Important tax, administration & financing changes affecting employee retirement plans – Hong Kong SAR

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- *Mandatory reporting requirements to the Inland Revenue Department (IRD) will add further compliance requirements for employers and plan vendors, including the need for clear communication to employees about how their interests may be affected.*

- *Introduction of the electronic Mandatory Provident Fund (eMPF) infrastructure system aims to standardise and streamline the administration system to enhance cost efficiencies making way for increased retirement savings.*

- *Removal of the "offsetting" mechanism in the MPF design, expected in 2022, may impact employers' cost of providing benefits but will enhance the effectiveness of the MPF for individuals.*

- *From 1 April 2019, taxpayers can enjoy tax deductions of up to HKD 60,000 per year if they make voluntary MPF contributions or pay deferred annuity premiums.*

This update provides more information on what employers can do to effectively manage these changes and ensure that there are no surprises in the near term.

Overview

1. Due to a planned reclassification from a non-reporting financial institution to a reporting financial institution, there will be new mandatory reporting requirements applicable to all Hong Kong Occupational Retirement Schemes Ordinance (ORSO) plan vendors under the Automatic Exchange of Financial Account Information in Tax Matters (AEOI).

   Vendors will be required to collect information on reportable foreign financial accounts held by tax residents in these plans and furnish such information to the Inland Revenue Department (IRD). These reporting arrangements will need to be in place from 1 January 2020.

   This may attract significant focus and scrutiny to any non-Hong Kong residents in ORSO plans.

2. The Mandatory Provident Fund Schemes Authority (MPFA) has unveiled plans for a centralised electronic platform for the Schemes' administration called the eMPF. The eMPF aims to simplify, standardise and automate the vast number of existing MPF Schemes improving operational efficiency. The government has acknowledged that it will be a challenging task; nonetheless, rollout of the system is expected from 2022.

3. Another major reform expected to be implemented in 2022 is the abolition of the "offsetting" mechanism in the design of the MPF Scheme (which allows employers to fund other long service and severance benefits from employer MPF contributions). Once this is legislated, it is expected that the government will partially fund this cost, making way for higher retirement savings and enhancing the overall effectiveness of the MPF system, albeit with a potential employer cost increase.

4. To encourage savings for retirement, from 1 April 2019, if a taxpayer makes MPF voluntary contributions and/or pays deferred annuity premiums totaling HKD 60,000 across both, he/she can claim deductions under salaries tax and personal assessment up to HKD 60,000.

Further information

1. The MPFA has alerted stakeholders to the impending loss of low-risk non-reporting financial institutions (NRFI) status for Mandatory Provident Fund (MPF) schemes, ORSO registered schemes, ORSO pooling agreements, and approved pooled investment funds.

   From 1 January 2020, such schemes will become reporting financial institutions (reporting FIs) and subject to reporting requirements under the AEOI regime. The AEOI aims to ensure that tax obligations are met.

   Reporting FIs are required to collect the reportable information of these accounts and furnish such information to the IRD who will exchange such information with the relevant tax authorities on an annual basis.

   Under the proposal, MPF schemes and ORSO registered schemes will need to start conducting due diligence procedures, collecting the relevant information, and communicating to members as they may be asked to provide evidence of tax residence.

   Employers may wish to get ahead of this and inform affected employees that this information will be collected and provided to IRD.

2. Currently, the MPF system runs on a fragmented database, is largely paper based with a high administration burden and inefficient operation model resulting in high administration costs and inefficiencies. To address these shortcomings, the MPFA is developing the eMPF expected to be launched in phases from 2022.

   Advantages include assigning members their own unique MPF number, making it easier to transfer funds or manage/consolidate multiple retirement accounts under different trustees and it will cut down significantly on paper-based transactions. It would also support greater choice of investment funds and greater competition in the sector due to reduced fees.

3. Employers and employees are currently required to contribute at least 5% of an employee’s monthly salary to the employees’ savings accounts in the MPF. The “offsetting” mechanism in the design of MPF allows employers to use a portion of the employer contributions to offset other long service and severance payments to employees.

   In the government’s plans to remove the “offsetting” mechanism, the Executive Council has approved to partially subsidise the employer costs for removal of the MPF offset with HKD 29.3BN in MPF contributions over the next 25 years. The proposal will now be reviewed by the legislature. The abolition of the “offsetting” mechanism is targeted to be implemented in 2022, two years after the expected passage of the legislative amendments.

   Details on how the money will be used have not been finalised.

4. MPF scheme members or members of Occupational Retirement Schemes (ORSO schemes) that have been granted MPF exemption, can open a Tax Deductible Voluntary Contribution (TVC) account in an MPF scheme of their own choice. Taxpayers may claim tax deductions on TVC made to this account and/or premiums made towards qualifying deferred annuities totalling up to HKD 60,000 across both per year. Any TVC contributions/premiums paid above HKD 60,000 will be subject to tax as normal. Withdrawal of contributions from the account will be subject to the same restrictions as mandatory MPF contributions.

   The incentive aims to encourage more voluntary saving for retirement and to encourage saving early to mitigate longevity risks.

   Employers may wish to inform employees of this change so to promote additional tax-efficient retirement savings that employees may wish to make on a voluntary basis.

Impact on Employers

a. Employers, with the help of their tax compliance advisers, should consider reviewing their current processes and the need to implement any improvements to comply with the enhanced due diligence procedures and additional information reportable from retirement plans to the IRD.

   Employers with more complex employee populations – such as with a high number of expatriate employees in ORSO plans – may wish to review their processes well in advance of 1 January 2020 to ensure they are well prepared.

   Retirement plan providers are responsible for reporting the information to IRD. However, employers may wish to inform affected employees so that they are aware that the providers will be sharing the required information to the IRD.

b. The planned changes to the MPF should be monitored and as further information becomes available, employers should consider:

   - reviewing their current processes and the need to implement any improvements (e.g. payroll processes) to accommodate the new admin processes of the eMPFA
   - assessing the impact on costs following removal of the “offsetting” mechanism versus the opportunity to enhance member benefits
   - providing support and information to employees (as part of a financial wellbeing program) on their retirement arrangements, investment options, consolidating retirement savings accounts, tax-efficient voluntary contributions etc.

Contact Information

We're here to empower results, if you would like further information or to discuss these or other retirement matters, please reach out to:

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