

**How to tax  
the provision of a place of  
residence to the employee**

**“rental value”, types of accommodation,  
treatment of rent paid by the employee**

**and**

**whether the employer has exercised proper control**

## Foreword

This leaflet explains how the provision of a place of residence to the employee is assessed to Salaries Tax.

Under Salaries Tax, there are far too many kinds of benefits connected with housing to be described in one leaflet. If the Assessor accepts that what the employer provides to the employee is a place of residence, only the “Rental Value” (**RV**) will be computed and charged to tax. If not so acceptable, the benefit provided by the employer must be assessed as a **perquisite** at its cash value.

Examples of **perquisites** are –

- rent allowance,
- refunds of mortgage payments, and
- subsidies on mortgage interest payments.

## Employee is provided with a place of residence

Housing benefits arising from employment are part of the employee’s income. If the employee is provided with a place of residence by the employer or an associated corporation of the employer, the “Rental Value” (**RV**) of that place of residence should be included in his/her Assessable Income. The **RV** is calculated at 4%, 8% or 10% of his/her total net income after deducting outgoings and expenses (except expenses of self-education), depending on the type of accommodation provided. See the table below and also **Example 3**.

Type of Accommodation	Percentage
A residential unit / serviced apartment	10%
2 rooms in a hotel, hostel or boarding house	8%
1 room in a hotel, hostel or boarding house	4%

Serviced apartments are popular nowadays. Typically they are fully furnished units or apartments with domestic facilities such as cooking and laundry available and a minimum period of stay is usually required. The IRD generally does not regard serviced apartments as rooms in hotels, hostels or boarding houses, although individual cases may be examined in detail to determine the nature of the accommodation. Accordingly, where the place of residence is a serviced apartment, the rate of 10% will generally be applied in computing the **RV**.

To compute the **RV**, rent paid by the employee to the employer or the landlord can be deducted to arrive at the **RV**. Furthermore, if the place of residence is a residential property, the employee may elect to include the “Rateable Value” of the property instead of the **RV**, if that can reduce the amount of tax to be paid.

See analysis below.

<b>Scenario</b>	<b>Adjustment</b>
No rent paid	No adjustment
Rent paid	Deduct net rent paid from <b>RV</b>
If the employee’s tax liability can be reduced	The employee may elect to include the Rateable Value of the residential unit instead of the <b>RV</b>

## Example 1

Mr. Chan earned \$600,000 in a year. His employer Success Engineering Co Ltd provided a flat to him as his place of residence. He claimed deductions for annual subscription to the Hong Kong Institution of Engineers \$2,000, contributions to Mandatory Provident Fund (MPF) \$12,000 and expenses of self-education \$27,500 in that year.

Mr. Chan's Assessable Income would be computed as follows -

	\$	
Income		600,000
<b>RV</b>	\$(600,000 – 2,000) x 10%	<u>59,800</u>
		659,800
	<b>Less:</b> Outgoings and expenses	(2,000)
	MPF contributions	(12,000)
	Expenses of self-education	<u>(27,500)</u>
<b>Assessable Income</b>		<u><b>618,300</b></u>

## Mr. Chan's Tax Return — Individuals (BIR60)

- 2 -

IF SPACE IS INSUFFICIENT, PROVIDE PARTICULARS ON A SEPARATE SHEET. EXCLUDE CENTS WHEN STATING AMOUNTS.

**PART 4 SALARIES TAX** Did you have any income chargeable to Salaries Tax during the year? (✓ in the appropriate boxes in this part)

No → Go to Part 5    
  Yes → Complete this part as appropriate. Box 22 must be completed.

### 4.1 INCOME accrued to me during the year (Exclude amount reported in Part 4.2)

(1)	Name of employer	Capacity employed	Period	Total amount (\$)
	Success Engineering Co Ltd.	Engineer	1.4.2008 - 31.3.2009	600,000
	Pension			

Grand total \$  22

### 4.2 PLACE OF RESIDENCE PROVIDED by each employer or associated corporation during the year

Address	Nature (e.g. house, flat, serviced apartment, no. of rooms in hotel, etc.)	Period provided	Name of my EMPLOYER or ASSOCIATED CORPORATION providing residence
Room 406, 5 Peaceful Street, Hong Kong	Flat	1.4.2008 - 31.3.2009	Success Engineering Co Ltd.
Rent paid by my EMPLOYER or ASSOCIATED CORPORATION to landlord (\$)	Rent paid by ME to landlord (\$)	Rent refunded to ME by my EMPLOYER or ASSOCIATED CORPORATION (\$)	Rent paid by ME to my EMPLOYER or ASSOCIATED CORPORATION (\$)
			Rateable value, if elected (\$)

Total value of ALL places of residence provided \$  29

### 4.3 DEDUCTIONS (Documentary evidence need NOT be submitted but should be retained for future examination.)

(1) Outgoings and expenses	Particulars <input type="text" value="Hong Kong Institution of Engineers"/>	\$ <input type="text" value="2000"/> 30
(2) Expenses of self-education paid for prescribed courses / examination fees paid to specified education providers or associations		\$ <input type="text" value="27500"/> 31
(3) Approved charitable donations		\$ <input type="text" value=""/> 32
(4) Mandatory contributions to recognized retirement schemes in the capacity of an employee		\$ <input type="text" value="12000"/> 33

## Mr. Chan's Employer's Return of Remuneration and Pensions (IR56B)

12. Particulars of Place of Residence provided (See Note 12) (0=Not provided, 1=Provided) ..... (This box must be completed) →

Address	Nature (e.g. House, Flat, Serviced Apartment, No. of Rooms in Hotel, etc.)	Period Provided		Rent (HK\$) paid during the year			
				To Landlord by		Refunded to Employee	Paid to Employer by Employee
		From	To	Employer	Employee		
Rm 406, 5 Peaceful Street, HK	Flat	1/4/2008	31/3/2009	0	0	0	0

## Example 2

What would be the case if the Mr. Chan in Example 1 was required to pay monthly rent of \$3,000 to his employer?

Mr. Chan's Assessable Income would be \$582,300, computed as follows –

	\$				
Income					600,000
<b>RV</b>		\$(600,000 – 2,000) x 10% - \$36,000			<u>23,800</u>
					623,800
		<b>Less:</b> Sum of deductions in Example 1			<u>(41,500)</u>
<b>Assessable Income</b>					<u><u>582,300</u></u>

### Mr. Chan's Tax Return — Individuals (BIR60)

- 2 -

IF SPACE IS INSUFFICIENT, PROVIDE PARTICULARS ON A SEPARATE SHEET. EXCLUDE CENTS WHEN STATING AMOUNTS.

**PART 4 SALARIES TAX** Did you have any income chargeable to Salaries Tax during the year? (✓ in the appropriate boxes in this part)

No  → Go to Part 5 Yes  → Complete this part as appropriate. Box 22 must be completed.

**4.1 INCOME accrued to me during the year** (Exclude amount reported in Part 4.2)

(1)	Name of employer	Capacity employed	Period	Total amount (\$)
	Success Engineering Co Ltd.	Engineer	1.4.2008 - 31.3.2009	600,000
	Pension			
Grand total \$				6 0 0 0 0 0 0 22

**4.2 PLACE OF RESIDENCE PROVIDED by each employer or associated corporation during the year**

Address	Nature (e.g. house, flat, serviced apartment, no. of rooms in hotel, etc.)	Period provided	Name of my EMPLOYER or ASSOCIATED CORPORATION providing residence
Room 406, 5 Peaceful Street, Hong Kong	Flat	1.4.2008 - 31.3.2009	Success Engineering Co Ltd.
Rent paid by my EMPLOYER or ASSOCIATED CORPORATION to landlord (\$)	Rent paid by ME to landlord (\$)	Rent refunded to ME by my EMPLOYER or ASSOCIATED CORPORATION (\$)	Rent paid by ME to my EMPLOYER or ASSOCIATED CORPORATION (\$)
			36,000
Total value of ALL places of residence provided \$			
2 3 8 0 0 29			

**4.3 DEDUCTIONS** (Documentary evidence need NOT be submitted but should be retained for future examination.)

(1) Outgoings and expenses	Particulars	\$	20
	Hong Kong Institution of Engineers	2 0 0 0	
(2) Expenses of self-education paid for prescribed courses / examination fees paid to specified education providers or associations		\$	21
		2 7 5 0 0	
(3) Approved charitable donations		\$	22
(4) Mandatory contributions to recognized retirement schemes in the capacity of an employee		\$	23
		1 2 0 0 0	

### Mr. Chan's Employer's Return of Remuneration and Pensions (IR56B)

12. Particulars of Place of Residence provided (See Note 12) (0=Not provided, 1=Provided) ..... (This box must be completed) → 1

Address	Nature (e.g. House, Flat, Serviced Apartment, No. of Rooms in Hotel, etc.)	Period Provided		Rent (HK\$) paid during the year			
				To Landlord by		Refunded to Employee	Paid to Employer by Employee
		From	To	Employer	Employee		
Rm 406, 5 Peaceful Street, HK	Flat	1/4/2008	31/3/2009	0	0	0	36,000



## Example 4

Mr. Cheung was a waiter of a restaurant and his annual income is \$120,000. He and 5 other colleagues lived in a 3-bedroom flat provided by the employer, Good Taste Restaurant. He and his colleague, Mr. Ng, occupied one of the bedrooms. How should his **RV** be computed?

This form of housing benefit is rather common in Hong Kong. This would be regarded as similar to occupying a room in a boarding house and Mr. Cheung's **RV** would be computed at 4% of his income i.e.  $4\% \times \$120,000 = \$4,800$ .

### Mr. Cheung's Tax Return — Individuals (BIR60)

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IF SPACE IS INSUFFICIENT, PROVIDE PARTICULARS ON A SEPARATE SHEET. EXCLUDE CENTS WHEN STATING AMOUNTS.

**PART 4 SALARIES TAX** Did you have any income chargeable to Salaries Tax during the year? (✓ in the appropriate boxes in this part)

No  → Go to Part 5    Yes  → Complete this part as appropriate. Box 22 must be completed.

**4.1 INCOME accrued to me during the year** (Exclude amount reported in Part 4.2)

(1)	Name of employer	Capacity employed	Period	Total amount (\$)
	Good Taste Restaurant	Waiter	1.4.2008 - 31.3.2009	120,000
	Pension			
Grand total \$				120000

**4.2 PLACE OF RESIDENCE PROVIDED** by each employer or associated corporation during the year

Address	Nature (e.g. house, flat, serviced apartment, no. of rooms in hotel, etc.)	Period provided	Name of my EMPLOYER or ASSOCIATED CORPORATION providing residence
Room 801, 5 Food Street, Hong Kong	Staff Quarter - One Room	1.4.2008 - 31.3.2009	Good Taste Restaurant
Rent paid by my EMPLOYER or ASSOCIATED CORPORATION to landlord (\$)	Rent paid by ME to landlord (\$)	Rent refunded to ME by my EMPLOYER or ASSOCIATED CORPORATION (\$)	Rent paid by ME to my EMPLOYER or ASSOCIATED CORPORATION (\$)
Total value of ALL places of residence provided \$			
4800			

### Mr. Cheung's Employer's Return of Remuneration and Pensions (IR56B)

12. Particulars of Place of Residence provided (See Note 12) (0=Not provided, 1=Provided) ..... (This box must be completed) → 1

Address	Nature (e.g. House, Flat, Serviced Apartment, No. of Rooms in Hotel, etc.)	Period Provided		Rent (HK\$) paid during the year			
				To Landlord by		Refunded to Employee	Paid to Employer by Employer
				Employer	Employee		
Rm 801, 5 Food Street, HK	Staff Quarter - One Room	1/4/2008	31/3/2009	0	0	0	0



## **Employer refunds all or part of the rent paid by employee**

Provided that the employer has established clear guidelines to control and has exercised proper supervision over the reimbursements of either the whole or a part of the rent paid by the employee as tenant to the landlord, the Assessor will accept such arrangement as if the employer directly providing a place of residence to the employee. **RV** will be calculated and included in the employee's Assessable Income and the reimbursements of rent will not be treated as income.

However, if the employer does not control how the employee would spend the money or has not exercised proper control over the expenditures, the Assessor will regard the reimbursements as cash allowance and include the full amount as income in the Assessable Income.

Proper control means –

- a clearly defined system is in place, under which the ranks of those officers who are entitled to rental reimbursements and the limit of their respective entitlements are clearly laid down;
- the mode of housing benefit entitled by the employee and the limit of rental reimbursement are clearly specified in the contract of employment; and
- the employer will examine the tenancy agreement and rental receipts and verify the actual payment of rent against the tenancy agreement at regular intervals, and also retain the relevant documents for record purpose.

## Example 6

Apart from paying salary of \$50,000 every month, Ms Wong's employer would also grant a full refund of the rent that she paid for her flat, \$10,000, upon inspection of the rental receipts.

Ms Wong's Assessable Income would be computed as follows –

		\$
Income	$\$(50,000 \times 12)$	600,000
<b>RV</b>	$\$600,000 \times 10\%$	<u>60,000</u>
<b>Assessable Income</b>		<u>660,000</u>

## Ms Wong's Tax Return — Individuals (BIR60)

- 2 -

IF SPACE IS INSUFFICIENT, PROVIDE PARTICULARS ON A SEPARATE SHEET. EXCLUDE CENTS WHEN STATING AMOUNTS.

**PART 4 SALARIES TAX** Did you have any income chargeable to Salaries Tax during the year? (✓ in the appropriate boxes in this part)

No  → Go to Part 5    Yes  → Complete this part as appropriate. Box 22 must be completed.

**4.1 INCOME accrued to me during the year (Exclude amount reported in Part 4.2)**

(1)	Name of employer	Capacity employed	Period	Total amount (\$)
	Success Engineering Co Ltd.	Financial Controller	1.4.2008 - 31.3.2009	600,000
	Pension			
Grand total \$				6 0 0 0 0 0

**4.2 PLACE OF RESIDENCE PROVIDED by each employer or associated corporation during the year**

Address	Nature (e.g. house, flat, serviced apartment, no. of rooms in hotel, etc.)	Period provided	Name of my EMPLOYER or ASSOCIATED CORPORATION providing residence
Flat 8, 8 Beautiful Road, Hong Kong	Flat	1.4.2008 - 31.3.2009	Success Engineering Co Ltd.
Rent paid by my EMPLOYER or ASSOCIATED CORPORATION to landlord (\$)	Rent paid by ME to landlord (\$)	Rent refunded to ME by my EMPLOYER or ASSOCIATED CORPORATION (\$)	Rent paid by ME to my EMPLOYER or ASSOCIATED CORPORATION (\$)
0	120,000	120,000	0
Total value of ALL places of residence provided \$			
6 0 0 0 0 0			

## Ms Wong's Employer's Return of Remuneration and Pensions (IR56B)

12. Particulars of Place of Residence provided (See Note 12) (0=Not provided, 1=Provided) ..... (This box must be completed) → 1

Address	Nature (e.g. House, Flat, Serviced Apartment, No. of Rooms in Hotel, etc.)	Period Provided		Rent (HK\$) paid during the year			
				To Landlord by		Refunded to Employee	Paid to Employer by Employer
				Employer	Employee		
Flat 8, 8 Beautiful Road, HK	Flat	1/4/2008	31/3/2009	0	120,000	120,000	0

## Example 7

If Ms Wong in Example 6 was granted a partial refund of rent of \$8,000 per month, how should her Assessable Income be computed?

The rent “suffered” by Ms Wong can be deducted from the **RV**. Computation is as follows –

		\$
Income		600,000
<b>RV</b>	$\$600,000 \times 10\% - \$(2,000 \times 12)$	<u>36,000</u>
<b>Assessable Income</b>		<u>636,000</u>

## Ms Wong’s Tax Return — Individuals (BIR60)

- 2 -

IF SPACE IS INSUFFICIENT, PROVIDE PARTICULARS ON A SEPARATE SHEET. EXCLUDE CENTS WHEN STATING AMOUNTS.

**PART 4 SALARIES TAX** Did you have any income chargeable to Salaries Tax during the year? (✓ in the appropriate boxes in this part)

No → Go to Part 5    
  Yes → Complete this part as appropriate. Box 22 must be completed.

**4.1 INCOME accrued to me during the year (Exclude amount reported in Part 4.2)**

(1)	Name of employer	Capacity employed	Period	Total amount (\$)
	Success Engineering Co Ltd.	Financial Controller	1.4.2008 - 31.3.2009	600,000
	Pension			
Grand total \$				6 0 0 0 0 0

**4.2 PLACE OF RESIDENCE PROVIDED by each employer or associated corporation during the year**

Address	Nature (e.g. house, flat, serviced apartment, no. of rooms in hotel, etc.)	Period provided	Name of my EMPLOYER or ASSOCIATED CORPORATION providing residence
Flat 8, 8 Beautiful Road, Hong Kong	Flat	1.4.2008 - 31.3.2009	Success Engineering Co Ltd.
Rent paid by my EMPLOYER or ASSOCIATED CORPORATION to landlord (\$)	Rent paid by ME to landlord (\$)	Rent refunded to ME by my EMPLOYER or ASSOCIATED CORPORATION (\$)	Rent paid by ME to my EMPLOYER or ASSOCIATED CORPORATION (\$)
0	120,000	96,000	0
Total value of ALL places of residence provided \$			
3 6 0 0 0			

## Mr Wong’s Employer’s Return of Remuneration and Pensions (IR56B)

12. Particulars of Place of Residence provided (See Note 12) (0=Not provided, 1=Provided) ..... (This box must be completed) →  1

Address	Nature (e.g. House, Flat, Serviced Apartment, No. of Rooms in Hotel, etc.)	Period Provided		Rent (HK\$) paid during the year			
				To Landlord by		Refunded to Employee	Paid to Employer by Employee
				Employer	Employee		
Flat 8, 8 Beautiful Road, HK	Flat	1/4/2008	31/3/2009	0	120,000	96,000	0

## Example 8

Ms Ho was remunerated at salary of \$50,000 and accommodation benefit of \$10,000 per month. She occupied a flat for which she paid \$8,000 per month. How should her Assessable Income be computed?

If Ms Ho's employer has implemented proper controlling procedures over how employees' housing benefits were actually utilized, the Assessor would accept that Ms Ho was provided with a place of residence by her employer. However, as Ms Ho only used \$8,000 on payment of rent, the remaining \$2,000 would be regarded as cash allowance. Her Assessable Income would be computed as follows –

		\$
Salary	\$(50,000 x 12)	600,000
Cash allowance	\$(2,000 x 12)	<u>24,000</u>
		624,000
<b>RV</b>	\$(624,000 x 10%)	<u>62,400</u>
<b>Assessable Income</b>		<u>686,400</u>

On the contrary, if the employer has not implemented proper controlling procedures over housing benefits, the Assessor will treat the full amount of \$10,000 as cash allowance. Ms Ho's assessable income would then be computed as follows –

		\$
Salary	\$(50,000 x 12)	600,000
Cash allowance	\$(10,000 x 12)	<u>120,000</u>
<b>Assessable Income</b>		<u>720,000</u>

### Ms Ho's Tax Return — Individuals (BIR60)

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IF SPACE IS INSUFFICIENT, PROVIDE PARTICULARS ON A SEPARATE SHEET. EXCLUDE CENTS WHEN STATING AMOUNTS.

**PART 4 SALARIES TAX** Did you have any income chargeable to Salaries Tax during the year? (✓ in the appropriate boxes in this part)

No  → Go to Part 5    Yes  → Complete this part as appropriate. Box 22 must be completed.

**4.1 INCOME accrued to me during the year** (Exclude amount reported in Part 4.2)

(1)	Name of employer	Capacity employed	Period	Total amount (\$)
	Success Engineering Co Ltd.	Human Resources Controller	1.4.2008 - 31.3.2009	624,000
	Pension			
Grand total \$				6 2 4 0 0 0 22

**4.2 PLACE OF RESIDENCE PROVIDED by each employer or associated corporation during the year**

Address		Nature (e.g. house, flat, serviced apartment, no. of rooms in hotel, etc.)	Period provided	Name of my EMPLOYER or ASSOCIATED CORPORATION providing residence
Flat 10, 8 Beautiful Road, Hong Kong		Flat	1.4.2008 - 31.3.2009	Success Engineering Co Ltd
Rent paid by my EMPLOYER or ASSOCIATED CORPORATION to landlord (\$)	Rent paid by ME to landlord (\$)	Rent refunded to ME by my EMPLOYER or ASSOCIATED CORPORATION (\$)	Rent paid by ME to my EMPLOYER or ASSOCIATED CORPORATION (\$)	Ratable value, if elected (\$)
0	96,000	96,000	0	
Total value of ALL places of residence provided \$				6 2 4 0 0 29

### Ms Ho's Employer's Return of Remuneration and Pensions (IR56B)

12. Particulars of Place of Residence provided (See Note 12) (0=Not provided, 1=Provided) ..... (This box must be completed) → 1

Address	Nature (e.g. House, Flat, Serviced Apartment, No. of Rooms in Hotel, etc.)	Period Provided		Rent (HK\$) paid during the year			
				To Landlord by		Refunded to Employee	Paid to Employer by Employee
				Employer	Employee		
Flat 10, 8 Beautiful Road, HK	Flat	1/4/2008	31/3/2009	0	96,000	96,000	0

## Special Cases

In the following types of cases, the Assessor will examine the cases critically before accepting/rejecting the arrangement as a place of residence provided by the employer –

1. the employee lets his own property to himself or rents the property from some connected persons (such as spouse) and then claims rental reimbursements from his employer; or
2. the employee lets his own property or connected person's property to his employer and the employer provides that property to him for use as his place of residence.

The assessor will request the employee and/or the employer to provide information and evidence to show that there exists a genuine landlord and tenant relationship between the contracting parties. The Assessor will take into account the following factors before making his decision:

- whether the rent is above the market rent;
- whether the normal letting formalities (such as stamping of tenancy agreement and periodic issue of rental receipts) have been executed; and
- whether the rights and obligations between ordinary landlord and tenant have been observed.

## Retention of documents

When filing the Tax Return, there is no need to attach the tenancy agreement, rental receipts, or other documents evidencing payments of rent. Such documents, however, should be retained so that they can be produced to the Assessor for review upon request.

## Enquiries

You may –

- (a) visit the IRD Web site at [www.ird.gov.hk](http://www.ird.gov.hk);
- (b) telephone the Enquiry Service Centre (187 8022); or
- (c) visit the Central Enquiry Counter at 1/F, Revenue Tower, 5 Gloucester Road, Wan Chai, Hong Kong.

*[The contents of this leaflet are for guidance only.]*

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