

NOTES AND INSTRUCTIONS – SUPPLEMENTARY FORM (S12)

1. The basis period must be the same as that stated in item 7.2 of the Profits Tax Return.
2. “Multinational enterprise group” means a group that includes:
 - (a) two or more enterprises of which the tax residence is in different jurisdictions; or
 - (b) an enterprise that is resident for tax purposes in one jurisdiction and is subject to tax in another jurisdiction with respect to the business carried out through a permanent establishment in that other jurisdiction.
3. This refers to the total consolidated group revenue as reflected in the group’s consolidated financial statements for the period that ends immediately before the basis period. For a group with its ultimate parent entity resident in Hong Kong, the threshold amount of the total consolidated group revenue is HK\$6.8 billion. For a group with its ultimate parent entity resident in a jurisdiction other than Hong Kong, the threshold amount is the one specified under the laws or regulations of that jurisdiction for country-by-country reporting or an amount equivalent to EUR750 million as at January 2015.
4. “Qualifying ship leasing management activity” means a ship leasing management activity carried out by a corporation in the ordinary course of its business carried on in Hong Kong for a qualifying ship lessor in respect of a ship leased by the qualifying ship lessor to a ship lessor, ship leasing manager or ship operator.
5. Only activities that generate income to the Corporation are taken into account.
6. “Safe harbour rule” refers to the requirements in relation to a corporation’s profits and assets as stipulated in section 14U of the Inland Revenue Ordinance (Cap.112) (“IRO”).
7. Section 14V of the IRO empowers the Commissioner to determine whether a corporation is a qualifying ship leasing manager for a year of assessment.
8. “Ship lessor”, which includes a qualifying ship lessor and non-qualifying ship lessor, means a person carrying on a business of carrying out ship leasing activities.
9. “Qualifying ship lessor” means a corporation which is not a ship operator and solely carries out qualifying ship leasing activities in Hong Kong. “Qualifying ship leasing activity” means:
 - (a) a ship leasing activity carried out by a corporation in the ordinary course of its business carried on in Hong Kong; and
 - (b) the ship concerned is of over 500 gross tonnage and navigating solely or mainly outside the waters of Hong Kong.
10. “Associated corporation” means a corporation as defined in section 14O(1) of the IRO. The qualifying profits derived by a qualifying ship lessor from its associated corporation are chargeable at the concessionary tax rate (including a tax rate of 0%) specified in Schedule 8C of the IRO.
11. “Total income” means all types of income including service income, interest income, exchange gains, hedging gains, other ordinary business income, proceeds from the sale of capital assets and other non-taxable income derived from any business activities of the Corporation.
12. “Concessionary trading receipts” means the trading receipts and other sums in respect of which assessable profits are chargeable at concessionary tax rate (including a tax rate of 0%) under section 14T(1) of the IRO.
13. “Normal trading receipts” means any trading receipts and other sums, other than concessionary trading receipts.
14. The Relevant Activities refer to the core income generating activities undertaken by the Corporation in relation to its business as a qualifying ship leasing manager for producing qualifying profits chargeable at concessionary tax rate (including a tax rate of 0%).
15. A person is associated with another person if one of the relevant persons was participating in the management, control or capital of the other relevant person, or the same person or persons was or were participating in the management, control or capital of each of the relevant persons.
16. An example of such situation is that the employees concerned were employed by an associated person of the Corporation and were seconded by the associated person to the Corporation for the carrying out of the Relevant Activities. The remunerations of the employees were fully or partially borne by the Corporation.

17. An example of such situation is that an associated person of the Corporation engaged in the provision of services related to ship leasing management. The Relevant Activities were carried out by the associated person at a fee charged to the Corporation on an arm's length basis.
18. Schedule 17FA of the IRO stipulates that the number of full-time employees in Hong Kong who carry out the Relevant Activities and have the necessary qualifications must be adequate and in any event not less than 1 in the basis period concerned.
19. If associated person(s) was/were involved in the carrying out of the Relevant Activities, the details reported should include those of the employees of the associated person(s) who carried out the Relevant Activities.
20. This number refers to the "average number of employees" of the Corporation which shall be calculated as: the aggregate of the number of employees as at the end of each calendar month in the basis period concerned as divided by the number of calendar months in that basis period.
21. Schedule 17FA of the IRO stipulates that the total amount of operating expenditure incurred in Hong Kong for the Relevant Activities must be adequate and in any event not less than HK\$1,000,000 in the basis period concerned.
22. If associated person(s) was/were involved in the carrying out of the Relevant Activities, the amount of operating expenditure reported should include the remunerations borne by the Corporation in respect of the employees of the associated person(s) who carried out the Relevant Activities (see Note 16), and/or the service fee incurred by the Corporation for the Relevant Activities carried out by the associated person(s) (see Note 17).
23. This supplementary form must be signed by the same person signing the tax return.