Government welcomes passage of Inland Revenue and MPF Schemes Legislation (Tax Deductions for Annuity Premiums and MPF Voluntary Contributions) (Amendment) Bill 2018

The Government has welcomed the passage of the Inland Revenue and MPF Schemes Legislation (Tax Deductions for Annuity Premiums and MPF Voluntary Contributions) (Amendment) Bill 2018 by the Legislative Council today (March 20).

The new Ordinance gives effect to the tax deductions proposed in the 2018-19 Budget. From the year of assessment 2018/19, taxpayers are entitled to tax deductions under salaries tax and personal assessment for their premiums paid to qualifying deferred annuities and contributions made to tax deductible Mandatory Provident Fund (MPF) voluntary contribution accounts. The maximum tax deductible limit is $60,000 each year per taxpayer.

A spokesman for the Financial Services and the Treasury Bureau said, "We hope that the tax deductions can be an incentive to encourage the working population to make early retirement savings in order to cope with the financial risk arising from longevity. The relevant maximum tax deductible limit is an aggregate limit for qualifying deferred annuity premiums and tax deductible MPF voluntary contributions to allow for greater flexibility."

Under the new arrangement, a taxpayer can claim tax deduction for deferred annuity premiums covering the taxpayer's spouse as joint annuitant, or either the taxpayer or the taxpayer's spouse as a sole annuitant. A taxpaying couple is allowed to allocate tax deduction for deferred annuity premiums amongst themselves in order to claim the total deductions of $120,000, provided that the deduction claimed by each taxpayer does not exceed the individual limit. Tax deductible MPF voluntary contributions are subject to "preservation requirements", meaning that the accrued benefits can be withdrawn only upon reaching the age of 65 or based on statutory grounds.

The spokesman added, "It is most ideal to have a basket of financial tools for retirement financial planning. Deferred annuities or tax deductible voluntary contributions are suitable financial planning tools for retirement. But the public should understand their characteristics and consider different factors, such as liquidity needs, bequest motives, financial discipline, other alternatives and more when choosing suitable retirement financial tools. The public should also understand that investing in an MPF is investment risk-bearing. As for a deferred annuity, it is a long-term insurance contract for the purpose of assisting policyholders to convert their capital into long-term stable income for retirement, but not for pursuing a high return. In addition, surrender of policy within the contractual period may incur financial loss."

The Financial Services and the Treasury Bureau is collaborating with the Investor and Financial Education Council to launch publicity and public education. The public may learn the features of qualifying deferred annuities and tax deductible voluntary contributions through the website of "The Chin Family" (www.thechinfamily.hk) to evaluate whether the two tax deductible financial planning tools suit their own needs. In addition, starting from April 1, 2019, the Insurance Authority and the Mandatory Provident Fund Schemes Authority will publish the list of the qualifying deferred annuity products and the list of MPF schemes offering tax deductible MPF voluntary contribution accounts on their websites (www.ia.org.hk and www.mpfa.org.hk) respectively for public information.