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 election / withdrawal of Personal Assessment.

Personal allowances and tax rates applicable to the year of assessment 2024/25 are used in the examples in this leaflet.

What is Personal Assessment?

The Inland Revenue Ordinance ("the 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) qualifying premiums paid under Voluntary Health Insurance Scheme (VHIS) Policy,

(6) qualifying annuity premiums and tax deductible MPF voluntary contributions,

(7) domestic rents,

(8) assisted reproductive service expenses,

(9) business losses incurred in the year of assessment,

(10) losses brought forward from previous years under Personal Assessment, and

(11) 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.

Property Tax payable		$
Net assessable value ($40,000 x 12 x 80%)		384,000
Tax payable (at standard rate 15%)		57,600

Tax payable under Personal Assessment	$	$
Net assessable value		384,000
Less : Mortgage interest	42,000	
Basic allowance	132,000	174,000
Net chargeable income		210,000
Tax at progressive rates		17,700
Less : 100% tax reduction (Capped at $1,500) (Note)		1,500
Tax payable		16,200

(Note) For 2024/25, 100% of the final tax payable under profits tax, salaries tax and tax under personal assessment would be waived, subject to a ceiling of $1,500 per case.

There is a saving of $41,400 (i.e. $57,600 - $16,200) 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.

Salaries Tax payable	$
Salaries income	400,000
Less : Basic allowance	132,000
Net chargeable income	268,000
Tax at progressive rates	27,560
Less : 100% tax reduction (Capped at $1,500) (Note)	1,500
Tax payable	26,060

Profits Tax payable	$
Business profits (losses)	(100,000)
Tax payable	0

Tax payable under Personal Assessment	$
Salaries income	400,000
Business losses	(100,000)
Reduced total income	300,000
Less : Basic allowance	132,000
Net chargeable income	168,000
Tax at progressive rates	11,520
Less : 100% tax reduction (Capped at $1,500) (Note)	1,500
Tax payable	10,020

(Note) For 2024/25, 100% of the final tax payable under profits tax, salaries tax and tax under personal assessment would be waived, subject to a ceiling of $1,500 per case.

By electing Personal Assessment, the tax liability of Mr. Lee is reduced by $16,040 (i.e. $26,060 - $10,020) 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.

Example 3 Continued from Example 1

In addition to income from letting of property, Miss Chan derived income of $500,000 from an employment during the year.

Salaries Tax payable	$
Salaries income	500,000
Less : Basic allowance	132,000
Net chargeable income	368,000
Tax at progressive rates	44,560
Less : 100% tax reduction (capped at $1,500) (Note)	1,500
Tax payable	43,060

Total tax payable under separate assessments	$
Property tax payable (see Example 1)	57,600
Salaries tax payable	43,060
Total tax payable	100,660

Tax payable under Personal Assessment		$	$
Salaries income			500,000
Net assessable value (see Example 1)			384,000
Total income			884,000
Less :	Mortgage interest	42,000	
	Basic allowance	132,000	174,000
Net chargeable income			710,000
Tax at progressive rates			102,700
Less : 100% tax reduction (capped at $1,500) (Note)			1,500
Tax payable			101,200

(Note) For 2024/25, 100% of the final tax payable under profits tax, salaries tax and tax under personal assessment would be waived, subject to a ceiling of $1,500 per case.

Since Miss Chan is chargeable to Salaries Tax at the marginal rate of 17%, any property income required to be aggregated under Personal Assessment will also be charged at 17%. Hence it is not advantageous for her to elect Personal Assessment. If she has elected Personal Assessment, the Inland Revenue Department will issue Salaries Tax assessment and Property Tax assessment separately and will, by way of an Assessor's note in the respective tax demand note, advise that it is not advantageous for her to elect Personal Assessment for the relevant year of assessment.

Eligibility for electing Personal Assessment

For the year of assessment up to 2017/18:

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 dead; and

(2) the elector is or, if he/she is married, his/her spouse is ordinarily resident in Hong Kong or a temporary resident;

From the year of assessment 2018/19 onwards:

An individual may elect for personal assessment if:

(1) he/she is 18 years of age or over, or under that age if both of his/her parents are dead; and

(2) the elector is either ordinarily resident in Hong Kong or a temporary resident.

For the purpose of Personal Assessment :

(1) a person will be regarded as "ordinarily resident in Hong Kong" if he /she resides in Hong Kong voluntarily and for a settled purpose (such as for education, business, employment or family etc.) with sufficient degree of continuity. Such person should habitually and normally reside in Hong Kong apart from temporary or occasional absences of long or short duration, and is living in Hong Kong as an ordinary member of the community for all the purposes of his/her daily life. Whether a person ordinarily resides in Hong Kong will ultimately depend on the facts of the case.

(2) "temporary resident" means the elector 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

For the year of assessment up to 2017/18, where a taxpayer is married and is not living apart from his/her spouse, and both of them have income assessable to tax, election for Personal Assessment must be made by the couple jointly. Separate taxation for married person and the person's spouse is not applicable under Personal Assessment.

From the year of assessment 2018/19 onwards, taxpayer may elect for personal assessment separately from his/her spouse. If a taxpayer is married, he/she may elect for Personal Assessment jointly with his/her spouse if either one or both of them are eligible to make an election for Personal Assessment and both of them have income assessable under the Ordinance. However, if taxpayer and his/spouse are jointly assessed under Salaries Tax, election for Personal Assessment must be made by them jointly.

When a married couple elect for Personal Assessment jointly, 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 total tax payable is proportionally allocated to the married person and the person's spouse 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 $480,000. Mrs. Cheung received monthly rent of $20,000 from a property under mortgage. She paid mortgage interest of $72,000 during the year.

Tax payable under Personal Assessment	$	$
Business profits (Mr. Cheung)		480,000
Property income (Mrs. Cheung) :		
Net assessable value ($20,000 x 12 x 80%)	192,000	
Less : Mortgage interest	72,000	120,000
Reduced total income		600,000
Less : Married person's allowance		264,000
Net chargeable income		336,000
Tax at progressive rates		39,120
Less: 100% tax reduction (capped at $1,500) (Note)		1,500
Tax payable		37,620

(Note) For 2024/25, 100% of the final tax payable under profits tax, salaries tax and tax under personal assessment would be waived, subject to a ceiling of $1,500 per case.

Mr. Cheung's share of tax payable	
($37,620 x 480,000 / 600,000)	30,096
Mrs. Cheung's share of tax payable	
($37,620 x 120,000 / 600,000)	7,524

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

Time Limit for Election for 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 2024/25 has to be made not later than 31 March 2027), **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.

Time Limit for Withdrawal of Personal Assessment

Withdrawal of Personal Assessment must be made:

- within 6 months after the date on which a Personal Assessment is issued; **or**
- within another period that the Commissioner considers reasonable in the circumstances.

Withdrawal must be made by the married person and the person's spouse jointly if the election of personal assessment is made by them jointly.

Once the election is withdrawn, the taxpayer may not make an election again for the same year of assessment, unless the Commissioner considers it appropriate to allow a re-election.

Further Information and Assistance

You may (a) visit our website at www.ird.gov.hk; or

(b) telephone 187 8022.

[The contents of this leaflet are for guidance only]

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