

Tax Savings for Individual

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ARA & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

Individual tax return will be issued on 2 May 2008. Here are some tax saving tips:

1. Deduction for MPF contribution

If you are self-employed, you may opt to make the 5% MPF contributions on a monthly or yearly basis and claim deduction for your contribution subject to the maximum levels of income. Any further contribution would be regarded as voluntary contributions to the MPF Scheme and is not deductible for tax purposes. If you received a salary, the MPF contributions are also deductible. The current maximum amount of allowable deduction is \$12,000 per year.

2. Fringe benefits

Where such a payment is made by an employer to discharge the liability of the employee or any benefit capable of being converted into money by the recipient, the employee has to pay tax for the amount of the payment. Corporate club membership, provision of private car by employer, and recreation facilities/holiday homes may enjoy tax exemptions if the employee is not in any way able to convert the benefit into money. (Note: The tax exemption on holiday warrants and passages had been withdrawn in 2003.)

3. Utilities and benefits for an employee's residence

If the account rendered by the utility company is in the



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name of the employer only, the IRD will accept that no chargeable benefit arises. Other benefits supplied in respect of an employee's residence – such as furniture and domestic servants – will also not be chargeable to tax if the employer is the only party liable for the relevant expenses and the employee cannot convert the benefit into money.

Interest-free and low interest loans provided by employers to employees are accepted by the IRD not being chargeable benefits if the cost involved in providing the benefit is the sole liability of the employer and the benefit received by the employee is not of itself convertible into money.

4. Employment vs. Directorship

If one is under an employment and perform substantial services outside Hong Kong, there are chances that he may entitle to certain tax exemption or relief, or arrange a non-Hong Kong employment. Where he is a director of a Hong Kong company, his income derived from the directorship is chargeable to Salaries Tax irrespective of the number of days he stayed in Hong Kong. It is because the directorship is regarded as an office in Hong Kong under the tax law.

5. Accommodation benefits and home loan interest

There are strict criteria and limitations for the deduction of home loan interest paid by a taxpayer. On the other hand, a person chargeable to tax at standard rate is also entitled to the deduction.

A taxpayer may let his dwelling to his employer, who then provides it back to him as quarter (but not giving him the 'housing allowance'). Though he is not entitled to the home loan interest deduction because the property then becomes a let property, he can claim deduction for interest payments to produce rental income from the property.

(Caution: The above is only a general guidance. Consult specific professional advices for your case before acting.)

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