

## NOTES AND INSTRUCTIONS – SUPPLEMENTARY FORM (S2)

1. You are only required to complete the section(s) as applicable.
2. A person is associated with another person (each an affected person) if, as between them, the participation condition is met. The participation condition is met as between two persons if, at the time of carrying out the transaction, one of the affected persons was participating in the management, control or capital of the other affected person, or the same person or persons was or were participating in the management, control or capital of each of the affected persons. You have transactions with other parts of the non-Hong Kong resident person if you are a Hong Kong permanent establishment of a non-Hong Kong resident person and have transactions with the other parts of that non-Hong Kong resident person, e.g. transactions between the head office and its branch.
3. A Hong Kong entity, including a permanent establishment in Hong Kong, of a group (in extended sense) is required to prepare and retain the entity's local file and a master file of its group in respect of an **accounting period beginning on or after 1 April 2018**, except where –
  - (a) any 2 of the following conditions are satisfied –
    - (i) the total amount of the entity's revenue for the accounting period does not exceed HK\$400 million;
    - (ii) the total value of the entity's assets at the end of the accounting period does not exceed HK\$300 million;
    - (iii) the average number of the entity's employees during the accounting period does not exceed 100;
  - OR
  - (b) the total amounts of all the following types of controlled transactions (excluding specified domestic transactions) undertaken by the entity in respect of the accounting period do not exceed the specified amount:
    - (i) the total amount of transfers of properties (excluding financial assets and intangibles) does not exceed HK\$220 million;
    - (ii) the total amount of transactions in respect of financial assets does not exceed HK\$110 million;
    - (iii) the total amount of transfers of intangibles does not exceed HK\$110 million;
    - (iv) the total amount of other transactions does not exceed HK\$44 million.
4. "Group in the extended sense" means –
  - (a) a group in the usual sense, which means a collection of enterprises related through ownership or control such that –
    - (i) it is required to prepare consolidated financial statements for financial reporting purposes under applicable accounting principles; or
    - (ii) it would be so required if equity interests in any of the enterprises were traded on a public securities exchange; or
  - (b) a single enterprise if it 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.
5. In section 1.2, you only need to state whether you are required to prepare master file and local file in respect of the controlled transactions. Under section 58C(2)(a) of the Inland Revenue Ordinance (Cap. 112) ("IRO"), the period for preparing the relevant files is **9 months** after the end of the accounting period concerned.
6. Section 2 must be completed if you have entered into an advance pricing arrangement with the Commissioner.
7. If there was any material change in the facts and circumstances specified in the arrangement, you must provide the details of the changes on a separate sheet.
8. Under section 58H of the IRO, a Hong Kong entity of a multinational enterprise group that is a reportable group must, within 3 months after the end of the accounting period, file a written notice with the Commissioner to identify the ultimate parent entity of the group or the constituent entity responsible for filing the country-by-country ("CbC") report through the CbC Reporting Portal unless (a) it is not the ultimate parent entity of the group, the surrogate parent entity of the group nor the entity that is to file a CbC return for the group; and (b) another Hong Kong entity has filed such a notice.
9. A multinational enterprise group is a reportable group for an accounting period if it had a total consolidated group revenue of at least the following threshold amount for immediate preceding accounting period:
  - (a) for a group with its ultimate parent entity resident in Hong Kong - HK\$6.8 billion; or
  - (b) for a group with its ultimate parent entity resident in a jurisdiction other than Hong Kong - the threshold amount for CbC reporting specified under the laws or regulations of that jurisdiction or an amount equivalent to EUR750 million as at January 2015.
10. "Multinational enterprise group" means a group in the usual sense 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.
11. "Group in the usual sense" is defined in paragraph (a) of Note 4.

12. "Ultimate parent entity" means a constituent entity of a group in the usual sense that meets the following conditions:
  - (a) it owns directly or indirectly a sufficient interest in one or more other constituent entities of the group such that it is required to prepare consolidated financial statements under accounting principles generally applied in its jurisdiction of tax residence, or would be so required if its equity interests were traded on a public securities exchange in its jurisdiction of tax residence; and
  - (b) there is no other constituent entity of the group that owns directly or indirectly an interest described in paragraph (a) in the constituent entity.
13. "Total consolidated group revenue" means the group's total consolidated revenue as reflected in the group's consolidated financial statements.
14. "Immediate preceding accounting period" means the accounting period that ends immediately before the commencement of the accounting period concerned.
15. "Surrogate parent entity" means a constituent entity of a reportable group appointed as the sole substitute for the ultimate parent entity to file a CbC return or report on behalf of the group.
16. Completion of sections 3.3.1 and 3.3.2 will **NOT** constitute the submission of a notice under section 58H of the IRO.
17. Section 4 must be completed if you are a constituent entity of a multinational enterprise group with a total consolidated group revenue of at least EUR 750 million, or an equivalent amount as at the accounting period end date, for the immediate preceding accounting period.
18. For the purposes of Section 4,
  - (a) "Group" means –
    - (i) a collection of entities that are related through ownership or control such that the assets, liabilities, income, expenses and cash flows of those entities:
      - (I) are included in the consolidated financial statements of the ultimate parent entity; or
      - (II) are excluded from the consolidated financial statements of the ultimate parent entity solely on size or materiality grounds, or on the grounds that the entity is held for sale; or
    - (ii) an entity that is located in one jurisdiction and has one or more permanent establishments located in other jurisdictions provided that the entity is not a part of the another group described in sub-paragraph (i) above; and
  - (b) "Multinational enterprise group" means a group that includes at least one entity or permanent establishment that is not located in the jurisdiction of the ultimate parent entity.
19. The amount of total consolidated group revenue should be stated in the currency to the nearest million that was used by the multinational enterprise group to prepare the group's consolidated financial statements.
20. You must export the filled form to XML file and upload the XML file via the eTAX services under GovHK for submission. If you do not choose to submit Profits Tax Return through electronic filing or semi-electronic filing, you have to print and sign a paper Control List (containing details of the XML file uploaded and QR code) generated by the eTAX services for submission together with the Profits Tax Return in order to complete the submission process. The Control List of this supplementary form must be signed by the same person signing the tax return.