



# Hong Kong Tax Planning: Five Practical Case Studies

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## Case 1. Holding Company – FSIE Exemption for Dividends and Capital Gains

**Situation.** The client used a Hong Kong company as a holding vehicle to own subsidiary operating companies in China, as well as in Europe and the CIS. The company received dividends from its subsidiaries and was planning exits from part of its investments at a capital gain. Under Hong Kong’s new foreign-sourced income exemption (FSIE) rules, foreign-sourced dividends and capital gains are, by default, regarded as taxable in Hong Kong unless certain exemption conditions are met.

**Task.** To assess the applicability of the participation exemption and the economic substance requirement (ESR) on dividends and gains derived from subsidiaries. To prepare an application for an advance ruling from the Hong Kong Inland Revenue Department (IRD) on the tax exemption.

**Solution.** We carried out a comprehensive review of the participation exemption conditions: a minimum 5% equity interest, continuous holding for at least 12 months, and the requirement for economic substance in Hong Kong. A separate analysis was prepared for each subsidiary. In order to secure the exemption for capital gains, we also reviewed the expanded scope of the FSIE regime, effective from 1 January 2024, which extends to gains from the disposal of various assets. Based on this analysis, we prepared an advance ruling application, including a description of the structure, income flows and the justification for meeting the participation exemption criteria.

**Result.** The IRD confirmed the exemption of dividends and capital gains from Hong Kong taxation under the participation exemption. The client obtained legal certainty regarding the Hong Kong tax consequences of dividend distributions, restructuring and investment exits for the holding company.

## Case 2. Trading Company – Offshore Trading Profits and Tax Residence

**Situation.** A Hong Kong trading company owned by a beneficiary from the CIS was engaged in international trade in goods. Contracts with suppliers and customers were concluded and performed outside Hong Kong. The company needed to confirm the offshore nature of its income and obtain a Certificate of Residency (CoR) for the purposes of claiming treaty benefits.

**Task.** To assess the prospects for claiming the offshore profits exemption in light of case law and to secure the issuance of a CoR.

**Solution.** We carried out a detailed review of the operations test, the key criterion applied by the IRD in determining the source of trading profits. We reviewed the relevant case law, including cases addressing the place where contracts were concluded, the place where key decisions were made, and the location of substantive operations. In parallel, we prepared the application for a CoR. Following the simplification of the procedure in 2023, the IRD issues a CoR on the basis of the criteria set out in the relevant tax treaty, namely either incorporation in Hong Kong or management and control exercised from Hong Kong.

**Result.** The company successfully obtained a CoR and applied reduced treaty rates under the relevant tax treaties. Its offshore profits exemption position was supported by proper documentation confirming that the profit-producing operations were carried on outside Hong Kong.

## Case 3. Personal Tax Residence – Exemption of Passive Income

**Situation.** An individual relocated to Hong Kong and became a Hong Kong tax resident. The client received dividends and interest from companies incorporated in other jurisdictions. It was necessary to determine the Hong Kong tax consequences.

**Task.** To analyze the Hong Kong tax treatment of foreign dividends and interest received by a Hong Kong tax resident, including the application of tax treaties.

**Solution.** Hong Kong does not impose tax on dividends and interest received by individuals who are Hong Kong tax residents from foreign companies. This follows from the territorial principle of taxation and the absence of tax on capital income at the individual level. We prepared a comprehensive memorandum on the Hong Kong tax implications for the client. We also reviewed the applicable tax treaties in order to reduce withholding tax on dividends and interest paid by foreign companies to the client as a Hong Kong resident. In order to confirm the client's resident status, compliance with the day-count test was ensured, namely 180 days in one year or 300 days over two consecutive years, which made it possible to obtain a personal CoR.

**Result.** The client enjoyed a full exemption from Hong Kong tax on dividends and interest and also reduced withholding tax in the payer jurisdictions through the application of the relevant tax treaties.

## Case 4. IP Company – Restructuring and Exemption of Intellectual Property Income

**Situation.** The client owned intellectual property assets, namely patents and copyright in software, registered in other jurisdictions. A transfer of the IP to a Hong Kong company was being considered as part of royalty tax planning.

**Task.** To structure the transfer of the IP and assess the tax consequences in light of the FSIE regime and the nexus approach.

**Solution.** We analyzed two key aspects. First, whether the royalties could be treated as income not sourced in Hong Kong, provided that such income was not generated by activities carried on in Hong Kong, while the mere fact that the licensees were located outside Hong Kong was not determinative in itself. Second, we analyzed the applicability of the nexus approach: under the FSIE regime, IP income may be exempt in proportion to the share of qualifying R&D expenditure incurred in Hong Kong. An important nuance is that the exemption applies only to patents and functionally equivalent assets, such as copyright in software, but not to trademarks. We designed the optimal IP transfer structure, including recommendations on the valuation of the IP and the related documentation.

**Result.** The client received a clear roadmap for the transfer of the IP, together with an understanding of the tax consequences both in Hong Kong and in the transfer jurisdictions. The structure made it possible to exempt a substantial portion of the royalty income from taxation in Hong Kong.

## Case 5. Family Investment Structure – Local Management and SPVs

**Situation.** The client was establishing a family investment structure for participation in a number of international projects. The structure had to be built through a Hong Kong family office, a family-owned investment holding vehicle and separate special purpose entities for specific investments. In Hong Kong, the relevant regime operates as a separate tax concession for a family-owned investment holding vehicle (FIHV) and the related special purpose entities.

**Task.** To create a tax-efficient family investment structure using the Hong Kong profits tax concession regime and to ensure compliance with its key conditions, including the minimum asset threshold and the substantial activities requirement in Hong Kong.

**Solution.** We assisted in structuring the investments through a Hong Kong family-owned investment holding vehicle managed by a family office in Hong Kong. For the purposes of the concessionary regime, we analyzed the ownership structure requirements, the minimum asset threshold and the rules governing qualifying transactions. Separately, we developed the model for actual presence in Hong Kong: to meet the statutory requirements, the structure must have at least two qualified full-time employees and incur operating expenditure in Hong Kong of at least HKD 2 million per year. Separate special purpose entities were established for individual assets, and these entities may also benefit from the concessionary regime if the statutory conditions are met. We also monitored the initiatives announced in 2025 to expand the concessionary regime for family offices, including the possible inclusion of loans, private credit and digital assets within its scope.

**Result.** The investment structure was implemented taking into account Hong Kong's current family office tax regime. Subject to the statutory conditions being satisfied, profits from qualifying transactions and permissible incidental transactions may be exempt from Profits Tax in Hong Kong.

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