

Tax Deductions – qualifying deferred annuity premiums and tax deductible voluntary contributions (TVC) under MPF schemes

FAQs

Tax deductions

1. What is the tax deduction amount? How much can I save?

Starting from 1 April 2019, retirement savings of taxpayers via qualifying deferred annuity premiums of a qualifying deferred annuity policy (QDAP) and TVC under MPF schemes can enjoy tax deductions of up to a maximum of HK\$60,000 per year. The said maximum tax deductible limit is an aggregate limit for qualifying deferred annuity premiums and TVC to allow for greater flexibility.

[Click here](#) to know more about examples of potential tax savings.

2. When will the tax deductions become effective? When can I declare the deductions?

For the qualifying deferred annuity premiums paid and TVC made starting from 1 April 2019, you can claim deductions when you file the tax return for the year of assessment 2019/20.

3. What supporting documents are required from a taxpayer when a review by the Inland Revenue Department is made? How long do I need to keep those documents?

When you file your tax return, you need not attach documents to support your tax deduction claim. However, you should retain the supporting documents for a period of 6 years after the expiration of the year of assessment in which the payments were made. You are required to produce supporting documents if your claim for deduction is selected for review.

For QDAP, the supporting documents should show the amount of qualifying deferred annuity premiums paid during the year of assessment (e.g. the annual summary or premium payment record issued by the insurance company).

For TVC, the supporting documents should show the amount of TVC paid during the year of assessment (e.g. the TVC contribution summary issued by the MPF trustee).

4. Do the tax deductions cover the premiums for QDAP and TVC made by the taxpayer's spouse?

Premiums for QDAP

A taxpayer is allowed to claim tax deductions for qualifying deferred annuity premiums paid for QDAP covering the couple as joint annuitants, or either the taxpayer or the taxpayer's spouse as a sole annuitant. A taxpayer earning salary income may claim deductions under salaries tax, while a taxpayer earning income from business profits or properties has to elect for personal assessment and claims deductions under personal assessment.

Married taxpayers may claim deductions for qualifying deferred annuity premiums paid by himself/herself or his/her spouse not living apart from him/her but the amount already claimed by his/her spouse must be excluded. If the couple both have income chargeable to tax, they can freely allocate the qualifying deferred annuity premiums for tax deductions in order to claim a maximum amount of deductions of \$120,000, so long as the deductions claimed by each taxpayer do not exceed the individual limit (i.e. a maximum of \$60,000 per individual).



For example, a husband and his wife both have income chargeable to tax. The husband bought a QDAP with annual premiums of \$90,000 and his wife bought a QDAP with annual premiums of \$30,000. This couple may flexibly allocate the tax deductions between themselves so long as the two policies covering the couple as joint annuitants, or either the husband or the wife as a sole annuitant, and the deductions claimed by each of them do not exceed the individual limit of \$60,000. This means that the husband can claim deduction of \$60,000 out of his premiums of \$90,000. As the wife has not yet used up the deduction limit after claiming deduction of her premiums of \$30,000, she can claim the remaining amount of \$30,000 from her husband's premiums. In this case, the taxpaying couple can each claim deduction of \$60,000, i.e. a total deduction of \$120,000 for both.

However, if the spouse of a taxpayer does not have income chargeable to tax, no tax deduction for qualifying deferred annuity premiums paid can be allowed to the spouse and the couple are not eligible to elect for joint assessment or personal assessment jointly. Under this circumstance, the maximum amount of deduction allowable to the taxpayer is his/her individual limit (i.e. \$60,000, but not \$120,000).

TVC

On the other hand, a taxpayer can only claim TVC made by himself or herself, and cannot claim tax deductions for TVC made by his or her spouse.

For more information about tax deductions for QDAP and TVC, please visit

<https://www.gov.hk/en/residents/taxes/salaries/allowances/deductions/annuity.htm>

For more information about personal assessment, please visit

https://www.ird.gov.hk/eng/tax/ind_per.htm

For more information about joint assessment, please visit –

<https://www.gov.hk/en/residents/taxes/salaries/salariestax/jointassessment.htm>



Tax deductible voluntary contributions (TVC) under MPF schemes

1. What are the key features and risks of TVC?

TVC is a new type of contributions under the MPF System. TVC is a convenient and flexible way to save for one's retirement and enjoy tax deductions. A taxpayer can choose their own MPF scheme to open a TVC account and make contributions directly to the account without going through the employer. The taxpayer can make varying amounts of contributions to the TVC account at any time.

To meet the purpose of encouraging extra savings for retirement, TVC will be subject to preservation requirements. A TVC account holder can only withdraw benefits from the TVC account upon reaching the age of 65, or on other statutory grounds.

To facilitate the filing of tax return, MPF trustees will provide a contribution summary to TVC account holders each year.

2. What are the fees and charges associated with TVC?

Members are subject to management fees and other charges as set out in the offering document of the respective MPF schemes. Members should refer to the offering documents for full details.

3. Do I need to make an investment decision?

Similar to other types of contributions, scheme members have the right to choose the constituent funds offered by the MPF scheme. Scheme members may choose one or more of the funds under the scheme to invest the TVC.

Scheme members can make their investment decisions according to their investment objectives, personal circumstances and future plans. For example, a scheme member approaching retirement age may consider choosing fund(s) with lower risks, while a younger member may consider more aggressive fund(s) with potentially higher investment returns.

If a scheme member has not given any investment instruction in relation to the TVC, his TVC will be invested according to the Default Investment Strategy (DIS).

The DIS is designed for scheme members who have not made an investment decision in respect of MPF funds. It helps scheme members manage their retirement savings over a period of several decades by providing them with a ready-made investment solution. The DIS makes use of two constituent funds investing in mixed assets of different proportions in a globally diversified manner. The DIS will automatically reduce the proportion of investments in higher risk assets as a scheme member approaches the retirement age. Scheme members can also choose to invest according to the DIS.

4. Is there any guaranteed return?

Unless a scheme member has chosen a guaranteed fund as the investment choice for the TVC and satisfies all of the pre-requisite conditions, there will not be any guaranteed return.

5. When can I get back my money? Can I get my money back earlier?

To meet the purpose of encouraging extra savings for retirement, withdrawal of benefits from a TVC account has to fulfil the same requirements as for mandatory contributions. A TVC account holder can only withdraw benefits from the TVC account upon reaching the age of 65 or on the following statutory grounds:

- Early retirement at the age of 60 or above;



- Permanent departure from Hong Kong;
- Total incapacity;
- Terminal illness;
- A small balance of \$5,000 or less; or
- Death.

6. Can I change the contribution amount or stop making contributions after opening a TVC account?

TVC is a convenient and flexible way to save for the retirement. A taxpayer can make contributions to his TVC account at any time and in varying amounts. The taxpayer can also stop making contributions or change the contribution instructions at any time.

7. Can anyone open a TVC account and make contributions?

The following persons are eligible to open a TVC account in an MPF scheme and make TVC:

- (a) Current holders of contribution accounts or personal accounts of MPF schemes ; or
- (b) Current members of MPF Exempted Occupational Retirement Schemes.

8. Can I use my existing MPF accounts to make TVC?

A scheme member who wishes to benefit from tax deductions under salaries tax or personal assessment must open a separate TVC account. Voluntary contributions by members that are made through their employers to their existing contribution accounts are not subject to the “preservation requirements” and are not TVC. As such, they will not qualify for tax deductions.

9. How can I open a TVC account? How long will the account opening process take? Can I do it online?

A TVC applicant can open a TVC account in various ways (e.g. intermediaries, bank branches, mail-in applications, etc.) offered by trustees. Some trustees will also offer online platforms through which eligible members can complete e-application forms and submit online applications to the trustees for processing. The account opening process will take around 2 to 10 working days upon receipt of all necessary documents by the trustees, depending on the mode of application used. Different trustees may offer TVC accounts with different terms and conditions. They may provide various ways for opening TVC accounts and making contributions. A TVC account applicant can contact respective trustees for detailed information and enrolment procedures.

10. I am currently making MPF voluntary contributions. Will the contributions become tax deductible automatically?

A scheme member who wishes to benefit from tax deductions under salaries tax or personal assessment must put the TVC in a TVC account. MPF voluntary contributions made by members to their existing contribution accounts are not TVC and such contributions will not be tax deductible.

11. Can I authorize my employer to pay voluntary contributions out of my salary direct into my TVC and claim tax deductions?

It would be subject to the agreement among the employee, the employer and the MPF trustee concerned.

12. Will the tax deductions for mandatory contributions be affected after the implementation of TVC?



The current tax deductions for mandatory contributions will not be affected after the implementation of TVC.

13. Will the TVC affect my existing MPF voluntary contributions?

Implementation of TVC will allow scheme members to continue with their existing MPF voluntary contribution arrangements without subjecting the existing voluntary contributions to preservation requirements. However, such voluntary contributions will not be tax deductible.

A scheme member who wishes to benefit from tax deduction must put the TVC in a TVC account.

14. Can I move my contribution in the TVC account to my current contribution account or personal account?

TVC can only be made to a TVC account and not a contribution or personal account. Benefits in a TVC account can be transferred to another TVC account under a different scheme, but not to a contribution or a personal account.

15. Can I have more than one TVC account? Can I transfer my TVC between different MPF schemes?

A scheme member may have more than one TVC account in more than one MPF scheme. A scheme member can transfer the benefits derived from TVC from one MPF scheme to another MPF scheme at any time. However, the member must transfer all (but not part) of the benefits from the TVC account to another TVC account in another MPF scheme.

16. Do all MPF schemes offer TVC accounts?

Most MPF schemes offer TVC accounts. Members should check with the trustees of the respective schemes. Members may also refer to the [TVC Webpage/](#) [Trustee Service Comparative Platform](#) on the MPFA's website for further details.



Qualifying deferred annuity policy (QDAP)

1. What are the key features and risks of a deferred annuity policy?

Typically a deferred annuity policy has the following features:

- It is a long term life insurance policy designed to turn accumulated savings into a stable stream of income over an extended period of time.
- A deferred annuity policy consists of an accumulation phase and an annuitization phase:
 - ✓ During the accumulation phase, a policyholder pays premiums regularly over a period of time which is then (usually) followed by a deferral period.
 - ✓ The annuitization phase will begin at the end of the accumulation phase and the annuitant will receive regular payments during the annuity period.

Generally speaking, a deferred annuity policy has the following risks:

- Liquidity risk – A deferred annuity policy is a long term policy and is not suitable for policyholders who do not intend to hold it for the long term. Policyholders need to make payments of premiums as they fall due during the accumulation phase. In case of early surrender of a policy, the surrender value a policyholder may receive may be considerably less than the total amount of paid premiums.
- Uncertainty with non-guaranteed annuity payment – if the annuity payment comprises guaranteed and non-guaranteed parts, the non-guaranteed annuity payment ultimately received by policyholders will have uncertainty.

2. What are the fees and charges associated with a deferred annuity policy?

Common fees and charges associated with a deferred annuity policy may include: insurance charges, and administrative charges for collecting premiums and/ or making payments. These fees are usually embedded in a deferred annuity policy and there is no out of pocket fee for consumers.

3. How to identify if a deferred annuity policy is eligible for tax deductions?

If a deferred annuity policy is certified as a QDAP by the Insurance Authority, the qualifying deferred annuity premiums of the QDAP are eligible for tax deduction. To make it easy for taxpayers to recognise a QDAP, the sales documents, e.g. the QDAP product brochure, will bear a logo for identification. The list of QDAP will also be published on the website of the [Insurance Authority](#).

4. Can I terminate the policy and get my money back earlier?

You can terminate the policy at any time during the policy term and get your money back earlier but the termination will be subject to administrative charges. The surrender value you may receive may also be considerably less than the total amount of paid premiums.

5. Is there any guaranteed return?

The guaranteed portion of annuity payments from a QDAP will be clearly shown in the Benefit Illustration to be provided to the customers at the point of sale. Insurance companies are required to clearly disclose the guaranteed annuity payment and non-guaranteed annuity payment in the Benefit Illustration.

6. Can I change the contribution amount or stop making contributions after signing up for a QDAP?

It is subject to the terms and conditions of your QDAP contract. However, as QDAP contracts are long term insurance contracts, policyholders must ensure that they are willing and able to pay for the premiums throughout the entire premium payment period of the contract to avoid policy lapse.



7. Would my existing deferred annuity policy be eligible for tax deductions?

Only qualifying deferred annuity premiums paid (excluding premiums for riders) for those deferred annuity plans certified as QDAP are eligible for tax deductions. Premiums paid for any other deferred annuity policies that are not QDAP are not tax deductible.

Policyholders may visit the online register of QDAP on the website of IA to verify the status of their deferred annuity policies.

8. Should I use a QDAP to replace my existing deferred annuity policy?

In case of early surrender, the surrender value a policyholder may receive may be considerably less than the total amount paid premiums, especially during the early years of the policy period. Please check with your insurance company to ascertain if there are any adverse implications before you decide to replace your existing policy. In case of doubt, please seek professional advice.

9. Is there a cooling-off period for a QDAP?

Policyholders have the right to cancel a QDAP policy and obtain a refund of paid premiums within the cooling-off period, which is 21 days after the delivery of the policy, or issuance of a notice to the policyholders or the policyholders' representatives, whichever is earlier.

10. Where can I learn more about annuities?

Please visit the [Annuity Sitelet](#), jointly developed by the Investor and Financial Education Council through The Chin Family and Insurance Authority, for more information about annuities. For QDAP, please visit [Insurance Authority's website](#).

11. What is an internal rate of return?

The internal rate of return (IRR) is the rate at which future cash flows are discounted to equate them to a present value. In general, the higher the IRR, the better the profitability an investment possesses. All QDAP are required to disclose their respective IRR in the product brochure.

