

# Hong Kong (SAR) Tax Alert

February 2024 | Issue 2



## Hong Kong is now off the EU grey list for tax purposes

### Summary



In the latest round of review of the European Union (EU)'s list of non-cooperative jurisdictions for tax purposes, the Hong Kong SAR (Hong Kong) has been removed from the grey list after implementing the expanded foreign-sourced income exemption (FSIE) regime in Hong Kong from 1 January 2024.

On 20 February 2024, the EU released the updated list of non-cooperative jurisdictions for tax purposes<sup>1</sup>.

It is encouraging to see that Hong Kong has now been removed from the grey list (i.e. Annex II of the list of non-cooperative jurisdictions for tax purposes) after the implementation of the expanded FSIE regime<sup>2</sup> to cover foreign-sourced asset disposal gains in Hong Kong from 1 January 2024.

In addition to Hong Kong, five other jurisdictions (i.e. Albania, Aruba, Botswana, Dominica, Israel) were also removed from the grey list. Malaysia remains on the grey list. According to the [EU Council conclusion](#), Malaysia has committed to amending or abolishing its FSIE regime and demonstrated tangible progress in 2022 and 2023, and was granted until 31 March 2024 to adapt its legislation regarding the treatment of capital gains.

In addition, four jurisdictions were removed from the blacklist (i.e. Annex I of the list of non-cooperative jurisdictions for tax purposes), namely Bahamas, Turks and Caicos Islands, Belize and Seychelles. Bahamas is now being considered by the EU as in compliance with the economic substance requirements for jurisdictions with no or only a nominal corporate income tax.

The updated blacklist now contains 12 jurisdictions whereas the grey list includes 10 jurisdictions<sup>3</sup>.

### KPMG observations

We welcome the removal of Hong Kong from the EU's grey list. It serves as a recognition of the HKSAR government's efforts in complying with the latest international tax standards and ensuring the FSIE regime in Hong Kong is not a harmful tax regime based on the EU's latest requirements. The removal should also have a positive impact on consolidating Hong Kong's status as an international financial centre and a sustainable market for investment.

On the other hand, with the implementation of the expanded FSIE regime in Hong Kong and the upcoming introduction of the global minimum tax / domestic minimum top-up tax in Hong Kong from 2025 onwards, multinational groups operating in Hong Kong need to carefully consider their business structures and operations for tax purposes and get prepared for the resulting increased complexity in their tax compliance obligations.

<sup>1</sup> The EU's press release issued on 20 February 2024 can be accessed via this [link](#).

<sup>2</sup> For more details on the FSIE regime implemented in Hong Kong, please refer to our website via this [link](#).

<sup>3</sup> For the updated EU blacklist and grey list, please refer to the EU's website via this [link](#).

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