

## Joint Assessment & Personal Assessment for Married Couples

### (a) Joint Assessment and Separate Taxation

#### ➤ Separate taxation

Married person and the person's spouse are treated as separate individuals. Each is required to

- ✧ complete a tax return,
- ✧ declare income,
- ✧ claim expenses (and deductions) , and
- ✧ pay tax.

#### ➤ Joint Assessment

Each is still required to

- ✧ complete a tax return,
- ✧ declare income, and
- ✧ claim expense (and deductions).

However, if the election will result in a reduction in the overall tax bill for the couple, only one notice of assessment will be issued on their aggregated salaries income, usually to the higher income earner and demand him/her to pay the tax.

### (b) Conditions for Electing Joint Assessment

- Taxpayers electing joint assessment must be a married couple; there is a mutual agreement to elect and election must be made year by year.
- For the year of election, both have income assessable to Hong Kong Salaries Tax.

### (c) Advantage of Joint Assessment

#### ➤ *Under separate taxation*

If the earnings of one spouse are less than his/her tax allowance, there is unutilized allowance when the married couple are assessed separately.

#### ➤ *If joint assessment elected*

Income and allowances will be aggregated, and married person's allowance will be deducted from the couple's joint total income.

- Hence, where it appears that a joint tax bill may be smaller than your two tax bills added together, you and your spouse should make an election for joint assessment in your tax returns. If joint assessment does not result in less tax, the Assessor will issue separate tax bills instead.

#### **(d) Time Limit for electing Joint Assessment**

- There is a time limit for election/withdrawal. Once you withdraw your election, re-election for the same year of assessment will not be entertained.

#### **(e) How to Make Election for Joint Assessment**

- As both the married person and the person's spouse had salaries income for the year of election and both must indicate mutual agreement to elect, each spouse must therefore submit a "Tax Return – Individuals".

- To make a valid election,

both married person and the person's spouse must sign in at least one of their BIR60 (normally both signatures should appear in both returns), and

a "✓" must be inserted in Box 39 of Part 4.4 of the tax return bearing both signatures.

- When election is not made at the time of completion of BIR60, the couple should submit a joint application for election in writing within the time limit for election.
- When there is no election for Personal Assessment separately from spouse and Joint Assessment is advantageous to the couple, Form BIR50E will be issued inviting the couple to elect for "Joint Assessment".

#### **(f) What if the Couple's Election Turns out to be Disadvantageous?**

- If the couple has made an election but the election is disadvantageous, the IRD will
  - ✧ put aside the election,
  - ✧ assess the couple as if no joint election has been made, and
  - ✧ inform the couple by way of an Assessor's note in the notice of assessment that joint assessment is disadvantageous.

- In practice, this means that there is no need for the couple to compute whether election will be beneficial. On the other hand, the IRD will make automatic comparison and advise the couple if election is beneficial. However, as election is voluntary, the IRD cannot assess under joint assessment unless a valid election has been received.

### **Example 1**

For the year of assessment 2020/21, the monthly salaries of Mr and Mrs Chan were \$45,000 and \$10,000 respectively. They have a daughter and the couple agreed and nominated Mr Chan to claim the child allowance. How should Salaries Tax be computed?

#### **If computed under Separate Taxation**

|   | <b><u>Mr Chan</u></b> | <b><u>Mrs Chan</u></b> |
|---|-----------------------|------------------------|
|   | \$                    | \$                     |
| Income  | 540,000               | 120,000                |
| Less : MPF contributions                              | <u>18,000</u>         | <u>6,000</u>           |
| Net Total Income                                      | 522,000               | 114,000                |
| Less : Basic allowance                                | 132,000               | 132,000                |
| Child allowance                                       | <u>120,000</u>        | <u>-</u>               |
| Net Chargeable Income                                 | <u>270,000</u>        | <u>-</u>               |
| 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  \$70,000                   @  17%          | <u>11,900</u>         |                        |
| Tax thereon   | 27,900                |                        |
| Less : 100% tax reduction (capped at \$10,000) (Note) | <u>10,000</u>         |                        |
| Tax payable   | <u>17,900</u>         | <u>-</u>               |

#### **If computed under Joint Assessment**

|   | <b><u>Mr Chan</u></b> | <b><u>Mrs Chan</u></b> | <b><u>Joint</u></b> |
|---|-----------------------|------------------------|---------------------|
|   | \$                    | \$                     | \$                  |
| Income  | 540,000               | 120,000                |                     |
| Less : MPF contributions                              | <u>18,000</u>         | <u>6,000</u>           |                     |
| Net Total Income                                      | 522,000               | 114,000                | 636,000             |
| Less : Married person's allowance                     |                       |                        | 264,000             |
| Child allowance                                       |                       |                        | <u>120,000</u>      |
| Net Chargeable Income                                 |                       |                        | <u>252,000</u>      |
| 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  \$52,000                   @  17%          |                       |                        | <u>8,840</u>        |
| Tax thereon   |                       |                        | 24,840              |
| Less : 100% tax reduction (capped at \$10,000) (Note) |                       |                        | <u>10,000</u>       |
| Tax payable   |                       |                        | <u>14,840</u>       |

Note: For 2020/21, 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.

It can be seen from the example above that Joint Assessment will result in tax savings amounting to \$3,060 (i.e. \$17,900 - \$14,840).

## **Example 2**

Continued from Example 1, if the monthly salaries of Mr and Mrs Chan were \$45,000 and \$35,000 instead, how should Salaries Tax be computed for 2020/21?

### **If computed under Separate Taxation**

|   | <b><u>Mr Chan</u></b> | <b><u>Mrs Chan</u></b> |
|---|-----------------------|------------------------|
|   | \$                    | \$                     |
| Income  | 540,000               | 420,000                |
| Less : MPF contributions                              | <u>18,000</u>         | <u>18,000</u>          |
| Net Total Income                                      | 522,000               | 402,000                |
| Less : Basic allowance                                | 132,000               | 132,000                |
| Child allowance                                       | <u>120,000</u>        | <u>-</u>               |
| Net Chargeable Income                                 | <u>270,000</u>        | <u>270,000</u>         |
| First \$50,000 @ 2%                                   | 1,000                 | 1,000                  |
| Next \$50,000 @ 6%                                    | 3,000                 | 3,000                  |
| Next \$50,000 @ 10%                                   | 5,000                 | 5,000                  |
| Next \$50,000 @ 14%                                   | 7,000                 | 7,000                  |
| Remainder \$70,000 @ 17%                              | <u>11,900</u>         | <u>11,900</u>          |
| Tax thereon   | 27,900                | 27,900                 |
| Less : 100% tax reduction (capped at \$10,000) (Note) | <u>10,000</u>         | <u>10,000</u>          |
| Tax payable   | <u>17,900</u>         | <u>17,900</u>          |

Total tax payable by the couple = \$17,900 + \$17,900 = \$35,800

### **If computed under Joint Assessment**

|                                   | <b><u>Mr Chan</u></b> | <b><u>Mrs Chan</u></b> | <b><u>Joint</u></b> |
|-----------------------------------|-----------------------|------------------------|---------------------|
|                                   | \$                    | \$                     | \$                  |
| Income                            | 540,000               | 420,000                |                     |
| Less : MPF contributions          | <u>18,000</u>         | <u>18,000</u>          |                     |
| Net Total Income                  | 522,000               | 402,000                | 924,000             |
| Less : Married person's allowance |                       |                        | 264,000             |
| Child allowance                   |                       |                        | <u>120,000</u>      |
| Net Chargeable Income             |                       |                        | <u>540,000</u>      |
| 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 \$340,000 @ 17%         |                       |                        | <u>57,800</u>       |
| Tax thereon                       |                       |                        | 73,800              |

|   |               |
|---|---------------|
| Less : 100% tax reduction (capped at \$10,000) (Note) | <u>10,000</u> |
| Tax payable   | <u>63,800</u> |

Note: For 2020/21, 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.

As can be seen from the above computation, Joint Assessment is disadvantageous to the couple. The IRD will notify the couple to this effect by way of an assessor's Note in the notice of assessment. The Assessor will then assess the couple separately and issue separate notices of assessment.

Generally speaking, it will be advantageous for the parent who has the higher income to claim "Child Allowance". However, if one of you is being assessed at standard rate, it will be advantageous for the other one to claim.

## **(g) Married Couple Who Elected For Personal Assessment Jointly**

### **➤ Difference between Personal Assessment and Joint Assessment**

The basic difference is that

- ✧ Joint Assessment involves the aggregation of their income assessable to Salaries Tax.
- ✧ Personal Assessment involves the aggregation of their income assessable to
  - Salaries Tax
  - Property Tax
  - Profits Tax

Generally speaking, election for Personal Assessment must be made year by year and eligibility of election depends on the taxpayer's resident status. In short, only taxpayers may make the election if they are over 18 years of age and

- are ordinarily residents in Hong Kong, or
- have resided in Hong Kong for over 300 days in two consecutive years, one of which is the year of election, or over 180 days for the year of election.

➤ **Personal Assessment and Joint Assessment – Similarity**

- ✧ Application must be made on a year by year basis.
- ✧ The taxpayer must apply in writing and within time limit.
- ✧ From the year of assessment 2018/19 onwards, if taxpayer and his/her spouse are jointly assessed under Salaries Tax, election for Personal Assessment must be made by couple jointly