

**Deductibility of contributions for
employees and
self-employed persons**

**Mandatory Provident Fund Scheme or
Recognized Occupational Retirement
Scheme**

Mandatory Provident Fund Scheme (MPFS)

With effect from 1 December 2000, employees (full-time or part-time) and self-employed persons, except the exempt persons under the Mandatory Provident Fund Schemes Ordinance (“MPFSO”) are required to participate in MPFS. For employees or self-employed persons earning \$5,000 or over per month, the mandatory contribution is 5% of the person’s income. The maximum contribution is \$1,000 per month or \$12,000 per year.

Under the provisions of the Inland Revenue Ordinance (“IRO”), mandatory contributions to MPFS are deductible in computing the assessable income/profits of an employee or a self-employed person. The maximum deduction is \$12,000 for each year of assessment, not including contributions made by a self-employed person in respect of his employees. All contributions other than mandatory contributions are voluntary contributions and are not deductible for tax purposes.

Employees

Example 1 Tax treatments in general

Common scenarios for employees with a single source of income are as follows:

Monthly income	Mandatory contributions (per year)	Voluntary contributions (per year)	Allowable deductions for tax purpose
\$10,000	\$6,000	-	\$6,000
\$10,000	\$6,000	\$3,000	\$6,000
\$20,000	\$12,000	-	\$12,000
\$30,000	\$12,000	-	\$12,000

Example 2 Fluctuating income

An employee received total income of \$500,000 during a year of assessment. His income fluctuated and he was exempt from the MPFS for 3 months when his earnings fell below \$4,000. For the remaining 9 months, he made mandatory contributions of \$1,000 per month. A deduction of \$9,000 will be allowed in computing his assessable income for the year.

Example 3 2 employments & 2 MPFS

An employee worked for A Co. and B Co. and received monthly salary of \$30,000 and \$20,000 respectively. He made mandatory contributions of \$1,000 per month to each of his two employers' MPFS. Although the total mandatory contributions during the year amounted to \$24,000, the amount deductible for Salaries Tax purpose is \$12,000 only.

Example 4 2 employments & 1 MPFS

An employee received annual salaries of \$180,000 from his principal employment. He made mandatory contributions of \$9,000 and voluntary contributions of \$6,000 to an MPFS during the year. He also received \$3,500 each month (\$42,000 p.a.) from a part-time employment and was exempt from participating in the MPFS of his part-time employer. The net assessable income will be \$222,000 less the mandatory contributions of \$9,000.

Example 5 Director's remuneration

An executive director receiving salaries under a contract of employment is required to join MPFS and is entitled to tax deduction for mandatory contributions to the extent of \$12,000 each year. A director who receives director's fees as an office holder is not an employee and is not required to participate in MPFS. Any contributions made at his own initiative are voluntary contributions and are not deductible for tax purpose.

Self-employed persons

Example 6 Tax treatments in general

A sole-proprietor of a business earned profits of \$1,000,000 in a year of assessment. He made mandatory contributions of \$12,000 to an MPFS as a self-employed person. In computing the assessable profits of the business, a deduction of \$12,000 will be allowed.

(Note: A self-employed person may make a declaration of income to the trustee of the MPFS to determine the amount of his mandatory contributions without obtaining a tax assessment from the Inland Revenue Department.)

Example 7 Multi-business owners

A person operates 3 businesses as sole proprietor and holds interests in 3 partnerships. If the aggregate income (including profits and losses) of all these businesses for the year is \$300,000, his mandatory contribution is \$12,000. The allowable deduction for Profits Tax purpose will be \$12,000.

Example 8 Proprietor's spouse as employee

A proprietor made mandatory contributions of \$12,000 in a year of assessment as a self-employed person. His wife assisted in running the business and joined the MPFS. Her contribution during the same year was \$10,000. As the IRO does not permit deduction for MPF contributions in respect of the spouse of a proprietor, only the mandatory contributions of \$12,000 made by the proprietor will be allowed as deduction in calculating the assessable profits of the business.

Example 9 Employed + Self-employed

A person concurrently received salaries income and operated a business. He made mandatory contributions of over \$12,000 to MPFS as an employee and a self-employed person in a year of assessment. The aggregate deductions under Salaries Tax and Profits Tax will be \$12,000 only.

Examples:

	Income	Mandatory contributions	Allowable deductions for tax purpose
Salaries	\$120,000	\$6,000	\$6,000
Profits (Proprietorship)	\$100,000	\$5,000	\$5,000
Salaries	\$500,000	\$12,000	\$12,000
Profits (Proprietorship)	\$400,000	\$12,000	Nil
Salaries	\$120,000	\$6,000	\$6,000
Profits (Proprietorship)	\$500,000	\$12,000	\$6,000
Salaries (Employment ceased on 30 April)	\$10,000	\$500	\$500
Share of profits (Partnership)	\$300,000	\$12,000	\$11,500

Recognized Occupational Retirement Schemes (RORS)

Where an employee opts to participate in an MPF-exempted RORS instead of joining MPFS, contributions made to the RORS on or after 1 December 2000 are also deductible, subject to the following restrictions:

- (a) the amount deductible is the lesser of the actual amount contributed to the RORS or the amount of mandatory contribution that person would have been required to pay had that scheme been an MPFS; and
- (b) the maximum deduction is \$12,000 for each year of assessment.

Example 10 Tax treatments in general

An employee received annual remuneration of \$180,000. He opted to participate in the MPF-exempted RORS operated by his employer. The contributions deductible for Salaries Tax purposes under different scenarios are as follows:

Contributions to RORS	Mandatory contributions under MPFS	Allowable deductions for tax purpose
\$18,000	\$9,000	\$9,000
\$5,400	\$9,000	\$5,400

Example 11 MPF + RORS contributions

An employee received annual remuneration of \$120,000. He made contributions of \$6,000 to an MPFS and \$5,000 to an MPF-exempted RORS concurrently. The allowable deduction will be \$6,000, being the amount of mandatory contribution to the MPFS.

Keeping Proper Records

To ensure that correct deductions are made for tax purposes, taxpayers should keep proper records in respect of their contributions to MPFS and MPF-exempted RORS. These records should include the computations of their accrued benefits in the schemes, annual benefit statements and, where a transfer to another MPFS has taken place, the relevant transfer statements. They should be presented to the Inland Revenue Department for inspection if required.

Further Information and Assistance

If you need further information or assistance, please-

- (a) visit the IRD Web site at www.ird.gov.hk; or
- (b) telephone the enquiry hotline (187 8022).

(The contents of this leaflet are for guidance only)

PAM 38(e)

April 2009