

HONG KONG TAX ALERT

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Salaries Tax – Tax Deduction for Domestic Rents



Summary

Subject to completion of the legislative process, the tax deduction for domestic rents will be effective from year of assessment 2022/23. As this may impact 2022/23 provisional tax assessments, a claim can be made with the 2021/22 individual tax return. The maximum deduction for rents paid for eligible domestic premises is HK\$100,000 per year of assessment (“YOA”).

Background

The Inland Revenue (Amendment) (Tax Deductions for Domestic Rents) Bill 2022 (“the Bill”)¹ was gazetted and introduced to the Legislative Council in early May 2022. The Bill provides a new deduction for domestic rents under Salaries Tax and Tax charged under Personal Assessment as proposed in the 2022/23 Budget.

In order to qualify for the deduction, taxpayers will need to fulfil a number of specified conditions², including:

- the relevant domestic premises must be the taxpayer’s principal place of residence;
- the taxpayer or his/her spouse is not a legal and beneficial owner of any domestic premises in Hong Kong;
- the taxpayer or his/her spouse is not provided with a place of residence by his/her employer;
- the rent must be paid by the taxpayer or his/her spouse;
- the tenancy for that domestic premises must be stamped under the Stamp Duty Ordinance; and
- domestic rent paid under a sub-lease agreement will also qualify for the deduction, but not under lease purchase agreements.

KPMG Observations

Once the Bill is passed, individual taxpayers can claim a tax deduction for domestic rents for the YOA 2022/23 onwards, with ceiling of HK\$100,000 for each YOA.

Given the notoriously high cost of accommodation in Hong Kong, any relief is welcome and this deduction may offer some benefit to individuals not currently benefiting from rental reimbursement through their employer.

¹ https://www.legco.gov.hk/yr2022/english/brief/tsybr1835351602223c_20220504-e.pdf

² <https://www.ird.gov.hk/eng/tax/drd.htm>

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The exclusion of individuals with housing provided by their employer will mean that those claiming rental reimbursement will not be eligible for a further deduction. However, in most scenarios, the benefit of rental reimbursement arrangements will likely exceed the benefit of the deduction, so employers should not be deterred from making the most of such arrangements for their employees' benefit.

For more details, please refer to the rental reimbursement flyer and the illustration ([link](#)).

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