

Illustrative examples of the definition of "connected entity" under the two-tiered profits tax rates regime

[Hide All](#)

▼ 1. Q: Mr. Chan and his spouse have following businesses:

Business	Issued share capital/ voting rights/ profits entitled	
	Mr. Chan	Mrs. Chan
Corporation A	50%	50%
Corporation B	50%	50%
Partnership C	60%	40%
Sole Proprietorship D	100%	--
Sole Proprietorship E	--	100%
Sole Proprietorship F	--	100%

Note: All the above businesses adopt the same basis period for a year of assessment.

A: Corporation A and Corporation B are not connected entities as neither Mr. Chan nor Mrs. Chan has control over them. Both Corporation A and Corporation B qualify for the two-tiered profits tax rates.

Partnership C and Sole Proprietorship D are connected entities as Mr. Chan has control over them. Either Partnership C or Sole Proprietorship D can elect two-tiered profits tax rates in Partnership C's Profits Tax Return or Mr. Chan's Tax Return – Individuals.

Sole Proprietorship E and Sole Proprietorship F are also connected entities as they are sole proprietorship businesses carried on by Mrs. Chan. In her Tax Return – Individuals, Mrs. Chan can elect two-tiered profits tax rates for Sole Proprietorship E or Sole Proprietorship F.

[back to top](#)

▼ 2. Q: Mr. Lee and his family members have following businesses:

Business	Issued share capital/ voting rights/ profits entitled			
	Mr. Lee	Mrs. Lee	Brother of Mr. Lee	Son of Mr. & Mrs. Lee
Corporation A	40%	60%	--	--
Corporation B	40%	--	60%	--
Corporation C	--	--	70%	30%
Partnership D	80%	--	20%	--
Sole Proprietorship E	100%	--	--	--
Sole Proprietorship F	--	100%	--	--

Note: All the above businesses adopt the same basis period for a year of assessment.

A: Partnership D and Sole Proprietorship E are connected entities as Mr. Lee has control over them. Either Partnership D or Sole Proprietorship E can elect two-tiered profits tax rates in Partnership D's Profits Tax Return or Mr. Lee's Tax Return – Individuals.

Corporation A and Sole Proprietorship F are connected entities as Mrs. Lee has control over them. Either Corporation A or Sole Proprietorship F can elect two-tiered profits tax rates in Corporation A's Profits Tax Return or Mrs. Lee's Tax Return – Individuals.

Corporation B and Corporation C are connected entities as the brother of Mr. Lee has control over them. Only either Corporation B or Corporation C can elect two-tiered profits tax rates in its Profits Tax Return.

Corporation A and Partnership D are not connected entities even Corporation A is controlled by Mrs. Lee and Partnership D is controlled by Mr. Lee.

[back to top](#)

▼ **3. Q: Mr. Wong and Corporation H hold corporations and trust as follows:**

Business	Issued share capital/ voting rights	
	Corporation H <i>Note</i>	Mr. Wong
Corporation A	100%	--
Corporation B	60%	40%
Corporation C	50%	50%
Corporation D	30%	70%
Trust T	--	Mr. Wong as trustee

Note: Mr. Wong does not own any issued share capital and voting rights in Corporation H.

A: Corporation H, Corporation A and Corporation B are connected entities. Only one of them can elect two-tiered profits tax rates.

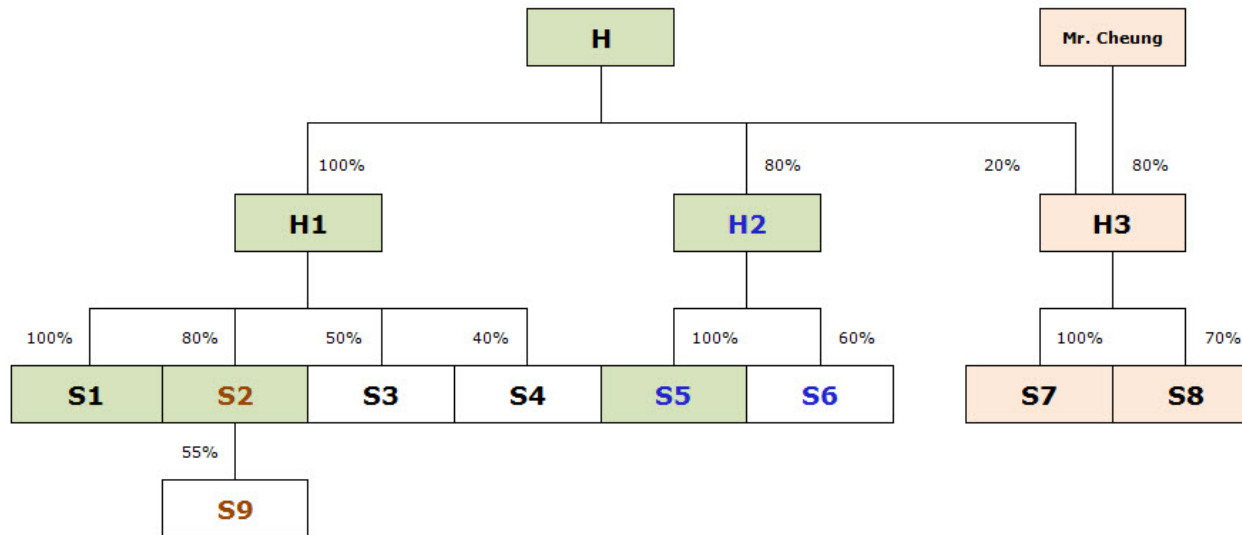
Corporation C has no connected entity and qualifies for two-tiered profits tax rates.

Trust T is not a connected entity of Corporation D as Mr. Wong does not have control over Trust T solely by acting in the capacity of a trustee.

[back to top](#)

▼ 4. Q: Group companies

Mr. Cheung and Corporation H hold corporations as follows:



A:

Business	Issued share capital/ voting rights (directly or indirectly)	
	Corporation H	Mr. Cheung
Corporation H1	100%	--
Corporation S1	100%	--

Corporation S2	80%	--
Corporation S3	50%	--
Corporation S4	40% <i>Note 1</i>	--
Corporation H2	80%	--
Corporation S5	80% <i>Note 2</i>	--
Corporation S6	48% <i>Note 3</i>	--
Corporation H3	20%	80%
Corporation S7	20%	80% <i>Note 4</i>
Corporation S8	14% <i>Note 5</i>	56% <i>Note 6</i>
Corporation S9	44% <i>Note 7</i>	--

Notes:

- (1) The remaining 60% shareholding in Corporation S4 is held by shareholders each holding not more than 10% of the issued share capital.
- (2) Corporation H owns or controls 80% (i.e. 80% x 100%) in aggregate of the issued share capital / is entitled to exercise or controls the exercise of 80% in aggregate of the voting rights in Corporation S5.
- (3) Corporation H owns or controls 48% (i.e. 80% x 60%) in aggregate of the issued share capital / is entitled to exercise or controls the exercise of 48% in aggregate of the voting rights in Corporation S6.
- (4) Mr. Cheung owns or controls 80% (i.e. 80% x 100%) in aggregate of the issued share capital / is entitled to exercise or controls the exercise of 80% in aggregate of the voting rights in Corporation S7.
- (5) Corporation H owns or controls 14% (i.e. 20% x 70%) in aggregate of the issued share capital / is entitled to exercise or controls the exercise of 14% in aggregate of the voting rights in Corporation S8.
- (6) Mr. Cheung owns or controls 56% (i.e. 80% x 70%) in aggregate of the issued share capital / is entitled to exercise or controls the exercise of 56% in aggregate of the voting rights in Corporation S8.
- (7) Corporation H owns or controls 44% (i.e. 100% x 80% x 55%) in aggregate of the issued share capital / is entitled to exercise or controls the exercise of 44% in aggregate of the voting rights in Corporation S9.

Corporations H, H1, H2, S1, S2 and S5 are connected entities as Corporation H has control, either directly or indirectly, over the other entities. Only one of them can elect two-tiered profits tax rates.

Corporation S6 is a connected entity of Corporation H2 and Corporation S5. Corporation S6 can elect two-tiered profits tax rates if Corporation H2 and Corporation S5 do not elect.

Corporation S9 is a connected entity of Corporation S2. Corporation S9 can elect two-tiered profits tax rates if Corporation S2 does not elect.

Corporation H3, Corporation S7 and Corporation S8 are also connected entities. Only one of them can benefit from two-tiered profits tax rates.

Corporation S3 and Corporation S4 do not have connected entity and they both qualify for the two-tiered profits tax rates.

[back to top](#)