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31 January 2019

Mr Derek LO
Clerk to Bills Committee
Legislative Council Secretariat
Legislative Council Complex
1 Legislative Council Road
Central, Hong Kong

Dear Mr Lo,

Bills Committee on Inland Revenue and MPF Schemes Legislation (Tax Deductions for Annuity Premiums and MPF Voluntary Contributions)(Amendment) Bill 2018

Thank you for the Secretariat's email dated 25 January 2019. Please find the Government's response to the views expressed by deputations at the second meeting of the Bills Committee held on 25 January 2019 at **Annex**.

Yours sincerely,

Noel

(Ms Noel TSANG)
for Secretary for Financial Services and the Treasury

c.c.
DoJ
IRD
IA
MPFA

Annex

Bills Committee on Inland Revenue and MPF Schemes Legislation (Tax Deductions for Annuity Premiums and MPF Voluntary Contributions) (Amendment) Bill 2018
Government's response to the views expressed by deputations at the second meeting of the Bills Committee

(A) "Universal" retirement protection scheme and voluntary retirement saving

To address aging population, the World Bank has advocated a multi-pillar conceptual framework for reforming pension systems worldwide[1]. Many recent pension reforms in overseas economies involve improvements to or development of a voluntary "third-pillar" which may take many forms but is essentially flexible and discretionary in nature[2] to compensate for the rigidities in the design of other pillars.

(B) Point-of-sale conduct of intermediaries and public education

2. The Government attaches great importance to public education and the point-of-sale conduct of intermediaries. As mentioned in the Legislative Council Brief issued by the Government earlier, we encourage insurers to enhance training on annuity products for intermediaries. The Insurance Authority (IA) and the Mandatory Provident Fund Schemes Authority (MPFA) will also continue to closely monitor the point-of-sale conduct of intermediaries. On the other hand, we are also working in collaboration with the Investors and Financial Education Council, the IA and the MPFA to prepare a publicity and

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[1] The five pillars are –
(a) Non-contributory zero pillar – publicly-funded pension or social security schemes;
(b) Mandatory first pillar – publicly-managed mandatory contributory plans;
(c) Mandatory second pillar – privately-managed mandatory occupational or private contributory pension plans;
(d) Voluntary third pillar – voluntary contributions or savings to occupational or private pension plans; and
(e) Voluntary fourth pillar – public services, family support and personal assets.

[2] An example of such a flexible third pillar is Switzerland's private pension plans which include a restricted option where withdrawal is restricted and an unrestricted option which allows withdrawal anytime without restrictions. However, participants in the unrestricted option will enjoy less tax advantages.

public education campaign to enhance public understanding of how to evaluate different financial planning tools to suit one's retirement needs.

(C) Tax deduction arrangements for spouses

3. At present, under salaries tax, taxpayers, including married couples, are individually assessed on their incomes under separate taxation. Hence, tax deductible limits are usually based on individual taxpayers. If a married couple elects for joint assessment or personal assessment, the incomes and tax deductions of the couple will be aggregated. Under joint assessment or personal assessment, the maximum tax deductible limit for qualifying annuity premiums of a married couple will be $120,000.

4. The current proposal already allows much flexibility. It allows a taxpaying couple to allocate tax deductions for deferred annuity premiums among themselves in order to claim the total deductions of $120,000, provided that the deductions claimed by each taxpayer does not exceed the individual limit of $60,000. Assuming that a taxpaying couple has only one qualifying deferred annuity policy with an annual premium of $120,000 and the policy is taken out by the husband on his own (i.e. the husband is the sole policy holder and sole annuitant). Under this circumstance, while the husband can claim a maximum tax deduction of $60,000, his wife may also claim a maximum tax deduction of $60,000 for the remaining portion of the premium despite that she is neither a policy holder nor an annuitant of the said policy, allowing the taxpaying couple to claim a total tax deduction of $120,000.

(D) Other views

5. The Government noted the views expressed by deputations which fall outside the scope of the Bill.

Financial Services and the Treasury Bureau
31 January 2019