

A guide to Salaries Tax (1)

How to compute Salaries Tax?

What are separate taxation & joint assessment?

How to lodge objection & holdover claim?

Foreword

You pay Salaries Tax on your actual income by the year of assessment if you work in Hong Kong and your earnings from employment exceed your entitlements to tax allowances.

This leaflet, PAM 39(e), explains separate taxation and joint assessment for husband and wife, how Salaries Tax and Provisional Salaries Tax are computed, how to object to an assessment and how to apply for the holdover of provisional tax.

PAM 40(e) tells you what income is taxable and what deductions you may get.

If you have to perform services outside Hong Kong during the course of your employment, you may apply complete/partial exemption from Salaries Tax in your tax return on a year-by-year basis. (N.B. The Assessor will examine your exemption claim each year.)

PAM 42(e) helps answer some of the questions that people coming to work in Hong Kong may have concerning Salaries Tax.

PAM 43(e) provides useful information for first time taxpayers.

The Charge to Salaries Tax

Salaries Tax is chargeable on the smaller of your net chargeable income at progressive rates and your net total income at standard rate. In this regard,

$$\begin{aligned} \text{Net Chargeable Income} &= \text{Total Income} - \text{Deductions} - \text{Allowances} \\ \text{Net Total Income} &= \text{Total Income} - \text{Deductions} \end{aligned}$$

Tax rates for the year of assessment 2007/08

Net chargeable income (net of allowances)	Progressive rate
on the first \$35,000	2%
on the next \$35,000	7%
on the next \$35,000	12%
remainder	17%

Net total income (no allowances)	Standard rate 16%
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A year of assessment runs from 1 April to 31 March of the following year. For example, the year of assessment 2007/08 covers the 12 months from 1.4.2007 to 31.3.2008.

Provisional Salaries Tax for a year is usually based on the income less allowances of the preceding year.

Tax rates for the year of assessment 2008/09

Net chargeable income (net of allowances)	Progressive rate
on the first \$40,000	2%
on the next \$40,000	7%
on the next \$40,000	12%
remainder	17%

Net total income (no allowances)	Standard rate 15%
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Separate taxation & joint assessment

Separate taxation

Husband and wife are treated as separate individuals. Each is required to

- ◆ complete a tax return,
- ◆ declare income,
- ◆ claim expense (and deductions), and
- ◆ pay tax.

Joint assessment (applicable only if advantageous)

If the earnings of one spouse are less than his/her tax allowance, there is unutilized allowance when the husband and wife are assessed separately under separate taxation. If they elect for joint assessment, income and allowances will be aggregated, and married person's allowance will be deducted from 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, you and your spouse should make an election for joint assessment in your tax returns. If joint assessment does not result in less tax, the Assessor will issue separate tax bills instead.

Please note that there is a time limit for election/withdrawal. Once you withdraw your election, re-election for the same year of assessment will not be entertained.

Other leaflets concerning Salaries Tax

PAM 38 (e)	Deductibility of contributions for employees and self-employed persons (MPF Scheme or RORS)
PAM 40 (e)	A guide to Salaries Tax (2)
PAM 43 (e)	A guide for first time Salaries Tax taxpayers
PAM 44 (e)	How to tax the provision of a place of residence to the employee
PAM 47 (e)	How to tax benefits related to stock awards and share options
PAM 63E	Arrangement between the Mainland of China and the HKSAR for Avoidance of Double Taxation: A Guide For Hong Kong Residents Working Across The Mainland Border

Common questions and answers

Q1 I earned salaries of \$30,000 and contributed \$1,000 to a Mandatory Provident Fund (MPF) Scheme per month as from 1 October 2007.

How is Salaries Tax computed for 2007/08?

	\$
Year of Assessment 2007/08	
Income (\$30,000 x 6)	180,000
Less: MPF contributions (\$1,000 x 6)	<u>6,000</u>
	174,000
Less: Basic allowance	<u>100,000</u>
Net Chargeable Income	<u>74,000</u>
Salaries Tax at progressive rate (2%-12%)	<u>3,630</u>
Salaries Tax @ 16% on \$174,000	<u>27,840</u>
Salaries Tax payable (the smaller amount) (Before Tax Reduction)	3,630
Less: 75% Tax Reduction	<u>2,723</u>
Salaries Tax payable (After Tax Reduction)	<u>907</u>

Q2 Do I have to pay Provisional Salaries Tax (PST) for 2008/09?

Yes, the Salaries Tax demand note for you would consist of two components:

2007/08 Salaries Tax	\$907
2008/09 PST	<u>\$28,800</u>
Total Salaries Tax payable	<u>\$29,707</u>

Calculation of PST for 2008/09 is based on the income for 2007/08, but grossed up to 12 months, as follows :

Year of Assessment 2008/09	\$
Income (\$30,000 x 12)	360,000
Less: MPF contributions (\$1,000 x 12)	<u>12,000</u>
Net Total Income	348,000
Less: Basic allowance	<u>108,000</u>
Net Chargeable Income	240,000
Tax payable – First \$120,000 (2 – 12% progressive)	8,400
Balance \$120,000 x 17%	<u>20,400</u>
PST payable at progressive rate	<u>28,800</u>
PST at standard rate \$348,000 x 15%	<u>52,200</u>
PST payable (the smaller amount)	<u>28,800</u>

Q3 Questions 1 & 2 show that my total tax bill is \$29,707 (\$907 + \$28,800). When do I pay? Do I pay by two instalments?

Normally you would be asked to pay the sum of \$29,707 (\$907 + \$28,800) by 2 instalments as follows:

	Amount payable	Due date
1 st instalment	\$22,507 (\$907 + \$28,800 x 75%)	around Jan. 2009
2 nd instalment	\$7,200 (\$28,800 x 25%)	around April 2009

By 1 January 2009 you would have earned income for 9 months to 31 December 2008 (75% of annual income). By 1 April 2009 you would have earned income for the 12 months to 31 March 2009. Hence, paying provisional tax is not paying tax in advance, nor paying tax on future income.

Q4 I received a Salaries Tax assessment and found that the income assessed and the tax charged are incorrect, what should I do?

- (1) You must lodge a written notice of objection with this Department within one month after the date of issue of the assessment, stating the grounds of objection clearly.
- (2) If the income was estimated or you do not get full entitlements to allowances, you should find out if the assessment was an estimated assessment raised under section 59(3) of the IRO (please read the Assessor's Note printed on the assessment notice). If it is, you must submit a completed tax return together with your objection letter.
- (3) Pending the ultimate settlement of the objection, you should pay as indicated on the demand note or follow the Assessor's advice as regards tax payment (whether you have to pay the full tax or could pay a lesser amount of tax in the first instance). The Commissioner may impose a surcharge on any tax not settled by the due date.

Q5 I got married in July 2008. My wife lives in the Mainland and does not have any income. Can I apply to pay less tax?

Yes, as you got married in July, you are entitled to married person's allowance as from 2008/09. You may pay less tax if you apply for holding over part of the 2008/09 PST by providing the particulars of your marriage and of your wife. Your application must be made in writing and received not later than 28 days before the due date for payment of the PST, or 14 days after the issue of the demand note concerned, whichever is the later.

If the Assessor accepts your application, the amount of PST will be reduced from \$28,800 to \$10,440, computed as follows:

Year of Assessment 2008/09	\$
Net Total Income	348,000
Less: Married person's allowance	<u>216,000</u>
Net Chargeable Income	<u>132,000</u>
Tax payable - First \$120,000 (2%-12% progressive)	8,400
Balance \$12,000 x 17%	<u>2,040</u>
	<u>10,440</u>

Q6 Can I apply for holdover of PST on other grounds?

You may make an application within the time limit described in Answer 5 above if any one of the following conditions can be satisfied:

- ◆ significant reduction in income which is likely to be greater than 10% of the assessed net chargeable income;
- ◆ you have become entitled to a new allowance, e.g. child allowance for a new born baby;
- ◆ your salary income has ceased; or
- ◆ you have objected to the Salaries Tax assessment for the preceding year.

Authorized representative

The Inland Revenue Department is debarred by law from disclosing any information regarding a taxpayer to any person except to himself/herself or his/her authorized representative. You have to furnish a written authorization, if you wish to appoint your spouse or a friend to be your representative.

Other matters of concern

Apart from salaries, pensions and director fees, you are required to report rents from your sole-owned properties and profits from your sole-proprietorship businesses in your Tax Return – Individuals (B.I.R.60).

If relevant, please read :

PAM 54(e) & 55(e)	on Property Tax
PAM 56(e), 57(e) & 58(e)	on Profits Tax
PAM 37(e)	on Personal Assessment; and
PAM 46(e)	on Tax clearance before leaving HK

If you are single and only have salaries income, there is no need for you to elect for Personal Assessment.

The law provides for heavy penalties in respect of

- ◆ failure to notify chargeability to tax in time, when you are liable to tax but have not been issued with a tax return for completion,
- ◆ failure to file a tax return,
- ◆ filing a tax return late, and/or
- ◆ filing an incorrect tax return.

Further information and assistance

You may

- (a) visit our Web site : www.ird.gov.hk;
- (b) visit Gov HK : www.gov.hk > Residents > Taxes & Duties ;
- (c) telephone the Enquiry Service Centre (187 8022 / 187 8088); or
- (d) visit the Central Enquiry Counter at Revenue Tower, 1/F, 5 Gloucester Road, Wan Chai, Hong Kong.

(The contents of this leaflet are for guidance only)

PAM 39(e)

June 2008