

5. Taxes on individuals

Income tax structure

Individuals in business on their own account, either as sole proprietors or in partnership, are liable to profits tax (for which see Chapter 4). Individuals deriving income from an office or employment are liable to salaries tax on that income. Income derived from property is liable to property tax. In principle, no other forms of income arising to an individual are taxable.

Salaries tax

Territoriality and residence

Salaries tax is a territorially based tax, for which both residents and non-residents are treated alike.

Taxable period

The tax assessment year runs from 1 April to 31 March the following year. The year ending 31 March 2008 is referred to as 2007-08, and so on.

Income assessable

Salaries tax is charged on income that arises in or is derived in Hong Kong from any office or employment. Income is defined as including “any wage, salary, leave pay, fee, commission, bonus, gratuity, perquisite or allowance, whether derived from the employer or others”. Accommodation provided by the employer, either free or by means of a rental reimbursement, is taxed as a benefit-in-kind in the hands of the employee at 4%, 8 % or 10% of his income depending on the type of accommodation provided. Other taxable benefits comprise those convertible into cash, an education benefit and a holiday-journey benefit provided by the employer.

Treatment of the family unit

Each married person is individually responsible for all aspects of his or her own salaries tax affairs. If the overall tax liability of any married couple is greater than it would otherwise have been if their assessments were aggregated, they may elect to be jointly assessed.

Rates

Progressive rates apply against the assessable income after the personal allowances and are as follows for the year 2006-07:

Table 2

Taxable income (HKD)	Rate of tax
First 30,000	2%
Next 30,000	7%
Next 30,000	13%
Balance over 90,000	19%

However, total tax charged should not exceed the standard rate of tax of 16% (2006-07) applied to the net total income before deduction of personal allowances but after allowable deductions.

Personal allowances and deductions

Personal allowances are available. There is an overriding provision that the maximum tax payable will not exceed 16% (2006-07) of net total income before deduction of personal allowances. Deductions are allowed for 'Expenses of Self-Education', 'Elderly Residential Care Expenses', 'Home Loan Interest' and 'Contribution to Mandatory Provident Fund Scheme' as defined by the IRD.

Principal personal allowances for 2006-07 include the following:

Table 3

Description	HKD
Basic Allowance	100,000
Married person's allowance	200,000
Child allowance:	
For each of the 1 st to 9 th child	40,000
Single-parent allowance	100,000
Dependent parent / grandparent allowance	
Ages 60 or above	
Basic (each)	30,000
Additional (for dependant living with taxpayer)	30,000
Aged 55 to 59	
Basic (each)	15,000
Additional (for dependant living with taxpayer)	15,000
Dependent brother / sister allowance (each)	30,000
Disabled dependant allowance	60,000

Deductions

These are as follows for 2006-07:

Table 4

Description	HKD
Charitable donations	maximum 25% of assessable income
Self-education expenses	Maximum 40,000
Home mortgage interest	maximum 100,000
Elderly residential-care expenses	maximum 60,000
Contributions to recognised retirement schemes	Maximum 12,000

Returns and payment

Reporting obligations of employers

Under the Inland Revenue Ordinance, employers have the obligation to report to the Inland Revenue Department on the following occasions:

- to furnish annual return of remuneration paid to employees, normally in April of each year;
- to report within three months of the commencement of an employment;
- to report one month before an employee ceases to be employed; and
- to report one month prior to the expected date of departure of an employee who is about to leave Hong Kong.

Returns and collection

Employees are responsible for filing individual tax return while employers are responsible for filing the employer's return.

There is no pay as you earn system in Hong Kong.

Property tax

Liability for tax

Property tax is levied on the owner (resident or non-resident) of a property in Hong Kong. The assessable income is the rent received less rates paid by the owner and a fixed 20% deduction. Tax is computed at 16% (2006-07) of assessable income. There is no deemed income for owner-occupation.

Companies carrying out business in Hong Kong are not subject to property tax as they are assessed for profits tax on net income from property in Hong Kong.

Inheritance tax and gift taxes

Hong Kong imposes no gift, inheritance or estate taxes. The former estate duty was abolished on 15 July 2005, and no estate duty is charged on the estate of any individual dying after 10 February 2006. For those dying between 15 July 2005 and 10 February 2006, a nominal estate duty of HKD 100 (EUR 9.60; USD 12.80) was charged where the principal value of the estate exceeded the final estate duty threshold of HKD 7,500,000 (EUR 721,850 ; USD 960,175).