

SALARIES TAX I. SALARIES TAX According to section 8(1) of the Inland Revenue Ordinance (Cap. 112 of the Laws of Hong Kong), Salaries Tax shall be charged for each year of assessment on every person in respect of his/her income arising in or derived from Hong Kong from any office or employment of profit or any pension. In simple words, you may be required to pay Salaries Tax if you have rendered services and received salaries/remunerations under a contract of employment in Hong Kong. However, taxpayers can claim "deductions" and "allowances" in order to reduce their Salaries Tax burden. Liability to Salaries Tax is based on the chargeable income of the year of assessment, but the total amount of income for the year cannot be ascertained until the year is past. Hence, the Inland Revenue Department will first demand payment of a Provisional Salaries Tax during the year of assessment, and then make adjustments in the following year. Any provisional tax paid for a year of assessment is applied firstly against the Salaries Tax payable on the income for that year, and secondly, if there is any excess, it will be applied against the following year's provisional tax liability. Further illustration can be found in the questions and answers below.

Year of assessment A year of assessment runs from 1 April to 31 March of the following year. Tax Return The law requires both the employee and the employer to separately report employment income/employment expenses to the Inland Revenue Department.

A. LOCATION OF EMPLOYMENT WHAT IS THE TAXATION STATUS OF WORKERS WHO PARTLY RENDER SERVICES IN HONG KONG AND PARTLY IN FOREIGN COUNTRIES? Such workers can make an application for exemption on the form (B.I.R. 60) "Tax Return - Individuals" and its Appendix, together with the supporting documents required (e.g. a copy of employment contract or any documents verifying tax payment in a foreign country, etc.). Full or partial exemption of income, or relief from tax, may be available to these persons if they satisfy one of the following conditions:

i) Only part of the income was arising in or derived from Hong Kong from an employment (i.e. under Section 8(1A)(a) of the Inland Revenue Ordinance) This exemption is only applicable for employees having a source of employment outside Hong Kong (e.g. assigned to work in Hong Kong by overseas employers). As Salaries Tax is in this circumstance levied on income derived from services rendered in Hong Kong, income attributable to services rendered outside Hong Kong is exempt from tax. The amount of income exempted is generally computed by time-basis apportionment by reference to the number of days spent outside Hong Kong. For the purpose of counting the number of days in Hong Kong, the day of departure from Hong Kong and the day of arrival to Hong Kong together are counted as one day only.

Example Arrival in Hong Kong
Departure from Hong Kong No. of days in Hong Kong
1 February 4 February at 23:30 at 00:30 3
1 March 1 March at 11:30 at 18:30 1/2
Thus, broadly speaking, if your annual income for a year of assessment was \$365,000 and you were in Hong Kong for 100 days in that year, your assessable income would be $\$365,000 \times 100/365 = \$100,000$.

ii) All services were rendered outside Hong Kong during the year (i.e. under Section 8(1A)(b)(ii) of the Inland Revenue Ordinance) This exemption is generally available to employees irrespective of the locality of the employment. Attending trainings, meetings or reporting in Hong Kong is regarded as services rendered in Hong Kong for the purpose of the exemption. You are exempt from Salaries Tax for a year of assessment if you rendered all your services outside Hong Kong in that year of assessment, unless you are a civil servant, or a crew member of a ship or an aircraft. Income from services rendered in Hong Kong during "visits" not exceeding a total of 60 days in the year is also excluded from Salaries Tax. Visit means a short or temporary stay. Whether the nature of a trip to Hong Kong made by a Hong Kong resident is "visit" or not depends on the circumstances of each case. In general, if a Hong Kong resident has a work base in a foreign country and is required to render services there as a permanent employee, the person's occasional return to Hong Kong will be recognized as a "visit". In deciding whether visits to Hong Kong exceed a total of 60 days, the "days of presence" are counted. A day is counted although you may be present in Hong Kong for part of the day only. Therefore, the day of departure from Hong Kong and the day of arrival to Hong Kong are counted as two days.

Example Arrival in Hong Kong
Departure from Hong Kong No. of days in Hong Kong
1 February 4 February at 23:30 at 00:30 4
iii) Part of the income has already been charged to the tax in Mainland China or other countries during the year

(i.e. under Section 8(1A)(c) of the Inland Revenue Ordinance) This exemption is generally only applicable for employees having a source of employment in Hong Kong . If you have paid tax of substantially the same nature as Hong Kong Salaries Tax to a territory outside Hong Kong in respect of income relating to services rendered by you in that territory, that part of the income which has already been subject to foreign tax will be exempt from Hong Kong Salaries Tax. Evidence of foreign tax payment is required. For example, your annual income for a year of assessment was \$300,000 and two-third of the income (i.e. \$200,000) was attributable to services rendered by you in, say, Country A. If you had paid tax similar to Hong Kong Salaries Tax in Country A on the \$200,000 income, your assessable income in Hong Kong would be \$100,000 only. If a Hong Kong resident provides services both in the Mainland and in Hong Kong, the income derived from that person's Hong Kong employment will be fully assessable. But he/she may either apply for tax exemption under section 8(1A)(c) in respect of that part of income already subject to Individual Income Tax in the Mainland or apply for a tax credit under the Arrangement between the Mainland of China and the HKSAR for Avoidance of Double Taxation ("the Arrangement") by respectively completing Section 6 or Section 4 of the Appendix to Tax Return - Individuals. Evidence of the payment of Individual Income Tax is required. In general, tax exemption under section 8(1A)(c) provides greater relief than that would be provided by tax credit. For further information regarding this Arrangement, please go to Section V. To get more details about full or partial exemption of income relating to places of employment, you can also visit the Inland Revenue Department's webpage.

B. GENERAL GUIDELINES ON HOW TO COMPUTE SALARIES TAX

1. WHAT INCOME IS ASSESSABLE AND WHAT DEDUCTIONS (AND ALLOWANCES) CAN BE CLAIMED UNDER SALARIES TAX?

The following is only intended to provide an outline of what taxable income, deductions, and allowances are. These terms will be explained further in separate questions and answers in other sub-sections on this website.

a) Income According to section 11B of the Inland Revenue Ordinance, the assessable income of a person in any year of assessment shall be the aggregate amount of income accruing to that person from all sources in that year of assessment. For the purposes of Salaries Tax, the assessable income includes:

- i) Salaries/wages
- ii) Commission, bonus, leave pay, end-of-contract gratuities
- iii) Allowances or perquisites

These include cash allowances for food, traveling, housing, cost of living and education benefits.

- iv) Tips from any person
- v) Salary tax paid by an employer
- vi) The 'rental value' of a place of residence that is either: (a) provided by an employer, or (b) the rent for which is paid or refunded (fully or partially) to the employee by the employer.

"Employer" here also includes a corporation associated with the employer This is taken to be 10% of the income earned from the employer (excluding any lump sum payment or gratuity on termination of employment) after deductions and depreciation allowances (if any) for the period during which the residence is provided.

- vii) Share option gain This refers to the gain realized by the exercise, the assignment, or the release of a right to acquire shares or stock in a corporation.
- viii) Back pay, gratuities and any terminal/retirement awards You may apply to have the whole sum of money related back to the earning period for tax assessment (up to a maximum of 36 months).
- ix) Certain payments received from Mandatory Provident Fund Schemes (MPF) or Recognized Occupational Retirement Schemes (except for those received due to retirement, death or incapacity) attributable to some voluntary contributions by an employer. Income not chargeable to Salaries Tax (not required to be reported in tax return) includes: fees paid for your having served as a juror; severance payment or long service payment payable by the employer on termination of employment under the Employment Ordinance ; payments received from MPFS on retirement, death, incapacity or termination of service attributable to mandatory contributions.

b) Deductions and Depreciation Allowances

- i) Outgoings and expenses To qualify for deduction, the relevant outgoing and expense cannot be of a private or domestic nature and must meet the very stringent conditions of being wholly, exclusively, and necessarily incurred in the production of your assessable income.
- ii) Expenses of self-education The maximum amount allowable for deduction (as from the year of assessment 2013/14) is \$80,000 per year.
- iii) Approved charitable donations The

minimum amount allowable for deduction is \$100. The total amount to be deducted for the year should not exceed 35% of your assessable income less the deductions of outgoings and expenses and depreciation allowances.

iv) Mandatory contributions to MPFS or contributions to Recognized Occupational Retirement Schemes Some of the contributions that you make to a mandatory provident fund (MPF) scheme or a recognised occupational retirement (ROR) scheme can be deducted from your assessable income. Mandatory contributions to MPF schemes are deductible in computing your assessable income as an employee or assessable profits as a self-employed person's own contribution. All contributions other than mandatory contributions are voluntary and are not deductible. The maximum deduction for each year of assessment is :

Year of assessment	Maximum deduction (\$)
2009/10 to 2011/12	12,000
2012/13	14,500
2013/14	15,000
2014/15	17,500
2015/16 onwards	18,000

v) Home loan interest (HLI) You can get deductions of HLI paid on the mortgage of your home. The maximum amount of deduction for each year is \$100,000. With effect from the year of assessment 2012/13, the number of years of deduction for home loan interest is extended from 10 to 15 (not necessarily consecutive) years of assessment, while maintaining the current deduction ceiling of \$100,000 a year. The additional 5 years home loan interest deduction is not applicable to the year of assessment prior to the year of assessment 2012/13. However, it will not affect taxpayers' entitlement (including those who had already got the deduction of home loan interest for 10 years of assessment) of the 5 additional years deduction from the year of assessment 2012/13 and onwards. Following each HLI deduction, the Commissioner will notify you of the number of years for which deduction has been allowed and your remaining entitlement.

vi) Elderly residential care expenses (ERCE) You can claim deduction of the ERCE actually incurred by you/your spouse in respect of the residential care for you/your spouse's parent/grandparent who is aged 60 or above at any time in the year of assessment, or who is under 60 but is entitled to claim an allowance under the Government's Disability Allowance Scheme; and is taken care of by a registered residential care home or nursing home situated in Hong Kong . In respect of the same dependant, you can claim either Dependent Parent Allowance (see "Allowances" below), or ERCE, but not both . If ERCE and DPA are claimed simultaneously for the same dependant, you will only get a deduction for ERCE for that year. Annual deduction ceiling :

Year of assessment	Deduction ceiling (\$)
2009/10 to 2010/11	60,000
2011/12	72,000
2012/13 to 2013/14	76,000
2014/15 onwards	80,000

vii) Depreciation allowances on plant & machinery To qualify for such allowances, you must show that the use of the machinery or plant is essential to the production of your income and produce the relevant receipt for inspection, when required. This kind of depreciation allowance, however, is uncommon for salaries tax. For details about various kinds of tax deductions, please visit GovHK.

c) Allowances Please visit GovHK for updated allowance figures.

2. WHAT ARE THE CURRENT RATES FOR SALARIES TAX?

2. WHAT ARE THE CURRENT RATES FOR SALARIES TAX? Tax rates for the year of assessment 2009/10 and onwards (also applicable to Personal Assessment):

Net chargeable income (Total Income - Deductions - Allowances)	Progressive rate
on the first \$40,000	2%
on the next \$40,000	7%
on the next \$40,000	12%
upon the remainder	17%

Standard rate: 15% Salaries Tax is chargeable on your net chargeable income at progressive rate OR your net total income at standard rate, whichever is the lesser. Base on the above table, progressive rate is more advantageous to people with relatively lower income. On the other hand, standard rate will give more concession to people earning relatively higher income (since progressive rate will charge 17%, but not 15%, on the income after the first \$120,000). Please go to the next question for an illustration of how to compute salaries tax. For more details on tax rates, you may also refer to the Inland Revenue Department's "Allowances, Deductions and Tax Rate Table".

3. HOW IS SALARIES TAX AND PROVISIONAL SALARIES TAX COMPUTED?

3. HOW IS SALARIES TAX AND PROVISIONAL SALARIES TAX COMPUTED? You may use the Inland Revenue Department's Salaries Tax Computation to assess your Salaries Tax and Provisional Salaries Tax.

4. WHEN DO I PAY MY SALARIES TAX AND PROVISIONAL SALARIES TAX?

4. WHEN DO I PAY MY SALARIES TAX AND PROVISIONAL SALARIES TAX? Normally you would be asked to pay the Salaries Tax and Provisional Salaries Tax by two installments: the first instalment to be paid by

January, the second instalment to be paid by April. Generally speaking, when paying the first instalment, you are required to pay 75% of the provisional salaries tax for a year after you have earned the income for at least nine months in the same year, and the remaining 25% is paid after you have earned the income for the whole year (i.e. in April). Assuming that there is no change on your monthly income on this year comparing with the previous year, paying provisional tax is actually not paying tax in advance, nor paying tax on future income.

5. UNDER WHAT CIRCUMSTANCES CAN I APPLY FOR PAYING LESS TAX, OR FOR HOLDING OVER (DEFERRING PAYMENT) OF PROVISIONAL SALARIES TAX? 5. UNDER WHAT CIRCUMSTANCES CAN I APPLY FOR PAYING LESS TAX, OR FOR HOLDING OVER (DEFERRING PAYMENT) OF PROVISIONAL SALARIES TAX? An application for holding over of provisional salaries tax may be made on one of the following grounds: You have become entitled to an allowance, which was not given in the notice for payment of provisional tax, for example: You are getting married this financial year and your spouse does not have any income. You are entitled to a married person's allowance; Child allowance for your newborn baby; or Dependent parent allowance for your parent who has attained the qualifying age in the year of assessment for which provisional tax was charged. Your net chargeable income for the year of assessment for which provisional tax was charged is, or is likely to be, less than 90% of the net chargeable income for the preceding year or of the estimated sum in respect of which you are liable to pay provisional tax. You have ceased, or will before the end of the year of assessment for which provisional tax was charged cease, to derive income chargeable to salaries tax. You should state the estimated amount of income for the whole year of assessment in your application and give reason for the reduction of income such as unemployment, retirement and salary reduction. The amount of contributions to a recognized retirement scheme paid or to be paid by you in 2015/16 will exceed \$17,500. You have objected to your salaries tax assessment for the year preceding the year of assessment for which provisional tax was charged. Your application must be made in writing and received not later than 28 days before the due date for payment of the Provisional Salaries Tax, or 14 days after the issue of the demand note concerned, whichever is the later. If the provisional tax is payable by two instalments and the first instalment has been settled by the due date, an application for holding over of the whole or part of the second instalment may be made subject to the prescribed time limit and grounds for application.

6. HOW CAN MARRIED PERSONS REPORT THEIR SALARY INCOME? 6. HOW CAN MARRIED PERSONS REPORT THEIR SALARY INCOME? Married persons can choose "separate taxation" or "joint assessment": i) Separate taxation A husband and a wife are treated as separate individuals. Each is required to: complete a tax return, declare his/her income, claim expenses (and deductions), and pay any tax due. ii) Joint assessment (applicable only if advantageous) If the earnings of one spouse are less than his/her tax allowance, there will be some un-utilized allowance when the husband and wife are assessed separately under separate taxation. If a couple chooses to have a "joint assessment", income and allowances for both husband and wife will be added together, and the married person's allowance will be deducted from their joint total income. Obviously, this will result in some savings in tax for the couple. Hence, where it appears that a joint tax bill may be smaller than your two tax bills added together, both you and your spouse should choose the "joint assessment" option in each of your tax returns. If a joint assessment does not result in less tax, the Assessor will automatically issue separate tax bills to each of you instead. Please note that there is a time limit for the selection/withdrawal of a joint assessment. After initially choosing to have a joint assessment, should you change your mind and withdraw your selection, you will not be allowed to request a joint assessment again in the same year of assessment. Any married couple may choose "joint assessment" under Hong Kong Salaries Tax regulations, irrespective of their residential status. The point to note for joint assessment is that both spouses should have income assessable to Hong Kong Salaries Tax for the specific year of assessment in question.

C. INCOME CHARGEABLE TO SALARIES TAX C. INCOME CHARGEABLE TO SALARIES TAX