

Foreign-sourced income exemption regime

Scope

Specified foreign-sourced income

Dividend

Interest

Intellectual property (IP) income

Disposal gain on equity interest



Received in Hong Kong

By an MNE entity carrying on a business in Hong Kong

Exclusions

- Interest, dividend and disposal gain
- derived from or incidental to the profit producing activities under a **preferential tax regime**
 - derived by a **regulated financial entity** from its regulated business

Deemed taxable if fail to meet certain requirements

Economic Substance

(for interest, dividend, disposal gain)

Specified economic activities in Hong Kong with

- Adequate no. of qualified employees
- Adequate amount of operating expenditures
- ❖ Reduced economic substance requirement for pure equity holding company
- ❖ Outsourcing of specified economic activities permitted

Nexus

(for IP income)

- Income from a **qualifying IP** (i.e. patent and copyrighted software)
- Tax exemption based on **R&D fraction** i.e. in proportion to qualifying R&D expenditures to develop the IP
- Qualifying expenditures cover **R&D activities in or outside HK** or outsourced to resident related parties in HK

Further mitigation measures

Participation Requirement

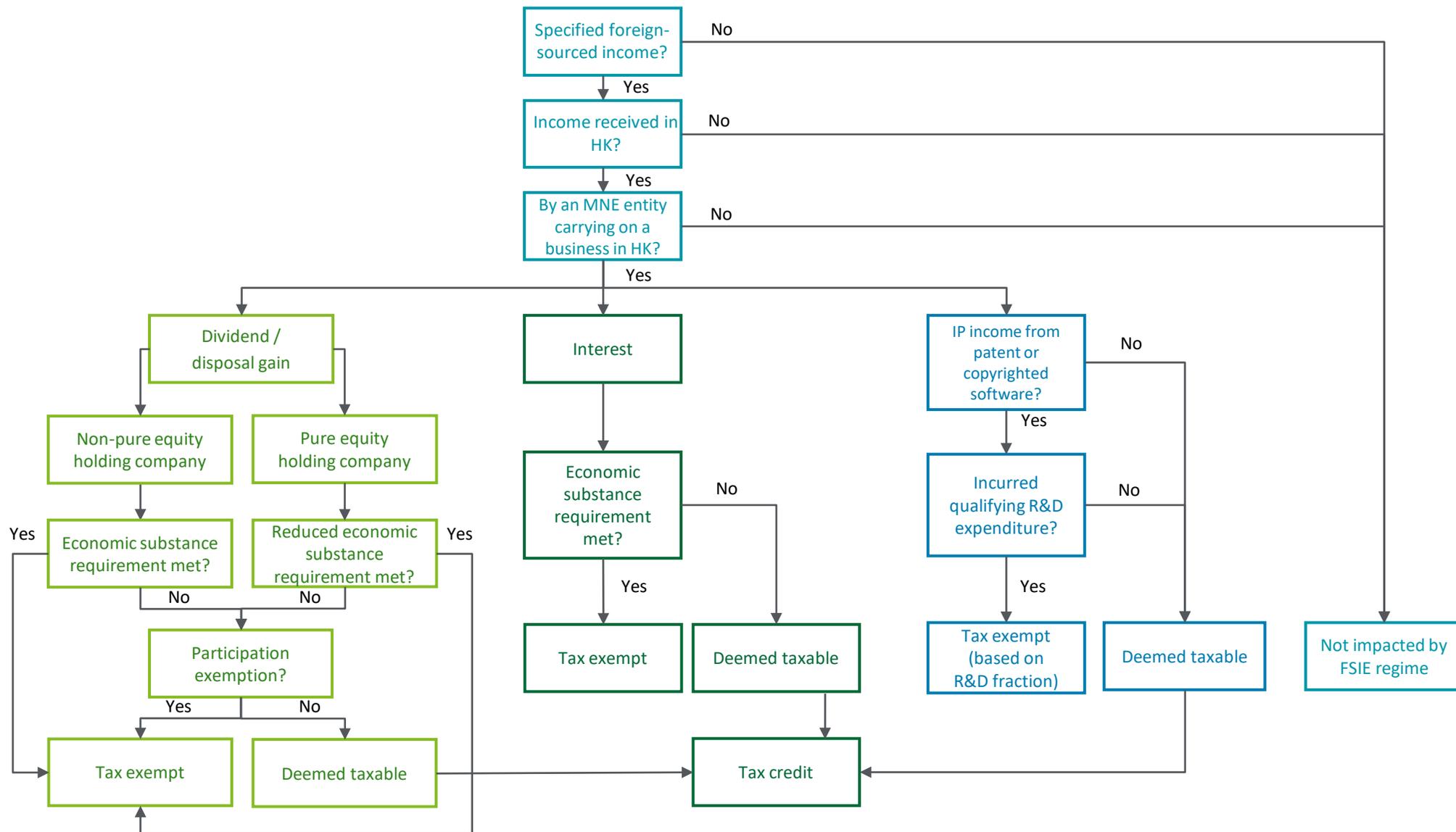
(for dividend, disposal gain)

- Satisfy the qualifying conditions:
 - ❖ HK resident person / non-HK resident with a permanent establishment in HK; and
 - ❖ Holds not less than **5%** of equity interests in the investee company for a period of not less than **12 months** immediately before the income accrues
- Subject to **specific anti-abuse rules**

Double Tax Relief

- Tax credit for foreign taxes paid on specified foreign-sourced income that are taxable in Hong Kong
- Look-through approach: allow credit for tax payable on dividends and underlying profits by a **max. of 5 tiers of entities with 10% shareholding**

An overview of the foreign-sourced income exemption regime





Effective from 1 Jan 2023



Compliance requirements

- Report the specified foreign-sourced income when it is accrued
- Provide additional information on economic substance requirement, nexus requirement, participation exemption, etc.

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How can we help?



Review

- Review existing offshore structure for eligibility to tax exemption
- Assess potential tax exposures



Business model planning

- Review existing investment holding structure and operation model
- Recommend a tax efficient model



Implementation

- Provide tax compliance services
- Assist to claim double tax relief
- Handle enquiries from the Inland Revenue Department



Advance Ruling

- Assist to obtain a ruling on the economic substance level



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