

## **A guide to Property Tax (2)**

**Deduction for mortgage interests  
and allowances**

**Holdover of Provisional Property Tax**

## **Foreword**

If you are a sole owner, joint owner or owner in common of a property, PAM 54(e) “A guide to Property Tax (1)” and PAM 55(e) “A guide to Property Tax (2)” will help answer some of the questions that you may have concerning Property Tax.

## **Common questions and answers**

**Q1 I took out a mortgage on acquiring a sole-owned property. How can I get deduction of interest payments from rental income?**

**Can I pay less tax by electing for Personal Assessment?**

If you are charged to Property Tax on rental income at the standard rate, you do not get deductions for interests paid. You can deduct rates paid by you and a 20% allowance for repairs and outgoings.

Deduction for mortgage interests can only be claimed under Personal Assessment (PA), and the maximum amount deductible cannot exceed the “net assessable value” (NAV).

If you do not ordinarily reside in Hong Kong, probably you are not eligible to make an election for PA.

In broad terms, to be eligible to PA, the following criteria should be satisfied:

**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.

Under PA, profits, salaries and rental income are aggregated and tax on the aggregated income is calculated at progressive rates, after deduction for tax allowances for dependent family members etc.

Many taxpayers would pay less tax through electing for PA – see Examples 1 and 2 below. However, Example 3 shows that this may not always be the case.

### ***Example 1***

Ms Chan rented out her sole-owned property at \$30,000 per month. The tenant disappeared in March 2022.

Rents for December 2021 to March 2022 were unpaid. The rental deposit (2 months' rent) was used to set off part of the unpaid rent.

Ms Chan paid rates at \$12,000 and mortgage interests of \$30,000 (for acquiring the property) from April 2021 to March 2022.

Year of assessment 2021/22

<b>PA not elected</b>		\$
Rental income (\$30,000 x 12)		360,000
Less: Irrecoverable rent (2 months)		<u>60,000</u>
Assessable Value		300,000
Less: Rates		<u>12,000</u>
		288,000
Less: 20% allowance for repairs and outgoings		<u>57,600</u>
Net Assessable Value (NAV)		<u>230,400</u>
Property Tax payable @ 15%		<u>34,560</u>

<b>PA elected</b>	\$	\$
NAV		230,400
Less: Mortgage interest	30,000	
Basic allowance	<u>132,000</u>	<u>162,000</u>
Net Chargeable Income		<u>68,400</u>
Tax thereon (at progressive rates)		2,104
Less: 100% Tax reduction (capped at \$10,000)		<u>2,104</u>
PA Tax payable		<u>0</u>

## ***Example 2***

Rent data is same as for Example 1 but the property is co-owned by Ms Chan and Ms Lee in equal shares.

Ms Chan earned salaries of \$300,000 during the year ended 31.3.2022. Ms Chan is eligible and has elected for PA. Ms Lee lives outside Hong Kong.

Year of Assessment 2021/22

<b>Property Tax payable by Ms Chan &amp; Ms Lee</b>	\$
NAV	230,400
Less : Ms Chan's share of NAV to PA (50%)	<u>115,200</u>
	<u>115,200</u>
<b>Property Tax @15%, payable by Ms Chan &amp; Ms Lee</b>	<u>17,280</u>

<b>PA Tax payable by Ms Chan</b>	\$	\$
Ms Chan's share of NAV transferred to PA		115,200
Salaries income		<u>300,000</u>
		415,200
Less: Share of mortgage interest	15,000	
MPF contributions	15,000	
Basic allowance	<u>132,000</u>	<u>162,000</u>
Net Chargeable Income		<u>253,200</u>
Tax thereon (at progressive rates)		25,044
Less: 100% Tax reduction (capped at \$10,000)		<u>10,000</u>
<b>PA Tax payable at progressive rates</b>		<u>15,044</u>

### *Example 3*

Rent data same as Example 1, but mortgage interest paid were \$5,000 and Ms Chan earned salaries of \$500,000 during the year.

<b>PA elected</b>	\$	\$
NAV (100%)		230,400
Salaries income		<u>500,000</u>
		730,400
Less: Mortgage interest	5,000	
MPF contributions	18,000	
Basic allowance	<u>132,000</u>	<u>155,000</u>
Net Chargeable Income		<u>575,400</u>
Tax payable – First \$200,000 (2 – 14% progressive)		16,000
Balance \$375,400 X 17%		<u>63,818</u>
Tax thereon		79,818
Less: 100% Tax reduction (capped at \$10,000)		<u>10,000</u>
<b>Tax payable under PA</b>		<u><u>69,818</u></u>

<b>PA not elected</b>	\$	\$
Salaries income		<u>500,000</u>
Less: MPF contributions	18,000	
Basic allowance	<u>132,000</u>	<u>150,000</u>
Net Chargeable Income		<u>350,000</u>
Tax payable – First \$200,000 (2 – 14% progressive)		16,000
Balance \$150,000 X 17%		<u>25,500</u>
		41,500
Less: 100% Tax reduction (capped at \$10,000)		<u>10,000</u>
Salaries Tax payable		<u><u>31,500</u></u>
Property Tax payable (15% on \$230,400)		<u>34,560</u>
<b>Total tax payable, without PA (\$31,500 + \$34,560)</b>		<u><u>66,060</u></u>

The Assessor will inform Ms Chan that election of PA is not to her advantage and will issue to her separate demand notes for Salaries Tax and Property Tax.

For more details about PA, please read PAM 37(e) “A brief guide to Personal Assessment”.

**Q2 My mother and I are the joint owners of a property. However, as from 1.4.2021, every dollar of rent went to my mother. If both of us have elected for PA for 2021/22, can I ask the Assessor to assess the full amount of NAV as her income?**

No, the NAV must be apportioned in accordance with the law, namely, equally between you and your mother.

**Q3 My sole-owned property yielded rent of \$30,000 per month until the tenant left on 31.5.2022. It was let again after 3 months' vacancy at a reduced monthly rental of \$24,000.**

**Can I apply to pay less tax?**

Yes, compared with that for 2021/22, your rental income for 2022/23 would be reduced by more than 10%. You can apply for a partial holdover of the provisional tax on the ground of rent reduction.

Your written application must be received by the IRD not later than 28 days before the due date for payment of the provisional tax, or 14 days after the issue of the relevant demand note, whichever is the later.

The amount of provisional tax to be held-over would be \$15,840 (\$43,200 – \$27,360), computed as follows:

<b>Amount of provisional tax demanded</b>	\$
Assessed assessable value (\$30,000 x 12)	360,000
Less: 20% allowance for repairs and outgoings	<u>72,000</u>
Estimated NAV, per demand note	<u>288,000</u>
2022/23 Provisional Property Tax charged@ 15%	<u><u>43,200</u></u>
 <b>Computation for reduced tax</b>	
Estimated assessable value (\$30,000 x 2 + \$24,000 x 7)	228,000
Less: 20% allowance for repairs and outgoings	<u>45,600</u>
Estimated NAV	<u><u>182,400</u></u>
Revised 2022/23 Provisional Property Tax @ 15%	<u><u>27,360</u></u>

#### **Q4 Can I apply for holdover of provisional tax on other grounds?**

You may apply for complete or partial holdover of provisional tax within the time limit described in Answer 3 above if any one of the following conditions can be satisfied:

- a reduction in more than 10% of provisional year's estimated assessable value (please refer to the figures shown in the demand note);
- you cease to own the property;
- you have elected for PA and the election would likely reduce your overall tax bill; or
- you have raised an objection against the Property Tax assessment for the preceding year.

#### **Q5 I bought a property and took out a mortgage loan for 10 years. Can I get any relief for the interests paid?**

The availability of relief depends on the usage.

<b>Usage of your sole-owned property</b>	<b>Where to claim deductions</b>
Let for rental income	Deduct mortgage interests from NAV under PA (limit: reducing NAV to zero).
Occupied for use as premises of your sole-proprietorship business	Deduct mortgage interests from your assessable profits under Profits Tax.
Occupied as your residence	Deduct home loan interest under Salaries Tax or PA.
Vacant or occupied as dwelling by relatives rent-free	No deduction.



## **Further information and assistance**

You may

- (a) visit our Web site : [www.ird.gov.hk](http://www.ird.gov.hk);
- (b) telephone the Enquiry Service Office (187 8055);
- (c) visit the Enquiry Service Office at Inland Revenue Centre, G/F, 5 Concorde Road, Kai Tak, Kowloon, Hong Kong; or
- (d) read related leaflets PAM 54(e) “A guide to Property Tax (1)”, and PAM 37(e) “A brief guide to Personal Assessment”.

*(The contents of this leaflet are for guidance only)*

PAM 55 (e)  
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