as a regional IP trading centre and international innovation hub.
3. By introducing targeted tax incentives with appropriate safeguards, businesses will be encouraged to develop, acquire, and exploit IP in Hong Kong.

Proposal 1: Allowing Tax Deduction of the Acquisition Costs of certain IP from Associates

4. We support the proposed relaxation of section 16EC(2) of the Inland Revenue Ordinance ("IRO") to allow tax deductions for IP acquired from associates. We believe this would incentivise the centralisation of IP management in Hong Kong and promote greater intra-group IP structuring and transactions. These activities will reinforce Hong Kong's role as a regional hub for IP trading and enhance its competitiveness in line with national strategies.
5. We note that the Consultation Paper includes safeguard measures to mitigate risks of abuse. These appear generally robust. We recommend that the Government conduct periodic reviews after implementation to identify emerging risks and refine the safeguards where necessary to ensure long-term policy effectiveness.

Proposal 2: Allowing Tax Deduction for Upfront Licence Fees for the right to use IP in a licensing arrangement

6. We welcome the proposal to allow deductions for upfront licence fees for the right to use IP in licensing arrangements. This reflects commercial reality, where upfront fees are commonly charged, and will encourage the commercialisation and broader use of IP.
7. The proposed measures, such as spreading deductions over the life of the licence, claw-back arrangements upon termination or assignment, and anti-avoidance provisions (including the Commissioner's power to determine arm's-length pricing and request valuation reports), are sensible and help maintain tax symmetry while deterring misuse.

Further Comments and Suggestions

8. Following the engagement session held on 5 March 2026 ("**Session**"), we offer the following further observations:

- (1) **Threshold for Capital Expenditure** - We understand that the proposed HK\$3 million threshold for IP acquisition costs is modelled on Singapore's former approach. Singapore has since substantially raised its threshold to S\$10 million for related-party transactions. At the Session, we learn that Hainan permits one-time deductions for IP below RMB 5 million, with accelerated amortisation for higher-value IP.

To ensure Hong Kong remains competitive, it may be appropriate to adopt a more ambitious or flexible threshold. However, we acknowledge that the threshold also serves an anti-avoidance purpose by triggering the requirement for a third-party independent valuation. In our view, the threshold should be realistic, data-driven, and proportionate.

We therefore suggest that the Government consider whether empirical data, such as median IP acquisition costs among SMEs, may be available to help calibrate the threshold more effectively.

- (2) **Threshold Should Apply to Bundled IP Rights** - Commercial IP transactions frequently involve bundles or portfolios of rights, such as trademark series, patent families, design portfolios, or combinations of IP rights used in business operations. We recommend that the threshold apply to all relevant IP rights acquired as part of a single commercial transaction, rather than to each individual right. This better reflects market practice and avoids inadvertently discouraging legitimate multi-IP transactions.

- (3) **Expansion of the Definition of “Know-how”** - Although Section 16E of the IRO defines “know-how” broadly (meaning “any industrial information or techniques likely to assist in the manufacture or processing of goods or materials”), its scope appears confined to patent-related know-how due to the context and wording of the provision. We suggest that the Government consider expanding the concept of “know-how” beyond the patent context which can accommodate franchised and other business models where valuable know-how may not be patent-related or registered.
- (4) **Clarification that Sublicences Are Covered** – Although it is not apparent in the Consultation Paper, it was confirmed during the Session that sublicences are intended to be covered under Proposal 2. For legal certainty and ease of administration, we recommend that this be clearly stated in the relevant amendments to the IRO.
- (5) **Licence Types** - Proposal 2 refers to sole, exclusive, and non-exclusive licences. For clarity and to avoid unintended exclusions, it may be preferable simply to state that all licences are covered.

**The Law Society of Hong Kong
24 March 2026**