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Important Tax Changes Affecting Employee Retirement Plans in Asia

Tax, administration, and financing updates have been implemented in Hong Kong and Singapore. From reviewing longstanding processes and ensuring compliance for recently required reporting, to reassessing and communicating new tax deductions and exemptions, the topics outlined in this article highlight key changes and provide more information on what employers can do to effectively manage these changes so there are no surprises in the near term.

What to expect in Hong Kong

Mandatory reporting requirements to the Inland Revenue Department (IRD): Due to a planned reclassification from a nonreporting 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).

This will require vendors to collect information on reportable foreign financial accounts held by tax residents in ORSO plans, and then share all details with the Inland Revenue Department (IRD). These reporting arrangements will need to be in place starting January 1, 2020. It's expected that there will be scrutiny of any non-Hong Kong residents in ORSO plans.

Mandatory Provident Fund Schemes Authority (MPFA): The Mandatory Provident Fund Schemes Authority (MPFA) has unveiled plans for a centralized electronic administration platform called the eMPF. The eMPF aims to simplify, standardize, and automate the vast number of existing MPF Schemes, improving operational efficiency. While the government has acknowledged that this may be a challenging task, rollout of the system is expected for 2022.

Removal of the "offsetting" mechanism: Another major reform planned for 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 likely 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.

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

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Impact on employers

Employers, with the help of their tax compliance advisers, should consider reviewing their current processes and implement any improvements necessary to comply with the enhanced due diligence procedures and additional requirements of the IRD.

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

Retirement plan providers are responsible for reporting information to IRD. However, employers should establish open communication with employees that are affected by the new requirements.

The planned changes to the MPF must be closely monitored. 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.

What to expect in Singapore

The Inland Revenue Authority of Singapore (IRAS) has established more favorable rules for the Not Ordinarily Resident (NOR) Scheme, which grants qualifying expats tax exemptions on employer contributions to a non-mandatory overseas pension or provident fund for five consecutive years.

In summary, these are:

- A reduction in eligibility criteria for individual employee tax relief on non-mandatory overseas pension plans
- A new opportunity for individuals to claim this tax relief if they are employees of service and investment companies moving to the "normal trading company" basis of tax under recent corporate tax changes

However, these opportunities are time-limited. The Minister of Finance announced in the 2019 budget speech that new applications for the NOR Scheme will not be accepted after Year of Assessment 2020 (i.e. for income earned in calendar year 2019).

Impact on employers

Employers who bear their expat employees' tax burdens through tax equalization should assess the financial impact of: (i) claiming the tax concessions for a wider population of expats because of the changes, which reduce tax costs versus (ii) the longer-term phase-out of the relief.

They should collaborate with their tax compliance advisers and communicate to affected expats to ensure that all possible exemptions are claimed, including retroactively where possible.

Employers who do not tax equalize, and therefore do not directly save as a result of these changes, should still:

- Review their recharge and tax accounting arrangements
- Consider communicating any potential individual savings opportunities to affected employees

Please note: Aon does not provide tax advice; before decisions are made or plans are implemented, employers should seek professional tax advice.

To learn more about the changes that are occurring in Hong Kong and Singapore and how these will affect your firm, please contact our team.

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