

HKSARG welcomes EU's removal of Hong Kong from watchlist on tax co-operation

The Hong Kong Special Administrative Region (HKSAR) Government today (February 20) welcomed the removal of Hong Kong from the European Union (EU)'s watchlist on tax co-operation in recognition of Hong Kong's efforts in ensuring that its foreign-sourced income exemption (FSIE) regime is in full compliance with the EU's relevant requirements.

The Secretary for Financial Services and the Treasury, Mr Christopher Hui, said, "As an international financial centre, Hong Kong has all along been supporting international co-operation in combating cross-border tax avoidance. Our refined FSIE regime came into effect on January 1 this year. We are pleased to note that the EU has recognised our efforts in this regard and removed Hong Kong from the watchlist. Hong Kong will continue to comply with international tax standards while maintaining Hong Kong's tax competitiveness."

In response to the EU's inclusion of Hong Kong in its watchlist in 2021, the HKSAR Government introduced in January 2023 a new FSIE regime, under which multinational enterprise entities receiving foreign-sourced dividend, interest, income derived from the use of intellectual properties and disposal gain in relation to shares or equity interests in Hong Kong must satisfy the economic substance requirement to enjoy tax exemption. In December 2022, the EU promulgated an updated Guidance on FSIE Regimes, explicitly setting out disposal gains as a general class of income covered by an FSIE regime and subjecting the taxpayers concerned to the economic substance requirement. Jurisdictions with ongoing FSIE reforms, including Hong Kong, were kept in the watchlist pending completion of the necessary legislative amendments.

In this regard, the HKSAR Government enacted the Inland Revenue (Amendment) (Taxation on Foreign-sourced Disposal Gains) Ordinance 2023 last December to refine the FSIE regime by expanding the scope of assets in relation to foreign-sourced disposal gains to cover assets other than shares or equity interests. The refined FSIE regime has come into effect on January 1 this year.

Mr Hui said, "Looking ahead, the HKSAR Government will continue to take forward and implement new policy initiatives to create new impetus for sustainable market development. I am confident that Hong Kong will continue to maintain its favourable business environment and strengthen its status as an international business and trade centre."

Despite the impact of the global geopolitical situation and high interest rate environment, Hong Kong has remained resilient and continued to strengthen its competitiveness as an international financial centre. Hong Kong enjoys unique advantages, including a simple tax regime, a regulatory

regime aligned with major overseas markets, free flow of capital and information, as well as a diversified talent pool. Hong Kong is the only place in the world where the global advantage and China advantage converge in a single city. This unique convergence allows Hong Kong to be China's gateway to the world's financial markets and investors.

Hong Kong's financial market is internationalised. Hong Kong is one of the world's largest international banking centres, with 73 of the world's 100 largest banks operating here. In the insurance industry, 11 of the top 20 insurers in the world have been authorised to conduct business in Hong Kong.

Hong Kong also performs well overall in various areas of the financial industry. For example, the asset and wealth management business amounted to \$30.5 trillion as of end-2022, with 64 per cent of the funding sourced from non-Hong Kong investors. The asset under management of Hong Kong-domiciled funds recorded net fund inflows of \$53.6 billion in the first three quarters of 2023, indicating an increase of more than 215 per cent from that over the same period of 2022. The average daily turnover of exchange traded funds in 2023 reached \$11.8 billion, representing a year-on-year increase of 20 per cent.

Our country also provides solid support to Hong Kong's financial industry. On January 24 this year, the Central People's Government and the HKSAR Government jointly announced six new measures to deepen the financial co-operation between the Mainland and Hong Kong. The measures deepen the mutual access between the financial markets of the Mainland and Hong Kong and better serve international investors' need for liquidity management of investments in the Mainland bond market, thereby further consolidating Hong Kong's status as an international financial centre and a global offshore Renminbi business hub.