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Introduction to Hong Kong Salaries Tax

General

Salaries Tax is chargeable on most but not all of the income from employment, offices and pension arising in or derived from Hong Kong.

Income that Subject to Salary Tax in Hong Kong

The income which is subject to salaries tax includes wages, salaries, leave pay, director's fees, commissions, bonuses, gratuities, perquisites and allowances. Examples of payments which are not subject to salaries tax include severance payments and long service payments that are required to be paid under the Employment Ordinance are not assessable to salaries tax. However, any amount in excess of an employee's entitlement under the Employment Ordinance is assessable to salaries tax.

Employment

The rules which have been established for determining whether income derived from employment is subject to Hong Kong Salaries Tax can be summarised as follows:

1. If the source of employment is located in Hong Kong, an employee's any income derived from that employment falls within the basic charge to Salaries Tax, except in the basis period of a year of assessment render all his/her services outside Hong Kong, or services rendered during his/her visit to Hong Kong not exceeding a total of 60 days in the basis period of a year of assessment. If any income earned for services rendered outside Hong Kong is chargeable to tax of substantially the same nature as Hong Kong Salaries Tax in that territory and the tax have been paid by the employee, then that part of the income will be exempt from salaries tax under section 8(1A)(c) of Hong Kong Inland Revenue Ordinance. However, if the employee has paid tax in a territory outside Hong Kong which has made a comprehensive avoidance of double taxation agreement or arrangement with Hong Kong in respect of his/her income derived from services rendered in that territory. With the support of evidence of foreign tax payment, the foreign tax paid will be allowed as a credit against Hong Kong tax payable in respect of the income concerned under section 50 of Hong Kong Inland Revenue Ordinance.
2. Employee with a non-Hong Kong employment are only subject to salaries tax on that part of their income which is derived from services performed in Hong Kong. The Inland Revenue Department will usually look at the number of days an employee spent in Hong Kong and apportion his/her remuneration on a time-in time-out basis. The employee who renders services in Hong Kong during visits for not more than a total of 60 days in the basis period of a year of assessment will have no liability to Hong Kong Salaries Tax.

The above-mentioned 60 days rule only refers to visits. Visit means a short or temporary stay. Whether the nature of a trip to Hong Kong made by a Hong Kong resident is a visit or not depends on the circumstances of each case. In general, if a Hong Kong resident has a work base in a foreign country and is required to render services there as a permanent employee, the person's occasional return to Hong Kong will be recognised as a visit.

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In determining where the source of income, the employment, is located, the Inland Revenue Department will take into account all of the relevant facts, with particular emphasis on:

1. Where the contract of employment was negotiated and entered into, and is enforceable, whether in Hong Kong or outside Hong Kong;
2. Where the employer is resident, whether in Hong Kong or outside Hong Kong; and
3. Where the employee's remuneration is paid to him, whether in Hong Kong or outside Hong Kong.

Directors' Fees

Directors' fees paid to the directors of a company which is controlled and managed in Hong Kong are chargeable to salaries tax irrespective of where the directors reside.

Outgoings and Expenses

Deductions from assessable income may be claimed for certain outgoings and expenses which have been wholly, exclusively and necessarily incurred in the production of the assessable income. It is, however, rare for an employee to succeed in making a claim for such a deduction. Accordingly, in Hong Kong, emphasis is placed on reducing assessable income using non-taxable benefits rather than expenses in the case of salaries tax.

Non-Cash Fringe Benefits

In general speaking, non-cash fringe benefits are not subjected to salaries tax if:

1. the benefit is not in the form of "money or money's worth";
2. in the case of a payment made by the employer for the benefit of an employee, the employer (and not the employee) has the primary obligation to pay for the benefit and no other person has guaranteed payment;
3. the benefit is not in connection with the education of a child of the employee; or
4. the benefit is not in connection with a holiday journey.

Deductions Allowed

In calculating salaries tax or personal assessment, in addition to various types of tax allowances, individuals can also claim other tax deductions. According to the amendment of relevant Inland Revenue Ordinance, from the tax year beginning on or after 1 April 2019 (i.e. year of assessment 2019/20 and thereafter), 1) individuals purchase approved products under the eligible voluntary health insurance plan for themselves or for their specified relatives; or 2) paying the eligible annuity premiums for themselves or for their spouse; or 3) making the MPF voluntary contributions for themselves can receive tax deductions under salaries tax.

Deduction Items	2019/20 onwards	2018/19
	(HK\$)	(HK\$)
Expenses of Self-Education	100,000	100,000
Elderly Residential Care Expense (To be paid to home care center)	100,000	100,000
Home Loan Interest	100,000	100,000
Mandatory Contributions to Recognized Retirement Schemes	18,000	18,000
Qualifying Premiums Paid under Voluntary Health Insurance Scheme (VHIS) Policy (For each insured person)	8,000	-

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Qualifying Annuity Premiums and Tax Deductions MPF Voluntary Contributions	60,000	-
Approved Charitable Donations [(Income– Allowable Expenses – Depreciation Allowances) x Percentage]	35%	35%

Allowances

The Hong Kong Tax Law does not stipulate the threshold for salaries tax but sets the tax allowance conditions and amount. Every individual who assessed to salaries tax is entitled to a basic allowance and eligible to claim other allowances that may reduce total assessable income provided that the prescribed conditions as specified in the Inland Revenue Ordinance are satisfied.

Allowances (applicable from the year of assessment 2018/2019 onwards)

Allowance Items	Amount (HK\$)
Basic Allowance	132,000
Married Person's allowance	264,000
Child Allowance	
For each of the 1 st to 9 th Child	120,000
Extra allowance for each child born during the year	120,000
Dependent Parent and Dependent Grandparent Allowance (for each dependant)	
Parent/grandparent aged 55 or above but below 60	25,000
Parent/grandparent aged 60 or above or is eligible to claim an allowance under the Government's Disability Allowance Scheme	50,000
Additional Dependent Parent and Dependent Grandparent Allowance	
Parent/grandparent aged 55 or above but below 60	25,000
Parent/grandparent aged 60 or above or is eligible to claim an allowance under the Government's Disability Allowance Scheme	50,000
Dependent Brother or Sister Allowance (for each dependant)	37,500
Single Parent Allowance	132,000
Disabled Dependand Allowance (For each dependant)	75,000
Personal Disability Allowance	75,000

Salaries Tax Rates

Salaries tax payable is calculated at progressive rates from 2% to 17% on individual's net chargeable income or at standard rate 15% on individual's net income, whichever is lower.

Net chargeable income = Total Income - Deductions - Allowances

Net income = Total Income - Deductions

HK Progressive Tax Rates (applicable for 2018/2019 onwards)

Net chargeable income (HK\$)	Tax Rate	Tax Payable (HK\$)
On the first 50,000	2%	1,000
On the next 50,000	6%	3,000

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On the next 50,000	10%	5,000
On the next 50,000	14%	7,000
Remainder	17%	

Provisional Salaries Tax

There is a system of provisional salaries tax in Hong Kong. A provisional assessment for the current year is made based on the previous year's salaries net of deductions and allowances, then tax is charged accordingly. Once the actual income for the year of assessment is known, a final assessment is issued based on the actual income crediting the provisional salaries tax already paid.

Individuals Tax Return (BIR60)

BIR60 is issued to an individual taxpayer for him/her to report his/her salaries. If you receive BIR60 form from IRD, you must complete, sign and file it in time even if you do not have any income to report.

Source : Hong Kong Inland Revenue Department's website

- <https://www.gov.hk/en/residents/taxes/salaries/salariestax/chargeable/index.htm>
- <https://www.ird.gov.hk/eng/pdf/dipn10.pdf>
- https://www.ird.gov.hk/eng/tax/ind_ctr.htm
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- <https://www.ird.gov.hk/eng/pdf/pam61e.pdf>
- <https://www.gov.hk/en/residents/taxes/salaries/salariestax/exemption/employee.htm>

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