



On 6 June 2025, Hong Kong enacted legislation to implement Pillar two of OECD's BEPS 2.0 framework which imposes a global minimum effective tax rate of 15% for large multinational enterprises ("MNE") for fiscal years beginning on or after 1 January 2025. The relevant law is now under Section 26AE and Schedule 61 and 62 of the Inland Revenue Ordinance. For details of pillar two framework, please refer to our previous [tax alert](#) published in January 2025.

To recapture, the charging mechanisms of Pillar Two are as follows:

- Income Inclusion Rule ("IIR") - This is the primary taxing rule. This will apply when an MNE Group has its ultimate parent entity located in Hong Kong or is headquartered in Hong Kong. It requires the parent company of a group to determine whether it is paying a minimum effective tax rate ("ETR") of 15% in every jurisdiction it operates. ETR is calculated based on the collective income in each jurisdiction. If the effective tax rate is below 15%, the parent entity will pay an additional amount of tax called IIR top-up tax in its home jurisdiction to bring the effective tax rate of the under-taxed income earned in other jurisdictions to 15%. IIR is effective in Hong Kong for fiscal years beginning on or after 1 January 2025.
- Undertaxed Profits Rule ("UTPR") – The UTPR is the backstop rule to IIR. It comes into play if the IIR does not fully capture the top-up tax on under-taxed income of the group (e.g. if the ultimate parent entity ("UPE") is in a jurisdiction that has not implemented Pillar Two rules), allowing other jurisdictions where the group is operating or where the group subsidiaries are located to collect the remaining top-up tax not otherwise collected under the IIR. The amount of UTPR top-up tax is generally allocated among subsidiaries located in the UTPR-implementing jurisdictions based on the respective proportion of the employee headcount and the value of tangible assets relative to the whole group. Currently, there is no indication on when the relevant tax laws regarding UTPR will be implemented in Hong Kong.
- Qualified Domestic Minimum Top-Up Tax ("QDMTT") – This is a domestic top-up tax that allows jurisdictions to collect any top-up tax due from domestic constituent entities of a MNE Group before the application of IIR top-up tax or UTPR top-up tax. The Hong Kong Minimum Top-Up Tax

(“**HKMTT**”), which is the domestic top-up tax of Hong Kong, applies for fiscal years beginning on or after 1 January 2025.

Actions to take to ensure compliance readiness

1. Review and assess whether your group fall into the scope of Pillar Two

MNE groups with annual consolidated revenue of at least EUR750 million in two or more of the preceding four fiscal years (i.e. years 2021 to 2024) are within the scope of the Pillar Two rules.

Certain entities are excluded, including government entities, international organisations, non-profit organisations, pension funds, and investment or real estate funds that are the ultimate parent entities of the group.

2. Perform impact assessment

For MNE groups that are in-scope, they should perform an impact assessment covering the following:

- a. Detailed review of Pillar two implementation and compliance obligations across all jurisdictions where the group operates, with focus on identifying which entities may bear top-up tax liabilities and filing obligations under IIR, QDMTT and UTPR in each jurisdiction.
- b. For in-scope MNE groups with UPE located in a non-Pillar Two implementing jurisdiction (such as Mainland China and the United States), they should assess which group entities would have the obligation to pay top-up tax via UTPR on the “under-taxed” income that is not captured by IIR.
- c. Review whether the group falls within any transitional or permanent safe harbours which would relieve the group of performing full Pillar Two compliance obligations. For details of these safe harbour rules, please refer to our [tax alert](#) published in January 2025.
- d. Optimise or restructure inter-group allocation of overhead costs, charge on marketing/technical support service fee, interest and royalty in line with arm’s length principle.
- e. Calculate ETR for the fiscal year beginning on or after 1 January 2025 (“**FY2025**”), and estimate top-up tax provisions for financial reporting purposes for all group companies in relevant jurisdictions. This will enable deferred assets arising from a GloBE loss to be ascertained and recognized in the financial statements for FY2025 for future tax benefits.

3. Be aware of Hong Kong Pillar Two filing requirements

- **Pillar two registration:** Groups operating in Hong Kong that are subject to Pillar Two rules for FY2025 are required to apply for a Group Code for top-up tax return filing immediately.

- **Top-up tax notification:** A top-up tax notification must be filed within 6 months of the fiscal year end. For the fiscal year ended 31 December 2025, this will mean by 30 June 2026. This informs the Inland Revenue Department (“IRD”) that the group is within the scope of Pillar Two and identifies the designated filing entity and the jurisdiction providing the GloBE Information Return (“GIR”) to Hong Kong. Only one local entity is required to file the notification on behalf of all Hong Kong group companies.
- **Top-up tax return:** A top-up tax return must be filed within 15 months of the fiscal year end (or 18 months for the first transition year). For fiscal year ended 31 December 2025, this will mean by 30 June 2027. It should include the required GIR details unless they have already been submitted in a jurisdiction with an effective exchange agreement with Hong Kong. One designated entity may submit the return on behalf of the group.

Key takeaway

Given the complexity of Pillar Two, in-scope MNE groups should immediately conduct an assessment of Pillar Two. They should consult with competent tax advisors to ensure timely for Pillar Two compliance. The IRD may provide further guidance on application of Pillar Two rules and top-up tax return / notification filing requirements. Taxpayers should stay informed on the latest developments.

Please get in touch with our tax team leaders (Patrick Chu at Patrickchu@bakertilly.hk or Joseph Lam at Josephlam@bakertilly.hk) any time for further discussion.

Contact us



Joseph Lam
Executive Director

✉ Josephlam@bakertilly.hk
📞 +852 2152 2652



Patrick Chu
Principal

✉ Patrickchu@bakertilly.hk
📞 +852 2152 2712