

AVIATION AND AIRCRAFT LEASING



Hong Kong – An International Aviation Hub

Under “One Country, Two Systems”, the National 14th Five-Year Plan reaffirms the unwavering support of the Central People’s Government to strengthen Hong Kong’s position as international aviation hub.

Hong Kong is a premier logistics hub in Asia and gateway for trade between Mainland China and the rest of the world. A strategic location, excellent connectivity, state-of-the-art infrastructure, a sound legal system, high-quality service providers, competitive tax regime, and status as an international business and financial centre give Hong Kong its competitive edge.

Hong Kong is within 5 hours’ flying time of half the world’s population and 4 hours’ flying time of most major cities in Asia.

Prior to the pandemic, around 120 airlines offer more than 1,100 flights daily to around 220 destinations worldwide, including about 50 destinations in the Mainland. In 2019, the airport handled 71.5 million passengers and around 420,000 flight movements. Showing a resilient performance, total cargo throughput in 2021 rose to 5 million tonnes, exceeding the 4.8 million tonnes recorded in 2019.

Airport Authority Hong Kong has obtained the support of the Central Government for investing in Zhuhai Airport on the basis of market principles to achieve greater synergy between the two airports, with the aim of strengthening the competitive edge of the entire Guangdong-Hong Kong-Macao Greater Bay Area (GBA) in aviation.

Putting together the nation’s dual circulation economic development strategy, the GBA’s cluster effect, and the Regional Comprehensive Economic Partnership, the potential for development and growth for aviation, as well as logistics and maritime industries, would be phenomenal.

Opportunities — no better time, no better place

Three-runway System Project

The HKSAR Government has embarked on a three-runway system project, comprising the third runway, a new concourse and other supporting facilities to better accommodate the ever-increasing air traffic demand.

Hong Kong-Zhuhai-Macao Bridge (HZMB)

The imminent commissioning of the HZMB will make connectivity between three places in 40 minutes and will provide ample opportunities to carriers serving Hong Kong to attract business for a wider market area.

eCommerce

With expansion of the existing express air cargo terminal, commissioning of a new premium logistics centre, and redevelopment of Air Mail Centre, Hong Kong International Airport (HKIA)’s annual cargo handling capacity is expected to increase from 7.4 million tonnes to some nine million tonnes in 2024. When the airside intermodal cargo handling facility becomes operational as well, Hong Kong’s position as the air cargo centre of the GBA will be further reinforced.

Pharmaceutical

Pharmaceutical air cargo shipments has a strong market outlook, and HKIA’s growth rate for pharma tonnage is expected to reach over 16 percent per annum from 2016 to 2023. HKIA’s internationally recognised capability in handling high-value temperature-controlled air cargo will surely enhance our competitive edge as an international air cargo hub.



InvestHK

The Government of the Hong Kong
Special Administrative Region

Hong Kong — Asia's Aircraft Leasing Centre

Concessionary Tax Regime Applicable to Qualifying Aircraft Lessors (QL) and Qualifying Aircraft Leasing Managers (QM)

Conditions for being QL	Conditions for being QM	Qualifying Activity / Profits for QL	Qualifying Activity / Profits for QM
<ul style="list-style-type: none"> • Separate entity approach (SPV) • Not an aircraft operator • Central management control • Substantial business presence • Substantial activity 	<ul style="list-style-type: none"> • Separate entity approach (or "safe-harbour rule") 	<ul style="list-style-type: none"> • Dry lease • Economic ownership of aircraft 	<ul style="list-style-type: none"> • Wide range of finance / management activities • Activity must be carried out for QL
		<ul style="list-style-type: none"> • Profit includes income incidental to profits from an aircraft leasing business (in the case of QL) and an aircraft leasing management business, like interest income, exchange gains or hedging gains 	
Tax Concession for QL		Tax Concession for QM	
<ul style="list-style-type: none"> • Concessionary tax rate of 8.25%. Election has to be made in writing and is irrevocable. 			
<ul style="list-style-type: none"> • 20% tax base concession may apply to compensate for the loss of depreciation allowance • Profit tax liability = gross lease rental – deductible expenses (excluding depreciation) x 20% X 8.25% 			
<ul style="list-style-type: none"> • Capital gain exemption on aircraft disposal after leasing the aircraft for a continuous period of 3 years 			

The Growth of Global Air Traffic Aircraft Leasing Industry

Airbus predicts that over the next 20 years (2021-2040), air traffic will grow at 3.9 percent annually, requiring some 39,000 new passengers and dedicated freighter aircraft. According to Statista, 51 percent of the total aircraft in use were leased in 2021, which is an exponential increase from only half percent in 1970. In 2020, there were a total of 158 aircraft lessors in the world.

Market Opportunities in Mainland China

Boeing predicts that Mainland China will account for 20 percent of global aircraft demand for the next two decades which will translate to 8,700 new planes valued at about US\$1.5 trillion.

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Leveraging Hong Kong's Strengths

The new tax regime has levelled the playing field with Ireland and Singapore which captured some 80 percent of global aircraft leasing activities.

Hong Kong is a premier location for aircraft leasing operators to tap the fastest growing aviation market in China, which is expected to overtake the US to become the world's largest by passengers by 2024.

The reduction of withholding tax rate from 7 percent to 5 percent under the Double Taxation Agreement with Mainland China means that more lessees are willing to conduct business with Hong Kong based lessors.

Hong Kong has entered into comprehensive double taxation agreement with 45 jurisdictions (Dec 2021).

The well-established financial market provides a variety of funding sources to aircraft lessors.

Invest Hong Kong is the department of the Hong Kong Special Administrative Region (HKSAR) Government responsible for attracting Foreign Direct Investment, supporting overseas and Mainland businesses to set up and expand in Hong Kong. We partner with clients on a long-term basis and are available at any stage of their business development process.

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