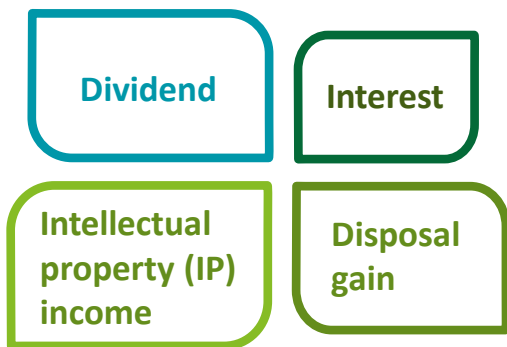


## Foreign-sourced income exemption (FSIE) regime

### Scope

#### Specified foreign-sourced income



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
- Disposal gains derived by **traders** of non-IP assets

### Deemed taxable if fail to meet certain requirements

#### Economic Substance

- (for interest, dividend, disposal gain on non-IP assets)
- 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, disposal gain on IP assets)
- 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 on equity interests)

- 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

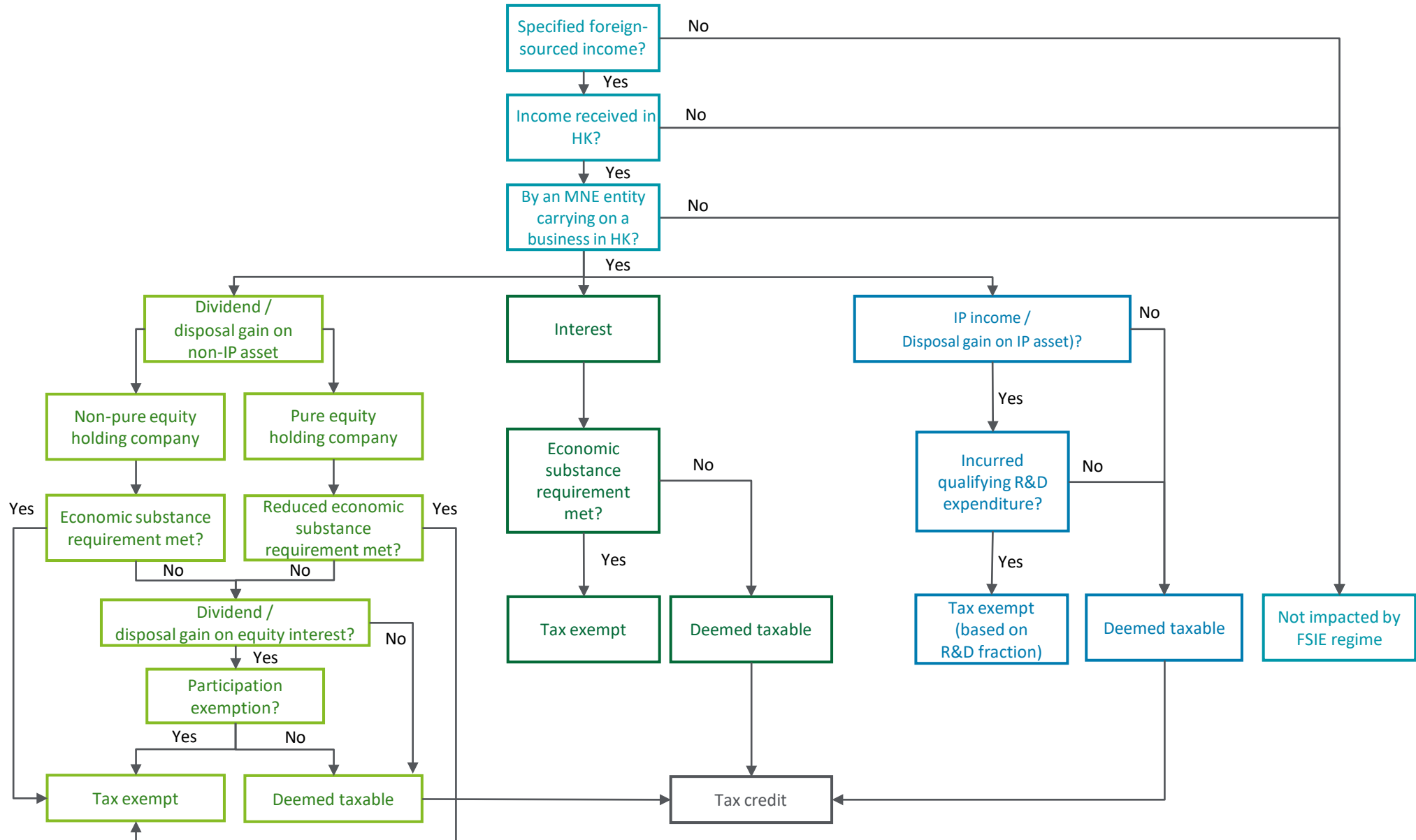
- Foreign tax credit
- Unilateral tax credit
- Look-through approach for dividends

#### Intra-group transfer deferral

(for disposal gain on non-IP assets)

Tax considerations deferred until sold to a non-associated party

# An overview of the foreign-sourced income exemption regime





## FSIE regime

Effective from 1 Jan 2023

## Refined FSIE regime - Expanded scope of disposal gains

Effective from 1 Jan 2024



## Compliance requirements

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

## Key contacts

### Tax & Business Advisory Southern Region Leader

#### Jennifer Zhang

Tax Partner

+86 20 2885 8608

[jenzhang@deloitte.com.cn](mailto:jenzhang@deloitte.com.cn)

### Southern Region Deputy Leader

#### Raymond Tang

Tax Partner

+852 2852 6661

[raytang@deloitte.com.hk](mailto:raytang@deloitte.com.hk)

## 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 Commissioner's Opinion (for disposal gain on newly-added assets) or ruling on the economic substance level

### International and M&A Tax

#### Southern Region Leader

#### Anthony Lau

Tax Partner

+852 2852 1082

[antlau@deloitte.com.hk](mailto:antlau@deloitte.com.hk)



#### About Deloitte

Deloitte China provides integrated professional services, with our long-term commitment to be a leading contributor to China's reform, opening-up and economic development. We are a globally connected firm with deep roots locally, owned by our partners in China. With over 20,000 professionals across 30 Chinese cities, we provide our clients with a one-stop shop offering world-leading audit & assurance, consulting, financial advisory, risk advisory, tax and business advisory services.

We serve with integrity, uphold quality and strive to innovate. With our professional excellence, insight across industries, and intelligent technology solutions, we help clients and partners from many sectors seize opportunities, tackle challenges and attain world-class, high-quality development goals.

The Deloitte brand originated in 1845, and its name in Chinese (德勤) denotes integrity, diligence and excellence. Deloitte's professional network of member firms now spans more than 150 countries and territories. Through our mission to make an impact that matters, we help reinforce public trust in capital markets, enable clients to transform and thrive, empower talents to be future-ready, and lead the way toward a stronger economy, a more equitable society and a sustainable world.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities (collectively, the "Deloitte organization"). DTTL (also referred to as "Deloitte Global") and each of its member firms and related entities are legally separate and independent entities, which cannot obligate or bind each other in respect of third parties. DTTL and each DTTL member firm and related entity is liable only for its own acts and omissions, and not those of each other. DTTL does not provide services to clients.

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities, each of which are separate and independent legal entities, provide services from more than 100 cities across the region.

Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms or their related entities (collectively, the "Deloitte organization") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser.

No representations, warranties or undertakings (express or implied) are given as to the accuracy or completeness of the information in this communication, and none of DTTL, its member firms, related entities, employees or agents shall be liable or responsible for any loss or damage whatsoever arising directly or indirectly in connection with any person relying on this communication. DTTL and each of its member firms, and their related entities, are legally separate and independent entities.