

A guide to Salaries Tax (2)

**which income is assessable and
which deductions are allowable**

Foreword

This guide helps you understand what income is assessable and what deductions are allowable under Salaries Tax.

It does not touch on the question of source of income. To know more about the tax rules, you have to refer to the Inland Revenue Ordinance (“IRO”) (Cap. 112) and its subsidiary legislations.

The Charge to Salaries Tax

Directors receiving directors’ fees, employees receiving salaries, wages, commission, bonus and perquisites and pensioners receiving pensions are required to pay Salaries Tax.

Benefits in kind may also be taxable, e.g., the provision of a place of residence by the employer, the “Rental Value” (RV) will be computed and charged to tax.

Matter of Concern

The law requires both the employer and the employee to separately report income to the Inland Revenue Department. Failure by either party to report the full income may result in an understatement of income without reasonable excuse, an act liable to heavy penalty.

Income

For the purposes of Salaries Tax, the assessable income includes:

Details	Remarks
Salaries/wages	These should be the gross amount before deducting the employee's contributions to a Mandatory Provident Fund Scheme (MPFS) or an MPF-exempted ORSO Scheme.
Commission (include "Dim Yung"), bonus, leave pay, end-of-contract gratuities	Generally speaking, with the exception of a handful of exempt items (e.g., payments in lieu of notice of termination of employment accrued up to 31 March 2012, compensation for injuries, payments specifically exempted under the IRO), almost all payments made by the employer to the employee are taxable, regardless of : <ul style="list-style-type: none">◆ whether the amount was paid according to/in excess of the terms of employment; and◆ whether the amount was paid pre-commencement, post-cessation or during the course of employment.
Allowances or perquisites	These include cash allowances for food, travelling, housing, cost of living and education benefits (i.e., payments made directly or indirectly by your employer to educational institutions for the education of your children) and perquisites that may be converted into cash or are money's worth (such as gift of motor car, award of shares, etc).
Tips from any person	e.g. tips paid by the customers to the waiters of a restaurant.
Salary tax paid by employer	Any Salaries Tax paid by the employer is an additional reward to the employee. For example, tax paid for you in the year of assessment 2024/25 is regarded as your income for that year.

Details	Remarks
Value of a place of residence	This value is normally computed as 10% of your income from the employer after deduction of outgoings and expenses (but not self-education expenses).
Share option gain	<p>This refers to the gain realized by:</p> <ul style="list-style-type: none"> ◆ the exercise of, ◆ the assignment, or ◆ the release of, <p>a right to acquire shares or stock in a corporation.</p>
Back pay, gratuities, any terminal/retirement awards and gratuities	You may apply to have the whole sum of money related back to the earning period, up to a maximum of 36 months.
Payment in lieu of notice (accrued on or after 1 April 2012)	<ul style="list-style-type: none"> ◆ Payment in lieu of notice contractually agreed ◆ Payment in lieu of notice made under section 7 of the Employment Ordinance (Cap 57)
Payments received from retirement schemes	<ul style="list-style-type: none"> ◆ Unrecognized occupational retirement scheme Any amount representing the employer's contributions and related investment return is assessable to tax as your income, regardless of when and why the payment was made to you. ◆ Recognized occupational retirement scheme Unless the payment to you meets any of the exemption criteria described below, any amount representing the employer's contributions and related investment return is assessable as your income. ◆ Mandatory provident fund scheme Unless the payment to you meets any of the exemption criteria described below, any amount (whether in a lump sum or (if applicable) as an instalment) representing the employer's voluntary contributions and related investment return is assessable as your income (N.B. the

Details	Remarks
	<p>amount representing the employer's mandatory contributions and related investment return is not taxable).</p> <p>Whole sum exempted when made on</p> <ul style="list-style-type: none"> • retirement, • termination of service, if service period is 10 years or more, • incapacity, • terminal illness, or • death. <p>Part of sum exempted when made on:</p> <ul style="list-style-type: none"> • termination of service, if service period is below 10 years; the amount to be exempted is to be computed by reference to the completed number of months of service.

Income not chargeable to Salaries Tax (not required to be reported in tax return) includes:

- ◆ fees paid for your having served as juror, and
- ◆ severance payment or long service payment payable by the employer on termination of employment under the Employment Ordinance.

Deductions

In summary, there are 3 types of deductions that you may claim to deduct from your assessable income in your tax return -

- ◆ outgoings and expenses (including expenses of self-education),
- ◆ concessionary deductions, and
- ◆ allowances (except for taxpayers paying Salaries Tax at standard rate).

(1) Outgoings and expenses (including expenses of self-education)

Details	Remarks				
Outgoings and expenses	<p>To qualify for deduction, the relevant outgoing and expense must meet the very stringent conditions of being wholly, exclusively and necessarily incurred in the production of your assessable income.</p> <p>Deductions allowed by concession</p> <ul style="list-style-type: none"> ◆ If you must work in uniform, you may claim deduction for uniform laundry expenses. ◆ If the holding of a professional qualification is a pre-requisite of your employment, you may claim deduction for your annual membership subscription to one professional association. 				
Depreciation allowances on plant & machinery	To qualify for such allowances, you must show that the use of the machinery or plant is essential to the production of your income and produce the relevant receipt for inspection, when required.				
Expenses of self-education	<table style="width: 100%; border: none;"> <tr> <td style="width: 50%;">Year of Assessment</td> <td style="width: 50%;">Maximum amount(\$)</td> </tr> <tr> <td>2019/20 onwards</td> <td>100,000</td> </tr> </table>	Year of Assessment	Maximum amount(\$)	2019/20 onwards	100,000
Year of Assessment	Maximum amount(\$)				
2019/20 onwards	100,000				

(2) Concessionary deductions

Details	Remarks
Approved charitable donations	The minimum amount allowable for deduction is \$100. The total amount to be deducted for the year should not exceed 35% of your assessable income less the deductions of outgoings and expenses and depreciation allowances.

Details	Remarks				
Mandatory contributions to MPFS or contributions to recognized occupational retirement schemes	<p>Although you may have many sources of income during the year, the maximum deduction for each year of assessment is:</p> <table border="1" data-bbox="568 501 1310 595"> <thead> <tr> <th data-bbox="568 501 900 546">Year of assessment</th> <th data-bbox="900 501 1310 546">Maximum deduction (\$)</th> </tr> </thead> <tbody> <tr> <td data-bbox="568 546 900 595">2019/20 onwards</td> <td data-bbox="900 546 1310 595">18,000</td> </tr> </tbody> </table> <p>Generally speaking, your mandatory contributions are 5% of your monthly income. For more information, please refer to PAM 38(e) [Deductibility of contributions for employees and self-employed persons (MPF Scheme or RORS)].</p>	Year of assessment	Maximum deduction (\$)	2019/20 onwards	18,000
Year of assessment	Maximum deduction (\$)				
2019/20 onwards	18,000				
Home loan interest (HLI)	<ul style="list-style-type: none"> ◆ You may apply for deductions of HLI from your assessable income. ◆ You may claim deduction of interest paid by you in respect of a loan obtained for the purpose of acquiring a property in HK which was used by you as your place of residence, provided the loan was secured by a mortgage or charge and the lending institution providing the loan to you was an approved one. ◆ You are entitled to claim HLI basic deduction for an aggregate of 20 years of assessment, whether continuous or not. ◆ The maximum amount of basic deduction for each year is \$100,000. ◆ From the year of assessment 2024/25 onwards, you may be allowed HLI additional deduction with the maximum amount of \$20,000 if the following conditions are met: <ul style="list-style-type: none"> (a) You reside, during the year of assessment concerned, with your child in Hong Kong for: <ul style="list-style-type: none"> - a continuous period of not less than 6 				

	<p>months; <u>or</u></p> <ul style="list-style-type: none"> - a shorter period that the Commissioner considers reasonable in the circumstances; <p>(b) The child:</p> <ul style="list-style-type: none"> - was born on or after 25 October 2023; <u>and</u> - is, at any time during the year of assessment, under the age of 18; <p>(c) The amount of HLI paid is larger than the HLI basic deduction ceiling amount for the relevant year of assessment;</p> <p>(d) You elect in writing to use HLI basic deduction ceiling amount and additional deduction ceiling amount to determine the amount of HLI deduction.</p> <p>◆ You may be allowed additional deduction of home loan interest if the prescribed conditions are met. However, you will only be allowed home loan interest additional deduction or domestic rent additional deduction for an aggregate of 19 years of assessment, whether continuous or not.</p>
<p>Tax deduction for domestic rents</p>	<ul style="list-style-type: none"> ◆ Domestic rents are deductible with effect from the year of assessment 2022/23. ◆ You may claim deduction of the rent paid by you or your spouse (not living apart) as a tenant under a qualifying tenancy of domestic premises. ◆ The rented domestic premises must be used as your principal place of residence in Hong Kong. ◆ From the year of assessment 2024/25 onwards, you may be allowed domestic rent additional deduction if the following conditions are met: <ul style="list-style-type: none"> (a) You reside, during the year of assessment concerned, with your child in Hong Kong for:

	<ul style="list-style-type: none"> - a continuous period of not less than 6 months; <u>or</u> - a shorter period that the Commissioner considers reasonable in the circumstances; <p>(b) The child:</p> <ul style="list-style-type: none"> - was born on or after 25 October 2023; <u>and</u> - is, at any time during the year of assessment, under the age of 18; <p>(c) The amount of qualifying rental amount paid is larger than the domestic rent basic deduction ceiling amount for the relevant year of assessment;</p> <p>(d) You elect in writing to use domestic rent basic deduction ceiling amount and additional deduction ceiling amount to determine the amount of deduction for domestic rents.</p> <p>◆ A qualifying tenancy is a tenancy or a sub-tenancy stamped within the meaning of the Stamp Duty Ordinance (Cap 117) except one procured in respect of any domestic premises leased by the Government or the Financial Secretary Incorporated as an agent of the Government at a rent of a fair market value.</p> <p>◆ Amount of allowable deduction</p> <p>(i) The maximum amount of deduction allowable to a taxpayer is \$100,000 for each year of assessment from the year of assessment 2022/23 to 2023/24. From the year of assessment 2024/25 onwards, if the conditions in items (a) to (d) above are met, the deduction ceiling for domestic rents will be increased from \$100,000 to \$120,000.</p> <p>(ii) More information on how to ascertain the amount of deduction allowable is available at www.ird.gov.hk/eng/tax/adc.htm.</p>
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	<ul style="list-style-type: none">◆ There is no limit in the number of years that you can claim the basic deduction of domestic rent.◆ You may be allowed additional deduction of domestic rents if the prescribed conditions are met. However, you will be allowed the home loan interest additional deduction or domestic rent additional deduction for an aggregate of 19 years of assessment, whether continuous or not.◆ Circumstances in which deduction is not allowed:<ul style="list-style-type: none">- the taxpayer or his / her spouse (not living apart) is a legal and beneficial owner of any domestic premises in Hong Kong;- the landlord of the rented property is an associate of the taxpayer or his / her spouse (eg spouse, parent, child, brother / sister, partner, or a corporation controlled by the taxpayer or his / her spouse);- the taxpayer or his / her spouse (not living apart) is provided with a place of residence by his / her employer or an associated corporation of the employer (including those who receive a refund for any rent paid);- the taxpayer or his / her spouse (not living apart) is a tenant or authorised occupant of the public rental housing flat;- the premises concerned is prohibited from being used for residential purposes or tenancy is prohibited under any law or Government lease;- the taxpayer or his / her spouse has entered into a lease purchase agreement in respect of the premises;- the rent is allowable as a deduction under any other provision of the Inland Revenue Ordinance;
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	<ul style="list-style-type: none"> - any rent paid in respect of any other domestic premises has been allowed to the taxpayer or his / her spouse (not living apart) as a deduction for the same period for which the rent is paid.
<p>Qualifying Premiums Paid under Voluntary Health Insurance Scheme (VHIS) Policy</p>	<ul style="list-style-type: none"> ◆ Qualifying premiums paid under a VHIS policy is deductible with effect from the year of assessment 2019/20. ◆ You may claim the amount of qualifying premiums paid by you or your spouse as a policy holder for an insured person under a VHIS policy. ◆ The insured person is either yourself or your specified relative, i.e. your spouse, child, your or your spouse’s brother, sister, parent or grandparent and must be <ul style="list-style-type: none"> (i) a HKID card holder at any time during the year of assessment; or (ii) if aged under 11 and not a HKID card holder at any time during the year of assessment, his natural parent or adoptive parent must be a HKID card holder when the insured person was born or adopted. ◆ The maximum amount of deduction to each taxpayer for each insured person is \$8,000. ◆ Please refer to the following website for list of certified insurance plans: https://www.vhis.gov.hk/en/consumer_corner/list-plans.html
<p>Tax Deductions for Assisted Reproductive (AR) Service Expenses</p>	<ul style="list-style-type: none"> ◆ AR Service Expenses are deductible with effect from the year of assessment 2024/25. ◆ You can claim deduction for expenses paid by you and / or your spouse (not living apart) for the qualifying AR services you received or are to receive for medical reasons. “Qualifying AR services” means:

	<ul style="list-style-type: none"> - Reproductive Technology (RT) procedures defined under section 2(1) of the Human Reproductive Technology Ordinance that are provided in relevant licensed centres (including a medical service related to such an RT procedure); or - handling, storing and disposing of gametes or embryo (used or intended to be used in connection with an RT procedure) provided in relevant licensed centres. <p>A medical service is related to an RT procedure if the medical service -</p> <ul style="list-style-type: none"> - is directly related to the RT procedure; - is provided before the RT procedure is to be provided, or during or after the RT procedure is provided; and - is provided, prescribed or referred by a registered medical practitioner of a licensed centre who holds any clinical responsibility for the recipient in respect of the RT procedure. <ul style="list-style-type: none"> ◆ The maximum amount of deduction for a year of assessment is \$100,000. ◆ You have to request a registered medical practitioner of a licensed centre who holds any clinical responsibility for the relevant RT procedure to sign and issue a standard form of proof for qualifying AR service expenses certifying the date and amount of expenses paid, as well as the eligibility of the taxpayer for tax deduction.
<p>Qualifying Annuity Premiums and Tax Deductible MPF Voluntary Contributions</p>	<ul style="list-style-type: none"> ◆ Qualifying annuity premiums and tax deductible MPF voluntary contributions (TVC) are deductible with effect from the year of assessment 2019/20. ◆ Eligibility for deduction <ul style="list-style-type: none"> (a) Qualifying Annuity Premiums: The policy holder/policy holders of a Qualifying

	<p>Deferred Annuity Policy must be yourself and/or your spouse. The qualifying annuity premiums must be paid by you and/or your spouse (not living apart). The annuitant of the policy must be yourself and/or your spouse. The annuitant must be a HKID card holder during the relevant year of assessment.</p> <p>Please refer to the following website for list of qualifying deferred annuity policy:</p> <p>https://www.ia.org.hk/en/qualifying_deferred_annuity_policy/List_of_QDAP.html</p> <p>(b) TVC: TVC is a type of contribution under the MPF system. To be eligible for deduction, you must be a TVC account holder and only contributions made to your TVC account are deductible. Other types of MPF voluntary contributions are not deductible.</p> <p>Please refer to the following website for list of MPF schemes which provide TVC:</p> <p>https://www.mpfa.org.hk/en/mpf-system/voluntary-contributions-or-tax-deductible-voluntary-contributions/tax-deductible-voluntary-contributions</p> <ul style="list-style-type: none"> ◆ The maximum amount of deductions for each year is \$60,000. It is an aggregate limit for both qualifying annuity premiums & TVC paid during the year of assessment. ◆ If you claim deductions in respect of both qualifying annuity premiums and TVC in a year of assessment, TVC are to be firstly allowed and qualifying annuity premiums are to be secondly allowed by the Department.
Elderly residential care expenses (ERCE)	<ul style="list-style-type: none"> ◆ You can claim deduction of the ERCE actually incurred by you/your spouse in respect of the

	<p>residential care for your/your spouse's parent/grandparent.</p> <p>Annual deduction ceiling:</p> <table border="1"> <thead> <tr> <th>Year of assessment</th> <th>Deduction ceiling (\$)</th> </tr> </thead> <tbody> <tr> <td>2019/20 onwards</td> <td>100,000</td> </tr> </tbody> </table> <p>In respect of the same dependant (e.g., your father), you can claim Dependent Parent Allowance (DPA) or ERCE, but not both. If ERCE and DPA are claimed simultaneously for the same dependant, you will only get deduction for ERCE for that year.</p>	Year of assessment	Deduction ceiling (\$)	2019/20 onwards	100,000
Year of assessment	Deduction ceiling (\$)				
2019/20 onwards	100,000				

Please refer to the following Departmental Interpretation and Practice Notes (DIPN) for details including the eligibility for deduction:

- (1) Home loan interest [DIPN No. 35](#)
- (2) Elderly residential care expenses [DIPN No. 36](#)
- (3) Approved charitable donations [DIPN No. 37](#)
- (4) Qualifying Premiums Paid under VHIS Policy [DIPN No. 56](#)
- (5) Qualifying Annuity Premiums and TVC [DIPN No. 57](#)

(3) Allowances*

Year of Assessment 2024/25	\$
Basic Allowance	132,000
Married Person's Allowance	264,000
Child Allowance	
For each of the 1 st to 9 th child	130,000
For each of the child born during the year, the child allowance will be increased by	130,000
Dependent Brother/Sister Allowance	
For each qualified brother/sister	37,500
Dependent Parent/Grandparent Allowance	
For each dependant aged 60 or above or is eligible to claim an allowance under the Government's Disability allowance	50,000
For each dependant aged 55 or above but below 60	25,000
Additional Dependent Parent/Grandparent allowance	
For each dependant 60 or above or is eligible to claim an allowance under the Government's Disability allowance	50,000
For each dependant aged 55 or above but below 60	25,000
Single Parent Allowance	132,000
Personal Disability Allowance	75,000
Disabled Dependant Allowance	
For each qualified dependant	75,000

* If you wish to claim the allowances, you should furnish particulars of dependent family members in your tax return.

Example for computation of Salaries Tax

Year of Assessment 2024/25	\$
Income of Mr CHAN (\$32,000 x 12)	384,000
Less : Membership Subscription to Hong Kong Institute of Certified Public Accountants	2,450
Mandatory Contribution to MPF	<u>18,000</u>
	* 363,550
Less: Basic Allowance	<u>132,000</u>
Net Chargeable Income	<u>231,550</u>
On progressive rate :	
Tax on first \$50,000 @ 2%	1,000
Tax on next \$50,000 @ 6%	3,000
Tax on next \$50,000 @ 10%	5,000
Tax on next \$50,000 @ 14%	7,000
Tax on remaining \$31,550 @ 17%	<u>5,363</u>
	<u>21,363</u>
On standard rate	
* Tax on \$363,550 @ 15%	<u>54,532</u>
Tax payable (Before Tax Reduction)	★ 21,363
Less : 100% Tax Reduction (Capped at \$1,500)	# <u>1,500</u>
Tax payable (After Tax Reduction)	<u>19,863</u>
# 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.	
★ the smaller of the tax amounts	

Further Information and Assistance

You may

- (a) visit our web site at www.ird.gov.hk; or
- (b) telephone 187 8022.

(The contents of this leaflet are for guidance only)

PAM 40(e)
May 2025