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, 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,

Net Chargeable Income	**= Total Income – Deductions – Allowances**
Net Total Income	**= Total Income – Deductions**

Tax rates for the year of assessment 2023/24

Net chargeable income (net of allowances)	Progressive rate
on the first $50,000	2%
on the next $50,000	6%
on the next $50,000	10%
on the next $50,000	14%
Remainder	17%
Net total income (no allowances)	Standard rate 15%

<table>
<tr><td colspan="2">Standard rate</td><td colspan="2">Two-tiered standard rates</td></tr>
<tr><td colspan="2">Year of assessment 2023/24</td><td colspan="2">with effect from the year of assessment 2024/25 (Note)</td></tr>
<tr><td>Net income *</td><td>Rate</td><td>Net income *</td><td>Rate</td></tr>
<tr><td rowspan="2">Any amount</td><td rowspan="2">15%</td><td>First $5,000,000</td><td>15%</td></tr>
<tr><td>Remainder</td><td>16%</td></tr>
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**Net income = Total income – Deductions*

Note:
Starting from the year of assessment 2024/25, in calculating the tax amount under standard rate for a taxpayer whose net income exceeds $5 million, the first $5 million of the net income will continue to be calculated at the rate of 15% and the portion of the net income exceeding $5 million will be calculated at the rate of 16%.

A year of assessment runs from 1 April to 31 March of the following year. For example, the year of assessment 2023/24 covers the 12 months from 1.4.2023 to 31.3.2024.

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

Separate taxation & joint assessment

Separate taxation

Married person and the person's spouse 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 married couple 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

Common questions and answers

Q1 I earned salaries of $40,000 and contributed $1,500 to a Mandatory Provident Fund (MPF) Scheme per month as from 1 October 2023.
How is Salaries Tax computed for 2023/24?

Year of Assessment 2023/24	**$**
Income ($40,000 x 6)	240,000
Less: MPF contributions ($1,500 x 6)	9,000
Net Total Income	231,000
Less: Basic allowance	132,000
Net Chargeable Income	99,000

Salaries Tax payable – First $50,000 (2% progressive)	1,000
Balance $49,000 x 6%	2,940
Salaries Tax payable at progressive rate	3,940
Salaries Tax at standard rate $231,000 x 15%	34,650
Salaries Tax payable (the smaller amount)	3,940
Less: 100% Tax reduction (capped at $3,000)(Note)	3,000
	940

(Note) For 2023/24, 100% of the final tax payable under profits tax, salaries tax and tax under personal assessment would be waived, subject to a ceiling of $3,000 per case.

Q2 Following Q1, do I have to pay Provisional Salaries Tax (PST) for 2024/25?

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

2023/24 Salaries Tax	$940
2024/25 PST	$38,100
Total Salaries Tax payable	$39,040

Calculation of PST for 2024/25 is based on the income for 2023/24, but grossed up to 12 months, as follows :

Year of Assessment 2024/25	**$**
Income ($40,000 x 12)	480,000
Less: MPF contributions ($1,500 x 12)	18,000
Net Total Income	462,000
Less: Basic allowance	132,000
Net Chargeable Income	330,000
Tax payable – First $200,000 (2 – 14% progressive)	16,000
Balance $130,000 x 17%	22,100
PST payable at progressive rate	38,100
PST at standard rate $462,000 x 15%	69,300
PST payable (the smaller amount)	38,100

Q3 Questions 1 & 2 show that my total tax payable is $39,040. When do I pay? Do I pay by two instalments?

Normally you would be asked to pay the sum of $39,040 by 2 instalments as follows:

	Amount payable	**Due date**
1st instalment	$29,280 ($39,040 x 75%)	around Jan 2025
2nd instalment	$9,760 ($39,040 x 25%)	around April 2025

By 1 January 2025 you would have earned income for 9 months to 31 December 2024 (75% of annual income). By 1 April 2025 you would have earned income for the 12 months to 31 March 2025. 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 IRD 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 2024. My spouse 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 2024/25. You may pay less tax if you apply for holding over part of the 2024/25 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.

As per example Q2, if the Assessor accepts your application, the amount of PST will be reduced from $39,040 to $15,720, computed as follows:

Year of Assessment 2024/25	**$**
Net Total Income	462,000
Less: Married person's allowance	264,000
Net Chargeable Income	198,000

Tax payable -	First $150,000 (2% - 10% progressive)	9,000
	Balance $48,000 x 14%	6,720
		15,720

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;
- you have paid or are likely to pay self-education expenses, contributions to a recognized retirement scheme, residential care expenses, home loan interest, qualifying premiums under the Voluntary Health Insurance Scheme policy, qualifying annuity premiums, tax deductible MPF voluntary contributions or domestic rents during the year of assessment; and the amounts exceed or are likely to exceed the specified amount for the year preceding the year of assessment for which provisional tax was charged.
- 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 (BIR60).

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 website at www.ird.gov.hk; or

(b) telephone 187 8022.

PAM 39(e)

(The contents of this leaflet are for guidance only)

May 2024