



## Related Tax Rules of Guide to Tax Return – Individuals

Reference  
to Tax  
Return

### Profits Tax

#### Part 5

Profits Tax is charged for each year of assessment on every person carrying on a trade, profession or business in Hong Kong in respect of his/her assessable profits arising in or derived from Hong Kong.

#### (a) Basis Period

The basis period is:-

- the year ended 31 March of the year printed on the return; or
- where the annual accounts are made up to any day other than 31 March, the year ended on that day within the year printed on the return; or
- where the accounts are made up for each lunar year, the relevant lunar year that ended within the year printed on the return; or
- where you commenced or ceased to carry on a business or changed its accounting date, the special period prescribed by sections 18C, 18D or 18E of the Inland Revenue Ordinance.

#### 5 (7)

#### (b) Assessable Profits/Adjusted Losses

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Certain adjustments are required to be made to the net profit/loss per accounts to arrive at the assessable profits/adjusted losses for tax purposes.

#### (i) Adjustments to be added to the net profits or deducted from the losses for tax purposes

- Depreciation not calculated in accordance with the Inland Revenue Ordinance;
- Remuneration and other salary benefits accrued to you or your spouse (e.g. salaries, drawings, rent, messing and interest on capital);
- Private share of utilities (e.g. proportion of rates, electricity, water) if the business premises are used for both business and residential purposes;
- Entertainment expenses not related to business;
- Capital items other than the purchase of computer hardware and software or prescribed manufacturing plant or machinery;
- Domestic or private expenses (e.g. Life insurance, share of motor car and entertainment expenses for private or domestic use);
- Penalties and fines;
- Non-business proportion of motor vehicle expenses;
- Interest in respect of non-business or private expenditure. Where business and private expenditures are mixed, an appropriate proportion of the total interest charged must be adjusted;
- Expenses or outgoings to the extent to which they are not incurred in production of the assessable profits, e.g. personal or domestic expenses, gratuitous payments and donations. However, donations of not less than \$100 in aggregate to charities which are exempt from tax under section 88 of the Inland Revenue Ordinance, or to the Government for charitable purposes may be deducted, provided that the deduction does not exceed 35% of the assessable profits before set-off of losses.



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- Contributions to recognized retirement scheme in the capacity of employer in excess of the maximum annual deduction of 15% of the total emoluments of the employees for the year.
- Voluntary contributions made for you or contributions made for your spouse to any Mandatory Provident Fund Scheme (MPF Scheme) which were charged in the accounts.
- Mandatory contributions to any MPF Scheme for you in excess of the maximum deductible amount for the relevant year. The ceiling is to be reduced by the total of mandatory contributions, if any, to be allowed in Salaries Tax and Profits Tax (for any other business of which you are the proprietor or a partner) assessments in respect of yourself.
- The maximum deduction for each year of assessment is :

Year of assessment	Maximum deduction
2015/16 onwards	\$18,000

(ii) **Adjustments to be deducted from the net profits or added to the losses for tax purposes**

- Depreciation allowances and deductions permitted under the Inland Revenue Ordinance;
- Profits of a capital nature or profits NOT arising in or derived from Hong Kong where these have been credited in the Profit and Loss Account;
- Dividends from a corporation.



Related information under the Department's website — [A guide to Profits Tax for unincorporated business \(2\)](http://www.ird.gov.hk/eng/pdf/pam57e.pdf)  
(www.ird.gov.hk/eng/pdf/pam57e.pdf)

— [Profits Tax Computation \( Sole Proprietorship Business\) — Form IR957A](http://www.ird.gov.hk/eng/pdf/ir957ae.pdf)  
(www.ird.gov.hk/eng/pdf/ir957ae.pdf)

(c) **Keeping Business Records**

- The Inland Revenue Ordinance requires each person carrying on a trade, profession, or business in Hong Kong to keep sufficient records of his/her income and expenditure and assets and liabilities in relation to that trade, profession or business to enable his/her assessable profits to be readily ascertained.
- Business records must be retained for at least 7 years after the date of the transaction to which they relate.
- Failure to keep sufficient records may result in a fine of up to \$100,000.



Related information under the Department's website — [A guide to keeping business records](http://www.ird.gov.hk/eng/pdf/51c_pam.pdf)  
(www.ird.gov.hk/eng/pdf/51c\_pam.pdf)



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#### (d) Change in business details

- Any change in the name, nature or business address of a business should be notified to the Business Registration Office within 1 month from the change in compliance with the Business Registration Ordinance.
- When submitting the tax return, if there have been such changes in business details which have not yet been reported to the Business Registration Office, you may report the details on a separate sheet and attach it to the tax return. It will be accepted as a notification under section 8 of the Business Registration Ordinance.



Related information under the Department's website — [Business Registration](http://www.ird.gov.hk/eng/paf/for.htm#br)  
(www.ird.gov.hk/eng/paf/for.htm#br)

#### (e) Profits Tax Rate – Sole Proprietorship Businesses

- Normal Tax Rates (for the year of assessment 2008/09 onwards) : 15%
- Two-tiered rates (for the year of assessment 2018/19 onwards) :  
7.5% on assessable profits up to \$2,000,000; and 15% on any part of assessable profits over \$2,000,000



Related information under the Department's website — (i) [Profits Tax Rate](http://www.ird.gov.hk/eng/tax/bus_pft.htm#a10)  
(www.ird.gov.hk/eng/tax/bus\_pft.htm#a10)  
— (ii) [Two-tiered Profits Tax Rates Regime](http://www.ird.gov.hk/eng/faq/index.htm#2tr)  
(www.ird.gov.hk/eng/faq/index.htm#2tr)

### Part 6

#### Deemed Assessable Profits under Section 20AE, 20AF, 20AX and/or 20AY of the Inland Revenue Ordinance

- You must include the deemed assessable profits under section 20AE, 20AF, 20AX and/or 20AY in your Assessable Profits or Adjusted Loss, if:
  - (a) a non-resident person's assessable profits are exempt from tax under section 20AC of the IRO, and during any part of the year the non-resident person is your associate or you (alone or jointly with any of your associates) hold a beneficial interest of 30% or more in the non-resident person;
  - (b) for year of assessment 2015/16 and subsequent years, the assessable profits of a special purpose vehicle, in which a non-resident person satisfying (a) above has a beneficial interest, are exempt from tax under section 20ACA of the IRO;
  - (c) for year of assessment 2019/20 and subsequent years, the assessable profits of a fund falling within the meaning given by section 20AM of the IRO are exempt from tax under section 20AN of the IRO, and during any part of the year the fund is your associate or you (alone or jointly with any of your associates) hold a beneficial interest of 30% or more in the fund; or



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- (d) for year of assessment 2019/20 and subsequent years, the assessable profits of a special purpose entity, in which a fund satisfying (c) above has a beneficial interest, are exempt from tax under section 20AO of the IRO.
- The formula for calculating the deemed assessable profits is set out in Schedule 15/15A/15C/15D of the Inland Revenue Ordinance (Section 2 of Part 1).



Related information under  
the Department's website

— [Departmental Interpretation & Practice Notes  
No. 43 – Profits Tax Exemption for Offshore  
Funds](#)

([www.ird.gov.hk/eng/ppr/dip.htm#a43](http://www.ird.gov.hk/eng/ppr/dip.htm#a43))