

Concerning MPF and Provident Funds

➤ Introduction to Mandatory Provident Fund (MPF) Schemes

- ✧ With effect from 1 December 2000, employees and self-employed persons, except the exempt persons under the Mandatory Provident Fund Schemes Ordinance are required to participate in an MPF Scheme.
- ✧ In the case of employees, both the employer and the employee have to make monthly contributions.
- ✧ Normally the employee receives his salaries after his MPF contribution. Therefore, the income to be reported on form I.R. 56s should be “the gross monthly salary” and not “the net pay” after deduction of the employee’s MPF contributions. [Click here \(Example 1\)](#) for example.

- ✧ Some employers voluntarily pay up both employer and employee’s contributions to the MPF Scheme. The employees do not have to pay contributions and receive salary without deduction. In this circumstance, the “employee’s contribution” becomes additional remuneration and should be reported as income of the employee. [Click here \(Example 2\)](#) for example.

- ✧ The employer’s contributions to the MPF Scheme, when paid, do not constitute income of the employee for tax purposes.

➤ MPF Schemes – mandatory and voluntary contributions

✧ “Employee’s mandatory MPF contribution”

For those employees earning over \$4,000 per month (revised to \$5,000 p.m. with effect from February 2003), the **mandatory contribution** is 5% of income.

Maximum contribution is capped at \$1,000 per month, or \$12,000 for the full year.

For those employees earning \$4,000 or less per month (revised to \$5,000 p.m. with effect from February 2003), no contribution is required.

- ✧ Both employers and employees may elect to contribute more. Any contribution in excess of the mandatory requirement is called “**voluntary contribution**”.
- ✧ Generally speaking, only in the case of termination of employment where the employee’s service is less than 10 years and the employer has made “voluntary contribution”, the employer has to address the question of whether he has to report any “**accrued benefit**” (taxable under Salaries Tax).

➤ Reporting of *Accrued Benefit*

- ✧ Usually withdrawal or *deemed* withdrawal from the MPF Scheme will arise in the following circumstances :-
 - retirement
 - death
 - incapacity
 - termination of service where
 - ◆ service of the employee is 10 years or more
 - ◆ service of employee is less than 10 years
 - other than those described in the above.

The employer has to consider whether or not the portion of withdrawal representing **voluntary contributions made by the employer** is exempt or taxable. For details, [please click table of summary](#).

- ✧ Any taxable element must be reported on forms I.R. 56s. For termination of employment where the employee's service is less than 10 years, the taxable element is "***the amount in excess of the proportionate benefit***".
- ✧ Upon termination of service, if the employee chooses to retain his "accrued benefits" as represent the employer's voluntary contributions within the MPF Scheme or transfer them to another MPF Scheme, section 8(9) of the Inland Revenue Ordinance deems the employee to have received the accrued benefits at the date of termination of service. The employer has to report the amount in excess of the proportionate benefit.
- ✧ [Click here for an explanation on "proportionate benefit" and "calculation of the amount in excess of proportionate benefit"](#).

- MPF-exempted Recognized Occupational Retirement Schemes (RORS)
 - ✧ These are schemes approved by the relevant authorities and in operation prior to the passing of the Mandatory Provident Fund Schemes Ordinance.
 - ✧ With the approval of the Mandatory Provident Fund Authority MPF-exempted RORS may continue to operate after 1 December 2000.
 - ✧ Participants of MPF-exempted RORS are exempt from the statutory obligation to join MPF Schemes. However, they may concurrently join both type of schemes.
 - ✧ In a case where the employer makes contributions to RORS in an amount equivalent to or more than the aggregate of employer and employee's *mandatory contributions* under MPF Schemes, the employee may or may not make contribution to RORS.
 - ✧ Similar to MPF Schemes, when an employment is terminated and the period of employment is less than 10 years, the *accrued benefit*, or “*the amount in excess of the proportionate benefit*”, is taxable and has to be reported on forms I.R. 56s.

- Reporting of Accrued Benefit

- ✧ Tax obligations in connection with the withdrawal of “accrued benefits” from RORS are similar to those under MPF Schemes. Usually withdrawal from RORS will arise in the following circumstances
 - retirement
 - death
 - incapacity
 - termination of service
 - ◆ service of the employee is 10 years or more
 - ◆ service of employee is less than 10 years
 - other than the above

the employer has to consider whether any amount representing employer's contributions is taxable. For details, please [click table of summary](#).

- ✧ Any taxable element must be reported on forms I.R. 56s. That amount will be assessed to tax as “*the amount in excess of the proportionate benefit*”.
- ✧ [Click here for an explanation on “proportionate benefit” and “calculation of the amount in excess of proportionate benefit” applicable to MPF-exempted RORS.](#)

➤ How to Report on I.R. 56B/56F/56G

- ✧ “*The amount in excess of proportionate benefit*” should be reported as the employee’s income under
 - item 11 (g) on I.R. 56B
 - item 13 (e) on I.R. 56F
 - item 11 (e) on I.R. 56G

[Click here](#) for Leaflet PAM 38(e)
“[Deductibility of contributions for employees and self-employed persons – MPFS or RORS](#)”

Example 1

Employee's annual income	<u>\$500,000</u>
Employee's <i>mandatory contribution</i> to MPF	<u>\$ 12,000</u>
Net amount received by employee	<u>\$488,000</u>
Employer should report gross income in I.R.56B	<u>\$500,000</u>

Example 2

Employee's annual income	<u>\$600,000</u>
Employee's <i>contribution</i> paid by employer	<u>\$ 12,000</u>
Net amount received by employee	<u>\$600,000</u>
Employer should report gross income in I.R.56B	<u>\$612,000</u>

Reporting of Accrued Benefits on Form I.R. 56s

Table of Summary for reporting taxable accrued benefits related to MPF Schemes:

Relevant Portion of Accrued benefits	Circumstances of withdrawal	Whether taxable	Amount to be reported as income in Form I.R. 56s
Employee's contributions and related investment return	Under any circumstances	Exempt	No need to report
Employer's mandatory contributions	Retirement, death, incapacity or permanent departure from Hong Kong	Exempt	No need to report
Employer's voluntary contributions	(1) Retirement, death or incapacity	Exempt	No need to report
	(2) Termination of service (with 10 years of service or more)	Exempt	No need to report
	(3) Termination of service (with less than 10 years of service)	The amount not exceeding the Proportionate Benefit is exempt	Report any excess of the amount over the Proportionate Benefit
	(4) Other circumstances	Taxable	Report the whole amount of employer's voluntary contributions

The Proportionate Benefit Rule for MPF

If an employee has worked for less than 10 years for an employer, the amount received under the scheme, upon termination of service, in respect of the employer's voluntary contributions is exempt to the following extent:

Accrued benefit under the scheme (Note 1) x $\frac{\text{Completed month of service (Note 2)}}{120}$

(Note 1) For an MPF Scheme, the accrued benefit is equal to the employer's voluntary contributions.

(Note 2) In relation to the proportionate benefit rule, it is the length of service with the employer and not the length of scheme membership that is taken into account in the calculation of the benefit.

For example, where the accrued benefit received under a MPF Scheme is \$100,000 and the number of complete months of service is 72

The proportionate benefit would be:

$$\$100,000 \times 72/120 = \underline{\$60,000}$$

Accordingly, the amount in excess of the proportionate benefit and to be reported would be (Amount received - Proportionate Benefit)

$$= \$100,000 - \$60,000$$

$$= \underline{\$40,000}$$

Reporting of Accrued Benefits on Form I.R. 56s

Table of Summary for reporting payments of taxable accrued benefits related to Recognized Occupational Retirement Schemes:

Relevant Portion of Accrued benefits	Circumstances of withdrawal	Whether taxable	Amount to be reported as income in Form I.R. 56s
Employee's contributions and related investment return	Under any circumstances	Exempt	No need to report
Employer's contributions	(1) Retirement, death or incapacity	Exempt	No need to report
	(2) Termination of service with 10 years of service or more	Exempt	No need to report
	(3) Termination of service with less than 10 years of service	The amount not exceeding the Proportionate Benefit is exempt	Report any excess of the amount over the Proportionate Benefit
	(4) Other circumstances	Taxable	Report the amount of employer's contributions

The Proportionate Benefit Rule for Recognized Occupational Retirement Scheme (RORS)

If an employee has worked for less than 10 years for an employer, the amount received under the scheme, upon termination of service, in respect of the employer's voluntary contributions is exempt to the following extent:

$$\text{Accrued benefit under the scheme} \times \frac{\text{Completed month of service (Note 1)}}{120}$$

(Note 1) In relation to the proportionate benefit rule, it is the length of service with the employer and not the length of scheme membership that is taken into account in the calculation of the benefit.

For example, where the accrued benefit received under a RORS Scheme is \$100,000 and the number of complete months of service is 72

The proportionate benefit would be:
 $\$100,000 \times 72/120 = \underline{\$60,000}$

Accordingly, the amount in excess of the proportionate benefit and to be reported would be (Amount received - Proportionate Benefit)
= \$100,000 - \$60,000
= \$40,000