CTA – P5
Advanced Taxation Practice

Dr. David Pun
TIHK 2026



Cash pooling centralises the group's cash management

The group manages the bank balances and borrowing of its subsidiaries through one entity — typically a **Treasury Centre** — and deploys funds in a unified way.

Physical Sweeping

- Funds are swept into the master account daily or periodically
- Funds legally transfer; balances are truly centralised
- Typically used when all subsidiaries bank with the same group

Notional Pooling

- Balances stay in place; only net interest is computed
- No actual transfer; interest and fees on a net basis
- Can span multiple banking groups — greater flexibility

The pool's balances, interest and fees are the basis of the tax analysis ahead.

Dr. David Pun @TIHK ATP 2026 All right reserved.

How it works

Sweep in
Cash swept to master account

Centralise
Treasury Centre nets & prices

Sweep out
Funds out to group companies

Key objectives

- Lower total interest cost; earn net interest income
- Improve cash efficiency, cut idle balances
- Centralise FX risk and group liquidity

Key risks / watchpoints

- Cross-border flows: tax & transfer pricing issues
- Local rules & FX controls may not align
- Off-market pricing may invite IRD adjustments

Dr. David Pun @TIHK ATP 2026 All right reserved.

QCTC

16.5% **8.25%**

Corporate profits tax → QCTC treasury profits (half rate)

Legal basis: IRO s.14D(1)

Three routes to QCTC status

1 **Dedicated TC**
s.14D(3)
Group treasury activities only

2 **Safe harbour**
s.14E
CTP/CTA at 75% (Ch.3)

3 **Determination**
s.14F
Apply if routes 1-2 fail

Common conditions

- Written election, irrevocable
- Banks and insurers excluded

Case: Advance Ruling No. 76

HK company held eligible (AR 76)

Dr. David Pun @TIHK ATP 2026 All right reserved.

Interest

Income side · tax

s.15(1)(ia)

- Interest on in-group financing
- Intra-pool loan interest deemed HK-sourced, chargeable to tax
- Introduced by the 2016 amendment

Deduction side

s.16(2)(g)

- Non-HK associate interest deductible
- Beneficial owner = borrower
- Counterparty taxed at ≥16.5% (QCTC: 8.25%)
- Anti-avoidance: s.16(2CA)-(2CD)

General rule + deduction limits

s.16(1) general deduction: expenses incurred to produce chargeable profits

s.16(2A)-(2CD): collateral & flow-back tests must be reviewed

Dr. David Pun @TIHK ATP 2026 All right reserved.

In-group Pricing

Pricing · arm's length

s.50AAF

- Pool interest & fees at arm's length
- Pure coordination role: cost-plus
- In-house banker role: market spread

Docs: master & local files

s.58C · Sch 17I

- Prepare within 9 months of year-end
- Keep for at least 7 years
- Complex treasury docs: prepare early

Category	Item	Exemption thresholds (meet any two)
Size	Revenue / assets / staff	Revenue ≤$400m · Assets ≤$300m · Staff ≤100
Controlled txns	Financial assets / other	Financial assets ≤$110m · Other ≤$44m

Dr. David Pun @TIHK ATP 2026 All right reserved.

Three layers of rules govern cash pool tax

HK uses three layers: preferential status, explicit tax rules, and transfer pricing.

- ✓ QCTC half rate needs eligibility; safe harbour is one route
- ✓ Interest: s.15(1)(ia) charge; deductions need subject-to-tax & anti-avoidance
- ✓ Pool pricing must be arm's length; master & local files ready on time

Dr. David Pun @TIHK ATP 2026 All right reserved.

CTP/CTA Safe Harbour

Treasury profit % (CTP%)

$$\frac{\text{Treasury profit (CTP)}}{\text{Total profit (P)}} \times 100\%$$

Numerator/denominator per Sch 17B

Treasury asset % (CTA%)

$$\frac{\text{Treasury assets (CTA)}}{\text{Total assets (A)}} \times 100\%$$

Same — Sch 17B sets out the method

Test: both must be ≥ 75% to meet the safe harbour

Dr. David Pun @TIHK ATP 2026 All right reserved.

CTP/CTA Safe Harbour

1-year safe harbour (s.14E(2))

In the year: both CTP% & CTA% must hit 75% to qualify.

- ✓ Single year: both ratios pass together
- ✓ Suits stable, steady-ratio companies
- ✓ Miss one year, and that year fails

Multi-year route (s.14E(3)(4))

Average with prior 1–2 years; both average percentages ≥ 75%.

- ✓ Two or three years, averaged
- ✓ Averaging smooths volatile activity
- ✓ Years must be consecutive (DIPN 52 Ex 21: gap, count rest)

Dr. David Pun @TIHK ATP 2026 All right reserved.

CTP/CTA Safe Harbour

01 Partly-used assets (s.14E(9))

CTA numerator pro-rated by use; denominator at full value

02 Holdco shares & dividends

Exclude both numerator & denom. (IRD accepts; keeps ratio higher)

03 Large treasury losses

Loan bad debts: IRD may exclude them, or use s.14F instead

04 Still below 75%? A fallback

Apply for an s.14F determination on the facts

Dr. David Pun @TIHK ATP 2026 All right reserved.

CTP/CTA Safe Harbour

Treasury profit % (CTP%)

CTP 10.5m ÷ P 12m

87.5%

✓ ≥ 75% Pass

Treasury asset % (CTA%)

CTA (140+10)m ÷ A 170m

88.2%

✓ ≥ 75% Pass

140m pure + half of 20m office
(partly-used assets go in pro-rata)

Both percentages ≥ 75% → safe harbour qualified

Note: figures are illustrative only — they demonstrate the method, not a real case

Method reference: DIPN 52 (figures are illustrative)

Dr. David Pun @TIHK ATP 2026 All right reserved.

END

Dr. David Pun @TIHK ATP All right reserved.