

**A guide to Profits Tax
for unincorporated businesses (1)**

**The “need-to-know”
for new businesses and
commonly asked questions**

Foreword

This guide will help answer some of the questions that owners of small unincorporated businesses in Hong Kong may have on how to report business profits in the tax return.

To keep it simple and easy to understand, this leaflet does not touch on the question of source of profits.

To know more about the tax rules, you have to refer to the Inland Revenue Ordinance (“IRO”) (Cap. 112) and its subsidiary legislations.

Common questions and answers

Q1 I started a sole proprietorship business in November 2021. How and when should I report my profits/loss to the Inland Revenue Department (IRD)?

- Answer
- ◆ Sole owners of business should report business results in the Tax Return – Individuals (BIR60).
 - ◆ You commenced business within the year of assessment 2021/22. However, if you closed your first accounts after 31 March 2022, probably there would be no assessable profits for the year of assessment 2021/22.
 - ◆ [If the IRD issues a BIR60 to you every year](#)
All you have to do is to report on the BIR60 for the relevant year of assessment the particulars of your sole proprietorship business.
 - ◆ [If the IRD does not issue a BIR60 to you every year](#)
In view of the fact that
 - (a) you will need time to close and to prepare your first business accounts; and
 - (b) most of the businesses are entitled to very generous deduction for depreciation allowances in the year of commencement,

the IRD normally issues a BIR60 to you about 18 months after your business has commenced.

Notify Chargeability

However, if you have assessable profits for the year of assessment 2021/22 and have to pay Profits Tax / Provisional Profits Tax for that year, you should write to inform the Commissioner and ask for a tax return for completion. Your notification in this respect must reach the IRD by 31 July 2022.

Q2 I run a taxi and have received a BIR60. My gross business income for this year was \$457,748. Do I have to prepare accounts and attach them to my tax return for submission to the IRD?

Answer Section 51C of the Inland Revenue Ordinance (IRO) provides that all business owners should keep business records and prepare annual accounts for their businesses. Even if your gross business income is small, you still have to prepare accounts and retain them for at least 7 years.

For the year of assessment concerned	Whether accounts should be submitted
If gross income is over \$2,000,000	The Profit and Loss Account and Balance sheet must be submitted with your tax return.
If gross income is \$2,000,000 or less	There is no need to attach the financial statements, accounts and supporting schedules of analysis to your tax return. However, if the Assessor asks to see them subsequently, you must furnish them for inspection.

Q3 I run a sole proprietorship business and need to declare an “assessable profits” in the BIR60. Do I need to engage a professional accountant to prepare the accounts?

Answer There is no requirement under the law for engaging any professional service for the preparation of accounts for sole proprietorships or partnerships. If you possess the necessary accounting and taxation knowledge, you may prepare your own accounts. You may also employ a bookkeeper to do so.

Q4 I understand that Profits Tax is charged on the “assessable profits”. “Net profits” are shown on my accounts. How do I transform “net profits” into my “assessable profits”?

Answer To arrive at the assessable profits/adjusted losses for tax purpose, certain adjustments are required to be made to the net profit/loss of the business account. Some of the common adjustments are set out in our Proforma Tax Computation Form [IR957A(e)], of which you can make use of to compute the assessable profits. You may obtain the form IR957A(e) by visiting our website www.ird.gov.hk (Public Forms and Pamphlets : Public Forms : Profits Tax), or through our ‘Fax-A-Form’ Service by dialing 2598 6001 (press (2)(8) after selecting language).

The following is an example demonstrating the transformation of “net profits” into “assessable profits” —

Example

1. Prepare the business accounts		\$
Business receipts		457,748
Less: Hire purchase payments		
- capital	\$80,000	
- interest	<u>\$29,200</u>	109,200
Business registration & licence fee		5,400
Insurance		3,750
Petrol		52,300

Repairs	17,140
Approved charitable donations	200
Depreciation	40,000
Proprietor's contribution to MPF scheme	<u>18,000</u>
Net profit	<u>211,758</u>

2. Prepare computation for the assessable profits.
 (You may use our Proforma Profits Tax Computation [IR957A(e)])

		\$
Net profit per account		211,758
Add: Capital payments	\$80,000	
Depreciation	<u>\$40,000</u>	120,000
Less: Depreciation allowance (per IRO)		<u>(59,640)</u>
Amount of assessable profits		<u>272,118</u>

3. Complete Part 5 of the Tax Return — Individuals

Name of your business	xxx Taxi Company
Business registration number	xxxxxxxx
	\$
Gross income	457,748
Turnover	457,748
Gross profit / (loss)	0
Net profit / (loss) per accounts	211,758
Assessable profits / (Adjusted losses) before charitable donations	272,318
Approved charitable donations	200
Mandatory contributions to MPF scheme in the capacity of a self-employed person	18,000

Q5 My only income comes from running a retail business. The assessable profits for the year ended 31 March 2022 were \$362,000. I am single and live in North Point. I support my 65-year-old father who lives in Shenzhen. What tax relief can I get?

Answer ♦ By electing Personal Assessment, you can claim a person's basic allowance of \$132,000.

	\$
Assessable profits	362,000
Less: Basic allowance	<u>132,000</u>
	<u>230,000</u>
Tax at progressive rates	
First \$50,000 @2%	1,000
Next \$50,000 @6%	3,000
Next \$50,000 @10%	5,000
Next \$50,000 @14%	7,000
Remainder \$30,000 @17%	<u>5,100</u>
Tax thereon	21,100
Less: 100% tax reduction (capped at 10,000)(Note)	<u>10,000</u>
Tax payable	<u>11,100</u>

You cannot claim dependent parent allowance for your father because he does not ordinarily reside in Hong Kong.

- ♦ Please refer to PAM 37(e) “A Brief Guide to Personal Assessment” for more information.

Note: For 2021/22, 100% of the final tax payable under profits tax, salaries tax and tax under personal assessment would be waived, subject to a ceiling of \$10,000 per case.

Q6 What if I did not make any profit but incurred an adjusted loss of \$153,135?

- Answer
- ◆ The loss can be carried forward to set off against the future profits of your business.
 - ◆ Alternatively, if you have other income for the same year of assessment, you can elect for Personal Assessment so that the loss can be set off against your other taxable income. Any unutilized loss can be carried forward to set off your taxable income for future years by electing for Personal Assessment.

Q7 I run a Cantonese noodle shop and used to record my daily sales in a notebook. However, I cannot trace most of the invoices/receipts of my business expenses. How could I report my profits?

- Answer
- ◆ The law requires you to keep and retain for at least 7 years sufficient business records of income and expenditure to enable your assessable profits to be readily ascertained.
 - ◆ If you have mislaid part of your business records, you should prepare the accounts by reference to all the information and records that you can find. For instance, you may
 - multiply the monthly rent by 12, if appropriate,
 - calculate the gross profit ratio for your business and then apply this to the turnover, and
 - study your bank statements and cheque butts carefully and try to work out the amounts of salaries, rates, utilities and other operating expenses for the year concerned.
 - ◆ From now on, you should keep sufficient business records of income and expenditure to enable your assessable profits to be readily ascertained at all times.

Q8 What are the consequences of not keeping sufficient business records?

- Answer
- ◆ Failure to keep sufficient records may result in
 - a court fine of up to \$100,000; and
 - estimated assessments being raised on your business.
 - ◆ Please refer to “[Keeping Business Records](#)” for details.

Q9 I have operated a business for over ten years. I used to receive a tax return every year. However, I did not receive a tax return this year. What should I do?

- Answer
- ◆ If your taxable income is less than your allowances, you need not complete a tax return every year. You only furnish tax returns when you receive them.
 - ◆ If you are liable to tax and you do not receive a tax return, you have to write to the Commissioner. (See answer to Question 1 above)

Q10 Is there any difference in the reporting requirements for a sole proprietorship business and a partnership business?

- Answer
- ◆ The reporting requirements are basically the same but the relevant tax returns are different.
 - ◆ For a sole proprietorship business, you declare the profits / loss in Part 5 of the Tax Return – Individuals (BIR60).
 - ◆ For a partnership business, the precedent partner should complete and sign a Profits Tax Return - Persons Other Than Corporations (BIR52).
 - ◆ When there is a change from sole proprietorship to partnership during the accounting year or vice versa, the profits / loss for the full year should be reported in the Profits Tax Return - Persons Other Than Corporations (BIR52).

Further Information and Assistance

You may

- (a) visit our website at www.ird.gov.hk;
- (b) telephone 187 8022; or
- (c) read related leaflets [PAM 57\(e\)](#) and [58\(e\)](#) on “A guide to Profits Tax for unincorporated businesses (2) and (3)”.

[The contents of this leaflet are for guidance only.]

PAM 56(e)

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