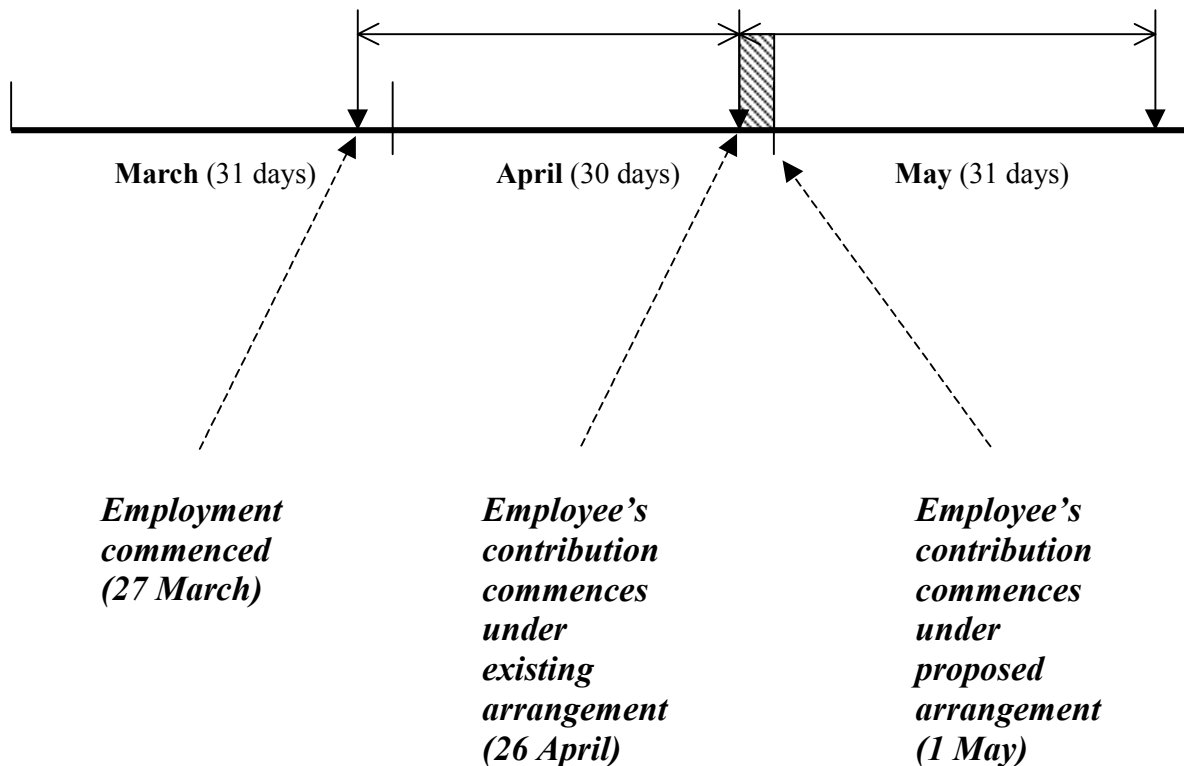


**ILLUSTRATIVE EXAMPLE – CURRENT AND PROPOSED ARRANGEMENT FOR EMPLOYEES’ CONTRIBUTION HOLIDAYS (para. 19 and 20 of the Legislative Council Brief)**

The scenario below shows the calculation required under the current and proposed arrangements.

**SCENARIO**

- (a) For simplicity, it is assumed that the employer pays salary to the relevant employee at the end of each calendar month.
- (b) Period of employment commences on 27 March.
- (c) Income earned in April is \$30,000.



**Current Arrangement**

Employee enjoys contribution holiday for the first 30 days of employment (i.e. until 25 April).

The employee is required to contribute for 5 days (the shaded period i.e. 26-30 April) in respect of payroll period in April.

The employee's relevant income for the shaded period (5 days) is \$5,000 ( $\$30,000/30 \times 5$  days).

The employer would need to determine whether the income in those 5 days is

- a) lower than the minimum income level (if so, the employee need not contribute and the employer should not deduct employee's contribution from the employee's salary)
- b) higher than the maximum income level (if so, the employee would only need to contribute 5% of the maximum level).

Minimum relevant income level (\$4,000 per month) would need to be prorated for the shaded period (5 days) = \$666.67 ( $\$4,000/30$  days x 5 days).

Maximum relevant income level (\$20,000 per month) would need to be prorated for the shaded period (5 days) = \$3,333.33 ( $\$20,000/30$  days x 5 days).

Since the employee's income for the shaded period (i.e. \$5,000) is higher than the maximum relevant income as prorated (i.e. \$3,333.33), the employee is required to contribute 5% of the maximum level in respect of the income earned during the shaded period, i.e. \$166.67 ( $\$3,333.33 \times 5\%$ )

**Proposed Arrangement**

The employee is not required to contribute in respect of the income earned during the shaded period, and the employee's contribution will commence from 1 May.

11 June 2002

**ILLUSTRATIVE EXAMPLE – GENERIC MINIMUM AND MAXIMUM RELEVANT INCOME LEVELS (i.e. \$130 and \$650 per day)**

**(para. 22 of the Legislative Council Brief)**

The scenario below illustrates the calculation under the current and proposed arrangements for an employee with payroll cycle that is more frequent than monthly (e.g. paid weekly, every 10 days etc.).

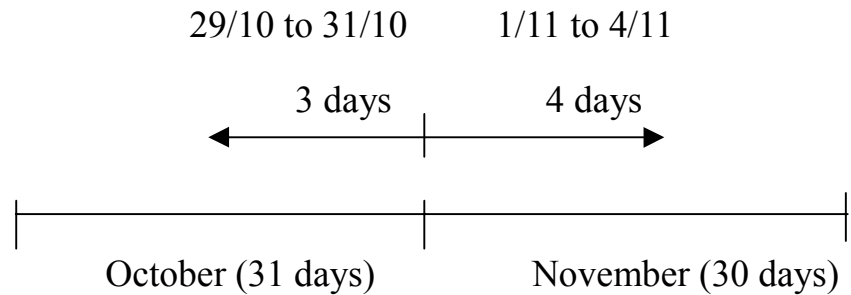
The law presently provides that the minimum and maximum levels of relevant income for MPF contribution purpose are \$4,000 and \$20,000 per month respectively. If the employee is not remunerated on a monthly basis, the amount of the minimum and maximum levels should be prorated.

**SCENARIO**

The employee is being paid weekly, and his employer would need to calculate MPF contributions for the week from 29 October to 4 November (7 days).

Under the law, the employer would need to know the minimum and maximum relevant income levels for the period, to compare with the employee's income for those 7 days, because:

- a) if the employee's income is below the minimum level of income, the employee is not required to make MPF contributions, and only the employer would need to contribute;
- b) if the employee's income is higher than the maximum level of income, both the employer and the employee would only need to contribute 5% of the maximum level.

**Current Arrangement**

The employer would need to prorate the minimum level of \$4,000 for the 3 days in October and the 4 days in November:

$$3 \times (\$4,000/31) + 4 \times (\$4,000/30)$$

$$\begin{aligned} &\text{Minimum level of relevant income from 29/10 to 4/11} \\ &= \$387.09 + \$532.32 = \$919.41 \end{aligned}$$

Similarly, the employer would need to prorate the maximum level of \$20,000 for 3 days in October and 4 days in November:

$$3 \times (\$20,000/31) + 4 \times (\$20,000/30)$$

$$\begin{aligned} &\text{Maximum level of relevant income from 29/10 to 4/11} \\ &= \$1,935.48 + \$2,666.68 = \$4,602.16 \end{aligned}$$

**Proposed Arrangement**

$$\text{Minimum level of relevant income per day} = \$130$$

$$\text{Maximum level of relevant income per day} = \$650$$

$$\begin{aligned} &\text{Minimum level of relevant income from 29/10 to 4/11 (7 days)} \\ &= \$130 \times 7 = \$910 \end{aligned}$$

$$\begin{aligned} &\text{Maximum level of relevant income from 29/10 to 4/11} \\ &= \$650 \times 7 = \$4,550 \end{aligned}$$