

## 9. Allowances

### ➤ Salaries Tax and Personal Assessment

In addition or alternative to Basic Allowance, you may claim the following allowances if appropriate -

#### ✧ Married Person's Allowance

##### □ *If you have income chargeable to Salaries Tax* : -

You are entitled to Married Person's Allowance if you were, at any time during the year : -

- married and not living apart from your spouse ; or
- maintaining or supporting your spouse though you were living apart from your spouse;

and your spouse did not derive any income chargeable to Salaries Tax, or you and your spouse have elected Joint Assessment.

##### □ *If you have elected Personal Assessment* : -

You are entitled to the Married Person's Allowance if you were, at any time during the year : -

- married and not living apart from your spouse ; or
- maintaining or supporting your spouse though you were living apart from your spouse ; and
- you and your spouse have elected Personal Assessment.

#### ✧ Child Allowance

Child allowances are for maintaining unmarried children who were either under 18 years of age during the year of assessment or 18 and over but under 25 years of age during the year of assessment and receiving full-time education at a university, college, school or other similar educational establishment. In addition, child allowance is granted for a child aged 18 and over who was incapacitated for work by reason of physical or mental disability. *Under separate taxation, all child allowances must be claimed by one person, either the husband or the wife as mutually agreed between them. Only the claimant should complete the part for claiming child allowance in his/her Tax Return – Individuals (B.I.R. 60).*

### ✧ **Dependent Brother or Dependent Sister Allowance**

Commencing from the year of assessment 1996/97, Dependent Brother or Dependent Sister Allowance is granted if an individual or his/her spouse maintained i.e. had sole or predominant care of an unmarried brother/sister of his/her own or of his/her spouse and the person so maintained at any time in the year of assessment was -

- under the age of 18;
- of or over the age of 18 but under the age of 25 and was receiving full time education at a university, college, school or other similar educational establishment; or
- of or over the age of 18 and was, by reason of physical or mental disability, incapacitated for work.

Dependent Brother or Dependent Sister Allowance and Child Allowance shall not both be given in any year of assessment in respect of the same dependent person.

### ✧ **Dependent Parent or Dependent Grandparent Allowance**

(a) To be eligible for Dependent Parent or Dependent Grandparent Allowance, you or your spouse must have maintained a parent or grandparent who during the year: -

- was ordinarily resident in Hong Kong;
- was aged 60 or over, or if under 60, was eligible to claim an allowance under the Government's Disability Allowance Scheme; and
- had either resided with you and your spouse, other than for full valuable consideration, for a continuous period of 6 months or had received from you or your spouse not less than \$12,000 in money towards his/her maintenance.

(b) Only one individual taxpayer can be granted the allowance in respect of any one parent/grandparent. If he and other individual taxpayers are entitled to claim in respect of the same parent/grandparent, all eligible claimants must agree amongst themselves which claimant is to have the allowance. *Furthermore, Additional Dependent Parent/Grandparent Allowance will be granted in respect of each dependent parent/grandparent actually living with the claimant*

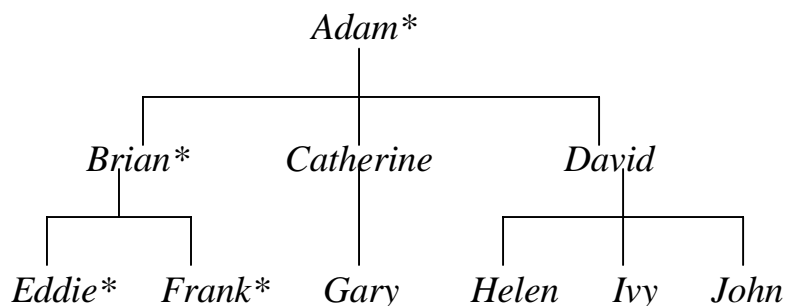
*otherwise than for full valuable consideration continuously throughout the year.*

- (c) For the year of assessment 2005/06 and onwards, a new Dependent Parent/ Grandparent Allowance is also granted to taxpayer maintaining dependent parent/grandparent who does not attain the age of 60 in the year of assessment, but provided the dependant :
- is aged 55 or more but was under the age of 60 at any time during the year of assessment; and
  - is not eligible to claim an allowance under the Government's Disability Allowance Scheme throughout the year of assessment; and
  - is ordinarily resident in Hong Kong; and
  - has either resided with the taxpayer, otherwise than for full valuable consideration, for a continuous period of 6 months or has received from him/her or his/her spouse not less than \$12,000 in money towards his/her maintenance.

A new Additional Dependent Parent/Grandparent Allowance will also be granted if the dependant has resided with the taxpayer, otherwise than for full valuable consideration, continuously throughout the year of assessment. The rate of the new basic and additional allowance is one half of the respective counterpart allowance granted to taxpayer maintaining dependent parent/grandparent aged 60 years or more or who is eligible to claim an allowance under the Government's Disability Allowance Scheme.

- (d) Dependent Parent Allowance and Dependent Grandparent Allowance will not both be given in any year of assessment in respect of the same dependent person.

Example



\* living under the same roof

Notes:

1. Adam, Brian, Catherine & David

- *all over 60 years old and were ordinarily residents in Hong Kong during the year.*
- 2. *Gary contributed \$15,000 towards the living expenses of his grandfather, Adam, during the year.*

Brian had been living with his father, Adam, throughout the year other than for full valuable consideration. He lodged a claim for Dependent Parent Allowance and Additional Dependent Parent Allowance in respect of Adam in his “Tax Return – Individuals”.

For the same year of assessment, Gary also lodged a claim for Dependent Grandparent Allowance in respect of Adam in his “Tax Return – Individuals”.

Hence, in respect of the same dependant Adam, there were two claimants, Brian and Gary. As the allowance cannot be given to more than one individual, Brian and Gary would have to reach an agreement as to which of them should claim the allowance.

If no agreement can be reached, none of the claimants will get the allowance. In addition, the Department will withdraw any allowances already granted, if applicable.

- (e) For the purpose of Dependent Parent Allowance, “parent” means-
  - a parent of whose marriage the person or his/her spouse is a child;
  - a parent by whom the person or his/her spouse was legally adopted;
  - a step-parent of the person or of his/her spouse;
  - the natural parent of the person or his/her spouse; or
  - a parent of the person's deceased spouse.
- (f) As for the purpose of Dependent Grandparent Allowance, "grandparent" means :-
  - a natural grandfather or grandmother of the person or his/her spouse;
  - an adoptive grandparent of the person or his/her spouse;
  - a step grandparent of the person or his/her spouse; or
  - a grandparent of the person’s deceased spouse.

## ✧ **Single Parent Allowance**

Single Parent Allowance is granted if an individual had at any time during the year of assessment the sole or predominant care of a child in respect of whom the individual was entitled for the year of assessment to claim a Child Allowance. The allowance is not granted if the individual was married and not living apart from his/her spouse during the year. No Single Parent Allowance is granted in respect of any second or subsequent child.

#### ❖ Disabled Dependant Allowance

Disabled Dependant Allowance is granted if an individual maintained at any time during the year of assessment a dependant who was eligible to claim an allowance under the Government Disability Allowance Scheme. This allowance is in addition to any allowance granted to the taxpayer in respect of the disabled dependant.

#### ➤ Personal allowances for the latest 7 years of assessment are summarized as follows :-

| Year of Assessment  | 1999/00<br>to  |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | <u>2002/03</u> | <u>2003/04</u> | <u>2004/05</u> | <u>2005/06</u> |
|   | \$             | \$             | \$             | \$             |
| Basic allowance   | 108,000        | 104,000        | 100,000        | 100,000        |
| Married Person's Allowance  | 216,000        | 208,000        | 200,000        | 200,000        |
| Child Allowance (For each qualified child)  |                |                |                |                |
| For each of the 1 <sup>st</sup> and 2 <sup>nd</sup> child   | 30,000         | 30,000         | 30,000         | 40,000         |
| For each of the 3 <sup>rd</sup> to 9 <sup>th</sup> child  | 15,000         | 30,000         | 30,000         | 40,000         |
| Dependent Brother/Sister Allowance<br>(For each qualified brother/sister)   | 30,000         | 30,000         | 30,000         | 30,000         |
| Dependent Parent/ Grandparent Allowance:  |                |                |                |                |
| For each qualified parent/grandparent aged 60 or above <u>or</u><br>is eligible to claim an allowance under the Government's<br>Disability Allowance Scheme | 30,000         | 30,000         | 30,000         | 30,000         |
| For each qualified parent/grandparent aged 55 or above<br>but below 60  | 0              | 0              | 0              | 15,000         |
| Additional Dependent Parent/Grandparent Allowance:  |                |                |                |                |
| For each qualified parent/grandparent aged 60 or above <u>or</u><br>is eligible to claim an allowance under the Government's<br>Disability Allowance Scheme | 30,000         | 30,000         | 30,000         | 30,000         |
| For each qualified parent/grandparent aged 55 or above<br>but below 60  | 0              | 0              | 0              | 15,000         |
| Single Parent Allowance   | 108,000        | 104,000        | 100,000        | 100,000        |
| Disabled Dependant Allowance (For each qualified dependant)   | 60,000         | 60,000         | 60,000         | 60,000         |

## ➤ Profits Tax

### ✧ Depreciation Allowances

#### □ *Industrial Buildings and Structures*

Special allowances are given in respect of capital expenditure incurred on the construction of industrial buildings and structures used in certain trades such as transport, dock, water and electricity undertakings, the manufacture, processing or storage of goods and trades carried on in mills and factories and in farming.

An initial allowance of 20% of such capital expenditure is given in the year of expenditure and an annual allowance of 4% of the expenditure is given until the total expenditure is written off.

When the asset is disposed of, a balancing allowance or balancing charge is made based on the difference between the disposal price and the written down value on disposal.

#### □ *Commercial Buildings and Structures*

Up to the year of assessment 1997/98, a building or structure which is not an industrial building or structure but is nevertheless used for the purposes of a trade, profession or business (other than as stock in trade) can qualify for an annual “rebuilding allowance” of 2% of the capital expenditure incurred on the construction of such building or structure. (annual “rebuilding allowance” is 0.75% for 1989/90 and before)

From the year of assessment 1998/99, a new provision becomes effective. Under the new legislation, an annual “commercial building allowance” of 4% of the cost of construction is granted in respect of an eligible commercial building or structure. At the same time, provisions for balancing allowance and charge similar to industrial buildings and structures have been introduced.

#### □ *Plant and Machinery*

Allowances on capital expenditure incurred on the provision of plant and machinery for the purpose of producing chargeable profits, except those assets referred to under 'Tax Incentive' below, are deducted in arriving at assessable profits :-

- An initial allowance on the cost of the item of plant and machinery. As from the year 1989/90, the allowance is 60% of the cost.
- Annual allowances at rates prescribed by the Board of Inland Revenue on the reducing value of the asset. As from the year 1980/81, the rates are 10%, 20% and 30% according to the estimated working life of the particular category of plant or machinery. Items qualifying for the same rate of annual allowance are grouped under one "pool".
- A balancing allowance based on the unallowed expenditure compared with moneys received on disposal of the plant and machinery is available on cessation of a business to which there is no successor. A balancing charge can, however, arise whenever the disposal proceeds of one or more assets exceed the reducing value of the whole "pool" of assets to which the disposed items belong.

### ➤ **Tax Incentives**

There are tax incentives in specific areas where this may be necessary to enable us to compete in the region on a level playing field. They include:-

- Full deduction of the capital expenditure on plant and machinery specially related to manufacturing, and on computer hardware and software in the year in which the capital expenditure was incurred.
- Capital expenditure on refurbishment of business premises to be written off over five years of assessment.
- Concessionary tax rate for gains derived from qualified debt instruments.
- Concessionary tax rate for offshore business of reinsurance companies.
- Exemption from payment of tax on interest (accrued on or after 22 June 1998) derived from any deposit (which is not used as security for banking facilities) placed in Hong Kong with an authorized institution (not applicable to interest received by or accrued to a financial institution).

For more details about exemption of interest income from profits tax, please [click HERE](#) to read the Departmental Interpretation and Practice Notes No. 34.