

7 June 2023

Mr Christopher Hui, JP
Secretary for Financial Services & the Treasury
Financial Services and the Treasury Bureau
24/F, Central Government Offices
2 Tim Mei Avenue, Tamar
Hong Kong

Dear Christopher,

**Consultation on Refinements to Hong Kong's Foreign-sourced Income
Exemption Regime (FSIE) for Foreign-sourced Disposal Gains**

The Hong Kong General Chamber of Commerce welcomes the opportunity to provide feedback on the Government's proposal to refine Hong Kong's foreign-sourced income exemption ("FSIE") regime for foreign-sourced disposal gains, in light of the latest Guidance on FSIE Regimes ("FSIE Guidance") promulgated by the European Union.

We commend the Government's efforts to further refine the FSIE regime to align with the updated Guidance while maintaining the fundamental principles of our taxation policy. In regards to parameters which has not been covered in this Paper¹, we recommend that the Government ensures that the location or jurisdiction where the relevant economic activities were carried out to generate the disposal gains is used to determine their source.

If a Hong Kong company initiates, negotiates, and concludes the disposal of an overseas capital asset in Hong Kong, the disposal gain should be regarded as Hong Kong-sourced and non-taxable to the extent that it is capital in nature. Such disposal gains would include interest in a subsidiary/ associate, or immovable properties. The disposal gain should not be taxable under the refined FSIE regime simply because the asset is located overseas. This approach would provide clarity and certainty for businesses and would be consistent with the principles of source-based taxation, ensuring that the taxation of disposal gains is based on economic substance rather than location of the asset.

We hope that you will find our feedback helpful.

Yours sincerely,



George Leung
CEO

¹ Paper para 26