

A Brief Guide to Personal Assessment

Whether Tax may be Reduced through
Election for Personal Assessment

Foreword

This leaflet explains –

1. what Personal Assessment is,
2. how Personal Assessment may reduce your tax liability,
3. when election for Personal Assessment will not be advantageous,
4. the eligibility for electing Personal Assessment,
5. the treatment of married couple under Personal Assessment, and
6. the time limit for electing Personal Assessment.

Personal allowances and tax rates applicable to the year of assessment 2008/09 are used in the examples in this leaflet.

What is Personal Assessment?

The Inland Revenue Ordinance provides for the levying of direct tax under three distinct and separate heads, namely Salaries Tax, Profits Tax and Property Tax. Personal Assessment is not a tax levy. It is a relief for certain individual taxpayers who are subject to Profits Tax and Property Tax. A person who only derives income chargeable to Salaries Tax will not benefit by electing Personal Assessment.

How may Personal Assessment reduce your tax liability?

Sole-proprietor or partners of a business and property owners who receive rental income are assessed to Profits Tax and Property Tax respectively at standard rate. By electing Personal Assessment, they may claim the following deductions and their tax liabilities will be computed at progressive rates applicable to Salaries Tax:

- (1) interest incurred on money borrowed for the purpose of producing property income, (the amount deductible should not exceed the net assessable value of each individual property),
- (2) approved charitable donations,
- (3) elderly residential care expenses,
- (4) home loan interest,
- (5) business losses incurred in the year of assessment,
- (6) losses brought forward from previous years under Personal Assessment, and
- (7) personal allowances.

Example 1 Taxpayer subject to Property Tax

Miss Chan, single, received monthly rental of \$40,000 from the letting of a property under mortgage. Interest of \$42,000 was paid during the year.

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| <u>Property Tax payable</u> | \$ |
| Net assessable value (\$40,000 x 12 x 80%) | <u>384,000</u> |
| Tax payable (at standard rate 15%) | <u>57,600</u> |

| | | |
|---|----------------|----------------|
| <u>Tax payable under Personal Assessment</u> | \$ | \$ |
| Net assessable value | | <u>384,000</u> |
| Less Mortgage interest | 42,000 | |
| Basic allowance | <u>108,000</u> | <u>150,000</u> |
| Basic allowance | | <u>234,000</u> |
| Tax payable (at progressive rates) | | 27,780 |
| Less : 100% tax reduction (capped at \$8,000) | | <u>8,000</u> |
| | | <u>19,780</u> |

There is a saving of \$37,820 (i.e. \$57,600-\$19,780) if Miss Chan elects Personal Assessment which enables her to claim deductions for mortgage interest and personal allowance.

Example 2 Taxpayer subject to Profits Tax

Mr. Lee incurred business loss of \$100,000. He received salaries income of \$400,000 from an employment during the same year.

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| <u>Salaries Tax payable</u> | \$ |
| Salaries income | 400,000 |
| Less : Basic allowance | <u>108,000</u> |
| Net chargeable income | <u>292,000</u> |
| Tax payable | <u>37,640</u> |

| | |
|----------------------------|------------------|
| <u>Profits Tax payable</u> | \$ |
| Business profits (losses) | <u>(100,000)</u> |
| Tax payable | 0 |

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| <u>Tax payable under Personal Assessment</u> | \$ |
| Salaries income | 400,000 |
| Business losses | <u>(100,000)</u> |
| Chargeable income | 300,000 |
| Less : Basic allowance | <u>108,000</u> |
| Net chargeable income | <u>192,000</u> |
| Tax payable (at progressive rates) | 20,640 |
| Less : 100% tax reduction (capped at \$8,000) | <u>(8,000)</u> |
| | <u>12,640</u> |

By electing Personal Assessment, the tax liability of Mr. Lee is reduced by \$25,000 (i.e. \$37,640- \$12,640) because his business loss can be utilised to set off against his other assessed income in the year.

When will election for Personal Assessment not be advantageous?

Under Personal Assessment, tax is calculated at progressive tax rates on the aggregated income from all sources. As the marginal scale of the progressive rates is higher than the standard rate, it may not be advantageous for larger income taxpayers to elect Personal Assessment.

Eligibility for electing Personal Assessment

An individual may elect Personal Assessment if :

- (1) he/she is 18 years of age or over, or under that age if both of his/her parents are deceased; and
- (2) the individual is or, if he/she is married, his/her spouse is a permanent or temporary resident in Hong Kong;

For the purpose of Personal Assessment :

- (1) “permanent resident” means an individual who ordinarily resides in Hong Kong;
- (2) “temporary resident” means an individual who stays in Hong Kong for a period or a number of periods amounting to more than 180 days during the year of assessment in respect of which the election is made or for a period or periods amounting to more than 300 days in 2 consecutive years of assessment, one of which is the year of assessment in respect of which the election is made.

Election for Personal Assessment must be made in writing. An election may be made by completing the relevant section in the Tax Return.

Treatment of married couple under Personal Assessment

Where a taxpayer is married and is not living apart from his/her spouse, and both of them have income chargeable to tax, election for Personal Assessment must be made by the couple jointly.

Separate taxation for husband and wife is not applicable under Personal Assessment. The total income of an individual, as appropriately reduced, will be aggregated with that of his/her spouse to arrive at the joint total income of the couple for assessment purposes. Normally, the tax payable on the Joint Assessment is proportionally allocated to the husband and the wife on the basis of their respective reduced total income, and a notice of assessment will be issued to each of them.

Example 4 Married couple electing Personal Assessment

The profit of Mr. Cheung's sole-proprietorship business was assessed at \$360,000. Mrs. Cheung received monthly rent of \$10,000 from a property under mortgage. She paid mortgage interest of \$56,000 during the year.

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|---|---------------|----------------|
| Tax payable under Personal Assessment | \$ | \$ |
| Business profits (Mr. Cheung) | | 360,000 |
| Property income (Mrs. Cheung) : | | |
| - Net assessable value (\$10,000 x 12 x 80%) | 96,000 | |
| Less: Mortgage interest | <u>56,000</u> | <u>40,000</u> |
| Chargeable income | | 400,000 |
| Less: Married person's allowance | | <u>216,000</u> |
| Net chargeable income | | <u>184,000</u> |
| Tax payable (at progressive rates) | | 19,280 |
| Less: 100% tax reduction (capped at \$8,000) | | <u>8,000</u> |
| | | <u>11,280</u> |
| Mr. Cheung's share of tax payable (\$11,280 x 360,000 / 400,000) | | <u>10,152</u> |
| Mrs. Cheung's share of tax payable (\$11,280 x 40,000 / 400,000) | | <u>1,128</u> |

Mr. and Mrs. Cheung will respectively receive notice of assessment and demand for payment.

Time limit for electing Personal Assessment

Election for Personal Assessment must be made

- not later than 2 years after the end of the year of assessment in respect of which the election is made; (e.g. election for Personal Assessment for the year of assessment 2008/09 has to be made not later than 31 March 2011),
or
- 2 months after the issue of a notice of assessment or a notice of additional assessment to tax for the year of assessment in respect of which the election is made,

whichever is the later.

Further information and assistance

If you need any further information or assistance, please:

- (a) visit our web site: www.ird.gov.hk,
- (b) visit GovHK web site: www.gov.hk > [Residents](#) > [Taxes & Duties](#),
- (c) write to the Assessor, by post or by fax (2877 1232), quoting your file reference and daytime contact telephone number,
- (d) telephone the Enquiry Service Centre (187 8088),
- (e) visit the Central Enquiry Counter at 1/F of Revenue Tower, 5 Gloucester Road, Wan Chai, Hong Kong.

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